

Decision 88 12 033 DEC 9 1988

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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 Post-COD investment-)
related costs to base rates)
pursuant to previously adopted)
procedures, and (ii) related sub-)
stantive and procedural relief.)

ORIGINAL

Application 87-05-031
(Filed May 18, 1987)

In the Matter of the Application of)
SAN DIEGO GAS & ELECTRIC COMPANY,)
for authority to (i) increase its)
base electric rates to reflect the)
transfer of San Onofre Nuclear)
Generating Station Units 2 and 3)
Post-COD investment-related costs)
to base rates, and (ii) reduce its)
electric Major Additions Adjustment)
Billing Factor (MAABF) rates to)
reflect the transfer of the invest-)
ments to base rates.)
(U 902-E))

Application 87-07-044
(Filed July 23, 1987)

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Philip Scott Weismehl, Attorney at Law, and
Jeffrey P. O'Donnell, for Division of Ratepayer
Advocates.

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POST-COD OPINION

I. Summary of Decision

In this decision we address the reasonableness of Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) post-commercial operating date (COD) investment in San Onofre Nuclear Generating Station Units 2 and 3 (SONGS 2&3). ✓

We adopt a reasonableness stipulation between SCE, SDG&E, and Division of Ratepayer Advocates (DRA) dealing with post-COD investment. The stipulation provides for a total post-COD disallowance of \$41.2 million, consisting of \$11.8 million of post-COD investment, \$0.5 million of post-COD investment related to indirect costs, and \$28.9 million of SCE and SDG&E legal, consultant, and expert witness fees associated with the Phase 2 and post-COD reasonableness reviews. In addition to the \$41.2 million disallowance, the stipulation provides for the reclassification as an expense item in the Major Additions Adjustment Account (MAAC) post-COD balancing account of \$4.4 million, as of November 1987, of costs paid to the Commission by SCE and SDG&E to fund the Commission's consultants in the Phase 2 and post-COD reasonableness reviews. ✓

We find that \$401.8 million of the \$447.5 million post-COD investment is reasonable. Of the \$401.8 million, SCE's jurisdictional share is \$294.8 million, SDG&E's share is \$80.4 million.

We also address two Phase 2 ratemaking issues dealing with (1) allocation of delay-related disallowances to Allowance for Funds Used During Construction (AFUDC)/non-AFUDC, and (2) the appropriateness of accruing interest on the income tax portion of the undercollected MAAC balance. We adopt a ratemaking stipulation between SCE and DRA which allocates all pre-COD delay-related ✓

disallowances to AFUDC, and refunds interest and eliminates future interest on the income tax portion of undercollected MAAC balances. SDG&E is ordered to reflect the same ratemaking principles in its rates and tariffs.

This decision will result in a revenue increase for SCE of \$38.8 million and approximately \$10.1 million for SDG&E. Rates will not increase at this time. Instead, revenue and rate changes are deferred to January 1, 1989, to be consolidated with changes ordered in other proceedings. ✓

II. Introduction

In Decision (D.) 87-12-065 the Commission set a MAAC rate for post-COD expenses based on an interim reasonableness factor determined by D.87-07-097. The interim reasonableness factor is the ratio of SONGS 2&3 plant investment determined prudent by the Commission in Phase 2, to the total plant investment identified in that phase, or 94.1%. That factor was to be used until the post-COD investments were reviewed and a decision issued on their reasonableness. D.87-12-065 also set rates to amortize the pre-COD MAAC account balance, but not the post-COD MAAC account balance. The decision also required SCE and SDG&E to address two ratemaking issues in these post-COD reasonableness review proceedings, (1) the allocation of delay-related unreasonable SONGS 2&3 plant costs to AFUDC and non-AFUDC, and (2) whether interest should be applied to MAAC account debits for utility expenses not yet paid. Both issues apply to the entire history of SONGS 2&3, i.e., Phases 1 and 2 and post-COD.

On May 18, 1987 SCE filed Application (A.) 87-05-031 seeking Commission determination that its post-COD investment in SONGS 2&3 be found reasonable. Post-COD investment refers to investment in SONGS 2&3 in excess of the \$4,509 million reviewed in the Phase 2 Reasonableness Review (Phase 2) and expected to be

placed in service prior to January 1, 1988. (Phase 2 reviewed investments made prior to the COD of each SONGS unit, August 18, 1983 for Unit 2 and April 1, 1984 for Unit 3.) D.86-08-060 provides that investments on plant additions placed in service after December 31, 1987 are to be handled in SCE's 1988 Test Year General Rate Case (GRC) application.

In addition, SCE requested authority to transfer recovery of that investment to base rates by making necessary adjustments to both base rates and MAAC rates. SCE's jurisdictional share of post-COD investment is \$329.5 million based on its 75.05% ownership share, including litigation costs and its share of Commission consultant costs related to the SONGS 2&3 reasonableness review.

Similarly, on July 23, 1987, SDG&E filed A.87-07-044 seeking Commission determination that its share of the post-COD investments based on 20% ownership of SONGS 2&3 is reasonable, and requesting authority to transfer recovery of the investment to base rates. D.86-08-060 provides that investments on plant additions placed in service after December 31, 1987 and before January 1, 1989 are to be included in SDG&E's Attrition Rate Adjustment (ARA) filing, while estimates of investments on plant additions to be placed in service January 1, 1989 or later are to be in its 1989 Test Year GRC application. SDG&E's share of the post-COD investment is \$89.5 million, including litigation costs and its share of Commission consultant costs.

A definition of terms to be used later follows:

- Direct costs are the actual costs of labor and materials used in the SONGS 2&3 construction.
- Indirect costs are all other actual expenditures, including engineering, design, procurement, management, and supervision, licensing, startup, quality assurance and quality control.
- AFUDC costs represent the capitalized value of the carrying costs for the direct and

indirect costs during construction of SONGS 2&3.

- Non-AFUDC costs represent all costs of construction of SONGS 2&3 except carrying costs.

A prehearing conference and five days of hearings, including public participation hearings, were held in Los Angeles, San Francisco, and San Diego.

III. Reasonableness of Post-COD Plant Investments

A. Applicants

The applicants believe that all post-COD investment is just and reasonable. ✓

B. DRA

DRA undertook a major review of the reasonableness of post-COD investments. The review was conducted by both DRA staff and consultants under contract to DRA. Between July and December 1986 DRA witness Jeffrey O'Donnell conducted an initial review of 7,000 pages of responses to his data requests. This information covered 39 separate areas of activity representing \$253 million of post-COD investment.

After extensive negotiations, a tentative settlement in the form of a reasonableness stipulation was agreed to in early 1987 by SCE, SDG&E, and DRA. Although tentatively agreeing to the reasonableness stipulation, DRA believed that further review was needed either to verify that it was reasonable, or to indicate a need for further investigation of post-COD investment. ✓

Under DRA's direction, consultants, O'Brien-Kreitzberg & Associates and Technical Analysis Corporation (OKA) undertook a review of post-COD construction activities and investment. OKA had undertaken the extensive review of pre-COD investment and therefore ✓

were familiar with SONGS 2&3. DRA did not inform OKA of the tentative settlement until the OKA report was completed. ✓

The OKA investigation was designed to determine the probable disallowance recommendation range that would result if a full investigation were undertaken, using the same evaluation standards as used previously in the pre-COD reasonableness review. If the Commission's decision on the pre-COD reasonableness review held that a disputed utility action was reasonable, OKA was instructed to assume that post-COD costs resulting from that action are reasonable, unless an additional unreasonable action was found by OKA. Construction packages of less than \$500,000 were not reviewed by OKA.

The report's conclusions were categorized as follows:

- OKA finds that a cost is reasonable.
- OKA finds that a cost or range of costs is unreasonable or questionable.
- OKA is unsure whether a cost is reasonable, but has insufficient information to conclude that it is unreasonable.

OKA analyzed a total of 41 work packages, including several that had been grouped together in order to reach the \$500,000 minimum level for review. The examination of the plant modifications was made from both technical and financial approaches.

OKA's technical approach focused on reasonableness of selection, design, and implementation. Examples of unreasonable expenditures identified by OKA are:

- \$2.886 million in unreasonable costs for Radiation Monitoring System modifications due to poor management and inadequate purchasing controls.
- \$4.58 million in unreasonable costs for Main Steam Isolation Valve modifications due to

poor management and inadequate purchasing controls.

- \$0.56 million in unreasonable costs for Toxic Gas Isolation System modifications caused by inadequate management review of the original design.

OKA's technical approach identified approximately \$36.536 million in unreasonable or questionable costs:

OKA's financial approach focused on the reasonableness of the cost of plant modifications. A number of areas were determined to be questionable due to unjustified or excessive overtime. For example, \$600,000 in direct costs for Health Physics Facilities Modifications was identified as questionable. The financial approach determined a range of \$20-\$50 million of questionable indirect costs. The \$20 million level was based on excessive overtime work, while the \$50 million level was based on analysis of the level of indirect manpower in relation to plant outages.

Since there is some duplication in identification of unreasonable or questionable costs between the technical and financial approaches, the totals identified in each cannot be added together to determine a grand total.

Table 1, following, summarizes the results of the OKA review.

OKA determined that the technical approach unreasonable and questionable costs of \$36.536 million (\$13.578 + \$23.558) should include the \$600,000 direct costs for Health Physics Facilities Modifications, which yield a total of \$37.136 million. OKA then assumes that conservatively one-half of the total, or \$18.568 million, is indirect costs that can be added to the range of questionable indirect costs determined by the financial approach (\$20-50 million). The total range of unreasonable and questionable costs for the OKA study is \$38.568 million to \$68.568 million.

TABLE 1

SUMMARY OF UNREASONABLE OR QUESTIONABLE EXPENDITURES

| <u>Description of Modification/Issue</u> | <u>Unreasonable Cost</u> | <u>Questionable Cost</u> |
|---|--------------------------|--------------------------|
| Engineered Safety Features Bypass/ Inoperable Status Monitoring Panel Logic Modifications | \$ 687,800 | |
| Radiation Monitoring System Modifications | \$2,886,400 | |
| Main Steam Isolation Valve Modifications | \$4,580,900 | |
| Toxic Gas Isolation System Modifications | \$ 564,500 | |
| Temporary Makeup Demineralizer System Relocation | \$ 752,188 | |
| Fire Hazards Analyses, Appendix R Reviews and Fire Protection System Modifications | | \$ 2,000,000 |
| Sodium Hypochlorite Chlorination System Replacement | | \$ 1,898,700 |
| Chemical and Volume Control System Modifications | \$1,290,500 | |
| Training Program Descriptions | | \$ 979,400 |
| Oil Waste Sump Pump Replacement | \$1,000,500 | |
| Chemical and Volume Control System Charging Pumps Cylinder Block Replacements | \$1,250,600 | |
| Mainfeed Pump Turbine Gland Seal Steam Line Orifice Replacement | \$ 564,800 | |
| Safety Injection Tank Valve Modifications | | \$ 403,900 |
| CEDM Timer Board Replacement | | \$ 1,139,700 |
| Pressurizer System Modifications | | \$11,304,000 |
| Permanent Plant Lighting Additions | | \$ 1,003,000 |
| Component Cooling Water Heat Exchanger Modification | | \$ 3,427,700 |
| Rain Covers for the Motor Control Centers and Local Control Panels in the Turbine Buildings | | \$ 801,800 |
| Health Physics Facilities Modifications | | \$ 600,000 |
| Subtotal | \$13,578,188 | \$23,558,200 |
| Indirect Costs | | \$20-50 million |

O'Donnell estimates a range of litigation costs recommended for disallowance of \$11.4 to \$28.9 million. The \$11.4 estimate is based on costs for consultants and legal services for persons or firms not actually involved in the construction of SONGS 2&3. The upper limit, \$28.9 million, is an estimate of all litigation costs. When added to the OKA identified range of unreasonable or questionable plant costs of \$38.6 to \$68.6 million, this yields a total estimated range of potential disallowance of \$50.0 to \$97.5 million.

These disallowance costs are on a total plant basis and do not include MAAC balancing account carrying costs.

C. CCC

Consumers Coalition of California (CCC) presented the testimony of Kevin J. O'Brien, who questioned many areas of the applicants' post-COD expenses and ratemaking. O'Brien recommended further study of the post-COD reasonableness. He also recommended that ratepayers should not pay for the "profit making center" of SONGS 2&3 but rather should pay only for the energy, but offered no recommendation on how such energy should be priced. O'Brien further questioned why such extensive modifications and additions were needed after COD, and whether the technology was available only six years ago during the SONGS 2&3 construction. O'Brien testified that the disallowance should be at least in the upper end of the OKA identified range of questionable expenses, i.e. \$38.6 to \$68.6 million. Additionally, he questioned why ratepayers should pay for the review of SONGS 2&3 post-COD costs, believing instead that if SCE's management of the project caused problems or raised questions, the cost of the review should be born by SCE and SDG&E.

D. Other Parties

No other parties offered witnesses. The City of San Diego and Edward Duncan, protestant, cross-examined witnesses.

E. Reasonableness Stipulation

The Stipulation Between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is attached as Appendix A.

1. Description

The reasonableness stipulation provides for a disallowance of \$41.2 million of the post-COD investment for California jurisdictional ratemaking purposes, consisting of the following components:

\$11.8 million disallowance of post-COD investment, determined by 2.86% of \$414.2 million of post-COD investment excluding litigation and Commission consultant costs. This is based on the results of the Phase 2 reasonableness review, D.86-10-069.

0.5 million additional disallowance related to indirect costs. ✓

28.9 million disallowance of all of the SCE and SDG&E legal fees, consultant and expert witness fees, and other costs related to participation in the Phase 2 and post-COD reasonableness reviews as of November 30, 1987. ✓

\$41.2 million total disallowance

In addition, the reasonableness stipulation provides for the Commission consultant costs to be removed from the post-COD investment and recorded as an expense, with interest, in the utilities' respective MAAC post-COD balancing accounts in the months in which they were paid to the Commission.

The Commission initially disallowed 2.86% of the total pre-COD plant investment, excluding delay-related disallowances. The parties agreed to the same percentage disallowance for post-COD plant investment. ✓

The resulting \$11.8 million disallowance was determined as follows, from Appendix B to D.86-10-069:

| <u>Issue</u> | <u>Phase 2 Disallowance (\$ in millions)</u> |
|---|--|
| Quality Assurance/ Quality Control (QA/QC) | \$ 20.3 |
| Productivity | 10.0 |
| Indirects | <u>98.6</u> |
| Total | \$128.9 |

Phase 2 disallowance rate = \$128.9 disallowance/\$4,509
Total Cost of Plant = .0286 or 2.86%

\$414.2 million x .0286 = \$11.8 million post-COD
disallowance

Each utility's share of the disallowance is determined by the formula:

$$\text{SONGS disallowance} = \text{PCODI} \times \text{OS} \times .0286 \times \text{JAF}$$

where:

PCODI = \$414.2 million of post-COD investment on a total plant basis.¹

OS = Ownership share in SONGS 2&3

= 75.569% for SCE²

= 20.014% for SDG&E³

JAF = The retail jurisdictional demand allocation factor for SCE or SDG&E adopted by the Commission as of January 1986.

The resulting disallowances are \$8.7 million for SCE and \$2.4 million for SDG&E.

The \$0.5 million additional disallowance related to indirect costs was derived as follows: ✓

1 If the post-COD investment (excluding litigation and Commission consultant costs) exceeds \$414.2 million, SCE and SDG&E may apply for rate relief reflecting the amount in excess in their next base rate proceeding filed after January 1, 1988.

2 For this calculation, an ownership share of 75.569% was used to reflect SCE's actual share of the recorded post-COD investment. SCE's share of the post-COD investment is slightly higher than its 75.05% ownership share, since there are some recorded administrative and general costs capitalized to the work orders which are not shared by the other partners.

3 For this calculation, an ownership share of 20.014% was used to reflect SDG&E's actual share of the recorded post-COD investment. SDG&E's share of the post-COD investment varies slightly due to a lag in SCE's billing to SDG&E, SCE nonbillables, SCE and SDG&E administrative and general costs, and different AFUDC rates.

The parties agreed to a \$3 million additional disallowance assuming the \$98.6 million indirects cost disallowance in D.86-10-069 remained unchanged. However, this additional disallowance was made subject to adjustment to reflect the final decision on rehearing of the indirects cost issue as follows:

$$AD = \frac{(\$3 \text{ million})}{(\$98.6 \text{ million})} \times ID \times OS \times JAF$$

where:

AD = Additional disallowance

ID = The final adopted indirects disallowance for SONGS 2&3 on rehearing of D.86-10-069

OS = Each utility's ownership share in SONGS 2&3

JAF = as defined above
97.05% for SCE
100.00% for SDG&E

The final disallowance for indirect costs was \$17 million (by D.87-07-097 and D.87-11-018). When applied to the above formula the additional disallowance becomes \$0.5 million. ✓

The total additional disallowance of \$0.5 million is allocated \$0.377 million to SCE, \$0.103 million to SDG&E.

The \$28.9 million disallowance of litigation costs as defined above covers recorded costs through November 1987. The reasonableness stipulation also provides that any additional litigation costs recorded after November 30, 1987 are not to be reflected in rates.

The reasonableness stipulation further provides that SCE and SDG&E are to remove the cost of Commission consultants from the post-COD investment and record it as an expense in their respective MAAC balancing accounts. The utilities are to be authorized to recover the full amount of their respective shares of the Commission consultant costs for the Phase 2 and post-COD reasonableness reviews, with interest. This amount is \$4.4 million through November 1987.

The stipulation requires a verification audit to be completed by the Commission prior to December 31, 1988. ✓

We will order the audit to be completed by June 30, 1989 since December 31, 1988 date is not now feasible. |

The parties believe this stipulation is an equitable compromise offering benefits to ratepayers and shareholders, and believe it to be in the public interest. SCE indicates that avoiding the substantial and time-consuming litigation of reasonableness issues frees utility personnel for more important and pressing tasks facing the utility. DRA expresses similar desires. Both parties place a value on certainty that results from the stipulation. Although SCE states that it believes it can prove the reasonableness of post-COD costs, it realizes that DRA would likely make a convincing showing of unreasonableness on certain items. DRA realizes that more detailed analysis by OKA would result in determining that some questionable items are either reasonable, or a compelling case of unreasonableness cannot be made. DRA also assumes that we may not adopt all its recommendations for disallowance.

2. Positions of Parties

The CCC opposes the reasonableness stipulation. CCC contends that the recommended disallowance is too low, and that further study of post-COD costs is warranted before the Commission decides on the reasonableness. If a reasonableness stipulation were effected, CCC believes it should be in the upper end of the OKA identified range of questionable expenses, i.e. around \$68.6 million. O'Brien expresses concern over the issue of operator training, guidance, and qualifications as it affects ongoing plant operation.

Duncan presented no testimony, but cross-examined DRA witness O'Donnell and SCE witness Peevey on the strategy of negotiating the stipulation and how the parties prepared for the negotiations.

3. Discussion

We agree with DRA, SCE, and SDG&E that the stipulation represents an equitable compromise, representing benefits to both ratepayers and shareholders. The settlement disallows all of SDG&E and SCE's litigation costs, as well as nearly one-third of the potential disallowance of post-COD investment costs, as estimated by DRA. Ratepayers gain the benefit of a certain and substantial disallowance, a disallowance that might not be realized if the case were fully litigated. The utilities, on the other hand, gain the benefit of recovering, in a timely manner, the overall post-COD costs, while avoiding the lengthy and time-consuming costs of litigating the reasonableness issues.

CCC opposes the settlement because it is not in the upper range of DRA's estimate of potential disallowances. However, as DRA and OKA testified, the estimate of potential disallowances is merely an indication of the range of questionable expenses that require further study. Once these questionable expenses were studied in detail, DRA expects that some expenses would be found to be reasonable and other expenses, while questionable, would lack sufficient evidence to support a finding of unreasonableness. Thus, if the reasonableness of these expenses were studied further, fully litigated and decided by the Commission, the amount which we would disallow could be less than the upper range of DRA's preliminary estimate.

The final Phase 2 disallowance (D.87-07-097), after years of exhaustive investigation and litigation, was 5.9% of the total costs. The percentage of total post-COD costs to be disallowed pursuant to the stipulation is 9.2% of the total post-COD plant costs requested by the applicants. CCC has failed to demonstrate why it is reasonable to believe that the post-COD disallowance, if fully litigated, is likely to be any greater.

Finally, we consider CCC's recommendation that ratepayers should not be held responsible for the costs of consultant review.

We believe that Commission review using consultants in a proceeding of this type is necessary in order to protect the interests of ratepayers. Whether or not any unreasonableness is found does not alter the need for such a review of plant expenses of the magnitude of SONGS 2&3 post-COD. The Commission would be subject to valid criticism if it determined that a consultant review was not warranted due to cost. Such costs are insignificant compared to the project costs that ratepayers may be ultimately responsible for. We view this as a normal cost of regulation intended to protect the ratepayers' interests, and therefore conclude that the cost should be born by the ratepayers.

The resulting rates are just and reasonable, and we will therefore approve the reasonableness stipulation.

Table 2 below itemizes the stipulated disallowances.

TABLE 2

Stipulated Reasonable Level of
SONGS 2 and 3 Post-COD Investment
Overall Disallowance of Post-COD Investment
(\$ in thousands)

| <u>Description</u> | <u>Total Plant</u> | <u>SCE Share CPUC Jurisdictional</u> | <u>SDG&E Share</u> |
|--|------------------------|--|----------------------------|
| Total Post-COD Investment | \$447,454 | \$329,490 | \$89,472 |
| Less: | | | |
| SONGS Disallowance | 11,846 | 8,688 | 2,371 |
| Additional Disallowance | 517 | 377 | 103 |
| Litigation Costs | 28,874 | 22,425 | 5,695 |
| Commission Consultant Costs | <u>4,375</u> | <u>3,187</u> | <u>876</u> |
| Stipulated Reasonable Level of Post-COD Investment | \$401,842 | \$294,813 | \$80,427 |

We will approve the reasonableness stipulation and order the Commission Advisory and Compliance Division to perform a verification audit prior to June 30, 1989, to determine the final disallowance amounts due to the reasonableness stipulation for SCE and for SDG&E. ✓

IV. Ratemaking Issues

A. Phase 2 Issues

There are two ratemaking issues to address from Phase 2.

The first issue is allocation of SONGS 2&3 pre-COD delay-related disallowances between AFUDC and non-AFUDC. This allocation is important because of the different tax effects and resulting costs to the ratepayers and utilities depending on the allocation used.

In D.87-11-018 the Commission found the following SONGS 2&3 pre-COD costs to be unreasonable: ✓

TABLE 3

Summary of Disallowance
(\$ in millions)

| <u>Unit 2</u> | <u>Unit 3</u> | <u>Total</u> | <u>Issue</u> |
|---------------|---------------|---------------|------------------|
| \$ 10.0 | \$ 10.3 | \$ 20.3 | QA/QC |
| 8.0 | 2.0 | 10.0 | Productivity |
| 114.2 | 101.5 | 215.7 | Delay days |
| 11.2 | 5.8 | 17.0 | Indirects |
| <u>+ 1.0</u> | <u>+ 1.0</u> | <u>+ 2.0*</u> | Beach Mitigation |
| \$144.4 | \$120.6 | \$265.0* | Total |

* Less imputed AFUDC on \$1.4 million of prudent mitigation costs.

AFUDC represents the capitalized value of the carrying costs for the direct and indirect costs during SONGS 2&3 construction. The following deals with tax laws applicable to the pre-COD construction period, which differ from current tax laws.

An AFUDC disallowance is not recognized by the Internal Revenue Service (IRS) as an expense that can be deducted from earnings for income tax purposes, while other costs usually are deductible. An AFUDC disallowance of plant does not affect depreciable plant for tax purposes, and therefore does not affect the income tax. In order for a utility to recover one dollar of AFUDC it must collect approximately two dollars in revenue. (One dollar is used to pay the tax, assuming a 50% tax obligation.) One dollar of AFUDC disallowance reduces revenues by two dollars.

Disallowed non-AFUDC costs are tax deductible, so only one dollar needs to be collected in revenue to recover one dollar of non-AFUDC costs. One dollar of non-AFUDC disallowance reduces revenue by one dollar. However, a non-AFUDC disallowance reduces the amount of depreciable plant for tax purposes and increases income tax. The increased income tax requires an increase in revenue requirement to ratepayers over the life of the plant. SDG&E estimates that allocation of the delay-related indirects disallowance to AFUDC/non-AFUDC at the 32%/68% ratio it proposes would initially require additional revenues of about one million dollars per year, declining over time.

The difference between allocating to AFUDC and non-AFUDC is that the ratepayer benefits under AFUDC allocation while shareholders benefit in proportion to the amount of non-AFUDC allocation.

The second issue is whether under- and overcollected balances in the MAAC balancing account relating to income tax should accrue interest.

B. Ratemaking Stipulation

The Stipulation Between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and

3 dated January 25, 1988, is referred to as the ratemaking stipulation, attached as Appendix B. It deals with ratemaking issues, and involves DRA and SCE only. SDG&E is not a party to it, and has presented opposing ratemaking recommendations for both issues. The stipulation requests Commission approval of the following ratemaking issues applying to SONGS 2&3:

- All delay-related pre-COD disallowances adopted in D.86-10-069, D.87-07-097, and D.87-11-018 are to be allocated to AFUDC for ratemaking purposes.
- All SCE MAAC balancing accounts are to be adjusted to remove interest accrued on all undercollected or overcollected income tax expense.
- SCE MAAC post-COD balancing account is to be adjusted to reflect the stipulated disallowances. ✓
- SCE MAAC post-COD balancing account is to be adjusted to reflect recovery of the amounts paid to the Commission to fund the DRA's consultants for the Phase 2 and post-COD reasonableness reviews. ✓
- Transfer of recovery of the revenue requirement from MAAC to base rates.
- Amortization of the adjusted balance in the SCE MAAC post-COD balancing account, plus interest, over a three-year period.

The revenue requirements and rate levels are subject to adjustment to reflect the final decisions in certain other proceedings set forth in Attachment 1 of the stipulation. Those proceedings are Investigation (I.) 86-11-019 (the Tax OII), in which the Commission is considering the ratemaking impacts of recent changes in state and federal tax law, and I.86-10-001 (the 3-R's Proceeding) in which the Commission is considering modifications of various ratemaking mechanisms.

Finally, the ratemaking-related accounting adjustments relative to post-COD investment are subject to a verification audit by the Commission.

**C. Allocation of SONGS 2&3 Pre-COD
Delay-Related Disallowances to AFUDC/non-AFUDC**

1. Positions of Other Parties

a. SDG&E

SDG&E recommends that the pre-COD delay-related disallowance be allocated 32% AFUDC, 68% non-AFUDC, using the same allocation ratios used by DRA for total pre-COD investment in Phase 2. ✓

The testimony of SDG&E can be summarized as follows:

- A method was needed to allocate the pre-COD delay-related disallowance to AFUDC and non-AFUDC. ✓
- The Commission acknowledged in earlier SONGS 2&3 decisions that this disallowance contained both AFUDC and non-AFUDC components.
- The Commission agreed that precise determination of the proper AFUDC/non-AFUDC split was impossible with the available data, and would be impractical even if sufficient data were available.
- DRA recommends using the all AFUDC allocation method only because it is most favorable to the ratepayers, at the expense of shareholders.
- SDG&E's proposed allocation is reasonable and is consistent with Commission intent.

b. City of San Diego

City supports allocating all delay-related disallowance to AFUDC, citing earlier decisions that it believes indicate Commission intent in this matter. However, City acknowledges that the intent is subject to interpretation. ✓

2. Discussion

In D.86-10-069 we adopted a method for allowing recovery of indirect costs:

"Indirect costs should be disallowed in the same proportion as Direct and AFUDC costs are disallowed.

"We find that it is reasonable to disallow a portion of total project costs, not previously disallowed, that reflects the ratio of disallowance to total plant expenditures in the Direct and AFUDC cost categories."
(D.86-10-069, p. 275.)

In Appendix B, page 4, E., the disallowance ratio (D.R.) is defined as the equation:

$$D.R. = \frac{\text{Directs (disallowed)} + \text{AFUDC disallowed (Table B-5)}}{\text{Total plant directs} + \text{AFUDC}}$$

City correctly interprets this to mean that the Commission intended indirects to be allocated to AFUDC since no mention is made of any proration ratio of indirects cost to AFUDC and non-AFUDC.

That interpretation would make the equation mean:

$$D.R. = \frac{\text{Directs disallowed} + \text{indirects disallowed}}{\text{Total plant directs} + \text{indirects}}$$

In D.87-07-097, which modified the disallowance and disallowance ratio, the equation was changed to eliminate the AFUDC component from both the numerator and denominator of the equation, explaining at page 11:

"In our original evaluation we found only 179 disallowable days out of years of actual delay. Thus it appears somewhat unfair to include AFUDC in calculating the disallowance ratio. Consequently, we will recalculate our level of indirects disallowance, using only disallowed direct, not AFUDC, in calculating the disallowance ratio."

The equation becomes: $D.R. = \frac{\text{Directs disallowed}}{\text{Total plant direct}}$

D.87-11-018 modified both D.86-10-069 and D.87-07-097, stating at page 6:

"We further conclude, however, that the relationship between AFUDC and indirect costs, as evidenced in this proceeding, does not warrant disallowance of indirects based on their association with AFUDC disallowances. There is no evidence to show that imprudent delay, as quantified by the AFUDC disallowance, caused an incremental increase in indirect expenditures in proportion to the delay."

DRA and City correctly interpret this to mean that imprudent delay and AFUDC are essentially one and the same, for ratemaking purposes. SDG&E argues that such an interpretation is illogical, and that the Commission used the AFUDC disallowance as another name for delay cost disallowance quantified using the AFUDC method, and did not mean that all delay cost disallowance should be AFUDC. SDG&E's position requires the assumptions that the Commission used the terms "AFUDC" and "AFUDC method" interchangeably, and "AFUDC disallowance" and "delay disallowance" interchangeably. However, SDG&E witness Garrett acknowledged that the Commission understood the distinctions and differences between those terms.

The above quotes, especially the last one from D.87-11-018, clearly indicate our intent that, absent a thorough determination of allocation, delay-related disallowances should be treated for ratemaking purposes entirely as AFUDC. ✓

We approve the ratemaking stipulation between SCE and DRA regarding the allocation. This is consistent with Commission policy as expressed in D.87-11-018.

We do not approve SDG&E's proposal to allocate pre-COD delay-related disallowance 32% to AFUDC and 68% to non-AFUDC since doing so is contrary to Commission policy as indicated above. ✓
Instead, we will adopt the same approach for SDG&E as SCE, and

allocate SDG&E's share of the pre-COD delay-related disallowance to AFUDC for ratemaking purposes. ✓

The allocation of post-COD delay-related unreasonable investments is not in dispute. DRA, SCE, and SDG&E agree that the overall allocation ratios for post-COD costs be used to allocate the reasonableness stipulation disallowance. The litigation and consultant costs do not have AFUDC elements and should be disallowed as recorded. No party opposed this.

Finally, we turn to a pending motion by SDG&E to strike certain portions of the prepared testimony of O'Donnell relating to the indirects disallowance. O'Donnell recommended that, for ratepayer equity reasons, the pre-COD indirects disallowance finally decided in D.87-11-018 should be increased if the Commission decides to allocate the delay-related disallowance to both AFUDC and non-AFUDC. SDG&E argues that the indirects disallowance issue has been finally decided, and the period for petitioning the Commission for rehearing or for filing a notice of appeal with the California Supreme Court has ended. We agree with SDG&E. We do not intend to reopen the indirects disallowance issue in this proceeding. However, since we are allocating the delay-related disallowance to AFUDC, the portions of O'Donnell's testimony under the motion to strike are moot. Therefore, there is no need to strike them. ✓

D. Interest Applied to MAAC Balancing
Accounts for Utility Expenses Not Yet Paid

1. Positions of Other Parties

a. DRA

This issue was raised by DRA, questioning why interest should be accumulated on MAAC balancing account debits for taxes, since the utility(s) has no obligation to pay the tax on the undercollected amount until it is billed to the ratepayers. The income tax undercollection is associated with a revenue undercollection. The revenues billed and taxes owed are in balance

at all times. When the undercollected revenue is billed to the ratepayers, the income tax associated with it becomes due. No interest or penalty by the IRS applies.

DRA believes that since there is no tax liability to the utility during the period of undercollection, there should be no accrual of interest on this item, only for undercollections.

DRA argues that interest accrual is appropriate on the income tax portion of overcollected balance since the ratepayer has already paid the taxes early and does suffer the loss of the time value of the money.

DRA does not allege that SDG&E has not complied with its tariffs, but rather that the tariffs do not comply with Commission intent. The tariff rule should be changed and refunds made to ratepayers on the order of \$6,000,000 for interest accrued on the income tax portion of the undercollected MAAC balance.

b. SDG&E

SDG&E argues that DRA's proposal to refund the accrued interest on undercollected MAAC balance is prohibited since it implies retroactive ratemaking, especially since DRA's proposal would involve changing the tariff rule retroactively. SDG&E further argues that it is appropriate to accrue interest on the undercollected balance as an equity measure, since SDG&E is not able to earn its authorized rate of return due to other factors.

In addition, SDG&E alleges that the ratepayers actually received a net benefit of \$10 million from the treatment of income taxes in MAAC, as a result of the effect of deferred taxes on reduced rate base. In establishing the MAAC revenue requirement, rate base is reduced by the amount of deferred taxes that are assumed will be collected. However, when the MAAC balancing account is undercollected, a portion of the undercollection is attributable to those deferred taxes. Therefore, the ratepayer receives the benefit of the reduced rate base before paying the undercollected balance.

In order to understand the income tax consequences, a brief explanation of the depreciation methods is appropriate here. The Economic Recovery Tax Act of 1981 (ERTA) allowed utilities (and others) to use the accelerated cost recovery system for federal income tax purposes. ERTA prohibited flow-through of the income tax benefits to utility ratepayers, since doing so would negate the benefit to the utility. Straight-line depreciation was required for ratemaking purposes.

The result is that in the earlier years of depreciation the utility pays less income taxes than the ratepayer is charged. This is due to ERTA allowing greater depreciation expense in the earlier years, which reduces income tax liability. The situation reverses in later years as less depreciation expense is available resulting in greater income tax liability. The income taxes are not avoided, rather they are only deferred. ✓

In order to compensate the ratepayers for advancing the deferred taxes, the utility is required to reduce its rate base by the amount of deferred taxes. In reducing rate base, the return (on rate base) that the ratepayers are responsible for is reduced.

Deferred taxes are booked for ratemaking purposes only when two conditions are met:

1. There is a tax savings associated with the use of accelerated versus straight-line depreciation, and
2. The taxes have been collected from ratepayers.

When the MAAC balancing account is undercollected, the second requirement has not been met and the ratepayers have paid less deferred taxes than were used to reduce rate base by the amount of deferred taxes assumed to be collected in setting the MAAC revenue requirement.

SDG&E believes that if the MAAC tariff is defective for the reason claimed by DRA, then it is also defective because SDG&E

compensates ratepayers, through reduced rate base and return, for deferred taxes ratepayers have not yet paid to SDG&E.

c. City of San Diego

City agrees with DRA that the interest accrued on the unpaid income tax portion of the MAAC balancing account should be refunded to the ratepayers.

2. Discussion

We find, as a matter of equity, that ratepayers should not pay interest on the income tax portion of the undercollected MAAC balancing account, since SDG&E has no obligation to the IRS for income tax on the undercollected amount until it is billed to the ratepayers. At that time, SDG&E is not assessed any additional taxes due to carrying costs or penalties.

The rate base adjustment due to deferred taxes is a result of selection of depreciation method, and does not warrant consideration here. SDG&E uses accelerated depreciation for federal tax purposes and straight-line depreciation for ratemaking purposes in California, which results in a lower-than-straight-line tax liability to the IRS. Flow-through of this tax benefit to the ratepayer is not allowed in the tax code. The ratepayer is compensated for the extra tax payment, which is in effect an advance payment on SDG&E's deferred taxes, by the rate base adjustment which reduces rate base by the amount of the deferred taxes.

However, the question of the equity of allowing interest to accumulate on the overcollected MAAC balancing account is somewhat different. Once the ratepayer is billed, SDG&E incurs the obligation to pay the associated income tax to the IRS, and should be compensated properly. The ratepayer in this instance is not loaning income tax funds to SDG&E, rather SDG&E is paying that income tax amount promptly to the IRS. Since SDG&E has paid the money to IRS and does not have the use of it, there is no time

value of this money to SDG&E and we see no reason to require SDG&E to compensate the ratepayer with interest on it.

Regarding the issue of retroactivity, we believe that adjusting the MAAC balancing account for this purpose is fully permissible within the bounds of proper ratemaking and does not represent impermissible retroactivity. This is not associated with a general rate case. The MAAC balancing account was established by D.83-09-007. In Findings 50 and 51 we stated:

"50. Balancing account treatment of investment-related costs will provide adequate protection to ratepayers by enabling adjustments to be made for any disallowance on plant costs and investment-related costs which may be made in Phase 2.

"51. Balancing account treatment of investor-related costs will provide adequate protection to investors as it constitutes a mechanism through which they can be made whole on investment-related costs determined by this Commission to be prudent expenditures."

Although the findings seem clear, we further point out that regarding the issue of possible retroactivity, decisions by the California Supreme Court have upheld our right to operate balancing accounts of this type in the manner we are considering. In Southern California Edison Company v Public Utilities Commission (1978) 20 Cal. 3d 813, the Court held that the rule against retroactive ratemaking did not apply to "extraordinary rates not set by or in a general rate proceeding." (20 Cal. 3d at 816, 828-830 and n.25.) The Court stated "In Pacific Tel. & Tel. Co. v Public Utilities Commission, 62 Cal. 2d 634 (44 Cal. Rptr. 1, 401 P. 2d 353)...., the first decision of this Court on the question, we construed Public Utilities Code Section 728 to vest the commission with powers to fix rates prospectively only. But we did not require that each and every act of the commission operate solely in futuro; our decision was limited to the act of promulgating 'general rates.'" (20 Cal. 31 at 816.) Moreover, the California

Supreme Court has recently confirmed that the prohibition against retroactive ratemaking does not bar disallowances of MAAC balancing account debits. (TURN V P.U.C., 44 Cal. 31 at 870, 874, footnote 1, March 21, 1988.)

The MAAC account was set up as an accounting mechanism to allow utilities to record certain items each month, subject to a later determination of reasonableness. The act of recording such items in MAAC does not constitute a determination of reasonableness, and any subsequent disallowance merely carries out the intent and function of MAAC. SDG&E should have no expectation of keeping this money through the MAAC.

We will order SDG&E to refund by a credit adjustment to the MAAC balancing account the actual amount of interest accumulated on the income tax portion of the MAAC balancing account, estimated by SDG&E to be about \$6 million. In addition, we will order both SCE and SDG&E to revise their MAAC tariffs to eliminate future accrual of interest on the income tax portion of both under- and overcollected MAAC balancing accounts.

E. Rate Design

1. SCE

a. Post-COD Issues

SCE proposes rates based on both the reasonableness and the ratemaking stipulations. The resulting rates are caused by changes to the following rate components:

- Increase base rates 0.075¢/kilowatt-hour (kWh) to reflect post-COD investment
- Decrease MAABF by a net 0.017¢/kWh due to the following:

- Reduce post-COD Average Ownership Rate⁴ (AOR) from 0.081¢/kWh to zero.
- Increase post-COD balancing rate from zero to 0.064¢/kWh. (This is based on a three-year amortization of the \$109.375 million forecast balance beginning June 1, 1988.)
- Continue the pre-COD balancing rate unchanged at 0.013¢/kWh. (See Table 4 below for derivation.)

Table 4 summarizes these rate changes.

⁴ The AOR is the California jurisdictional rate resulting from allocating to MAAC sales the authorized annual revenue which reflects the costs of owning specified major additions.

TABLE 4

Southern California Edison Company
Major Additions Adjustment Account
Pre-Cod Investment

| Description | (\$M) | Forecast Sales (gWh) | MAAC Balancing Rate (¢/kWh) |
|---|--------------|----------------------------|--------------------------------------|
| Forecast May 31, 1988 Major Additions Adjustment Account Balance Plus Billing Lag | \$22,146 | | |
| Forecast Interest Expense During 3-Year Amortization Period of Stipulation | <u>2,768</u> | | |
| Forecast Total Amount to be Recovered | 24,914 | | |
| Increased for Franchise Fees and Uncollectible Accounts | 25,152 | | |
| Forecast Amortization Period Sales* | | 193,502 | |
| Major Additions Adjustment Account Balancing Rate** | | | 0.013 |

* For ease of presentation, the forecast 1988 annual sales level adopted in SCE's T.Y. 1988 GRC was assumed for 1989 and 1990. The sales shown include a reduction of 86.1 gigawatt-hour (gWh) (28.7 x 3 years) to reflect the impact of Rate Schedule No. DE - Discount.

** Per D.87-12-066 (SCE's T.Y. 1988 GRC), the rate adjustment was allocated on an equal cents-per-kWh basis since the overall rate change is less than 1%.

b. Phase 2 Issues

The rates above are based on the ratemaking stipulation, allocating pre-COD delay-related disallowances totally to AFUDC, and removing interest on undercollected income tax. They are based on a three-year amortization period from June 1, 1988. ✓

Table 5 summarizes these rate changes. We will authorize SCE to make the changes effective January 1, 1989, subject to the revisions discussed in Section V below.

TABLE 5

Changes to Rate Levels

| <u>Description</u> | <u>Present (¢/kWh)</u> | <u>Proposed (¢/kWh)</u> | <u>Change (¢/kWh)</u> |
|---|----------------------------|-----------------------------|---------------------------|
| Increase to Average Base Rate Levels to Reflect Post-COD Investment | 0.000 | 0.075 | 0.075 |
| Decrease to the Major Additions Adjustment Billing Factor: | | | |
| Post-COD Average Ownership Rate | 0.081 | 0.000 | (0.081) |
| Pre-COD Balancing Rate | 0.013 | 0.013 | 0.000 |
| Post-COD Balancing Rate | <u>0.000</u> | <u>0.064</u> | <u>0.064</u> |
| Total MAABF Change | 0.094 | 0.077 | (0.017) |

2. SDG&Ea. Post-COD Issues

SDG&E proposes the following rate changes for post-COD plant additions:

- Increase base rates by 0.029¢/kWh.
- Decrease MAABF by 0.029¢/kWh, the net effect of:
 - Increase in post-COD balancing rate of 0.084¢/kWh (to amortize the balance over three years), and
 - Decrease AOR by 0.113¢/kWh.

The result is no net rate change for SDG&E's ratepayers. As with SCE, SDG&E's rates are calculated for the period beginning

June 1, 1988, rather than the likely rate change date of January 1, 1989, so both utilities' rates will have to be redetermined.

SDG&E's proposed rates are designed to avoid a net rate increase that would result through normal rate design. In order to avoid such an increase the proposal reduces the base rate increase, setting it at the level of 0.029¢/kWh which exactly balances the net MAABF decrease. The base rate would otherwise be 0.108¢/kWh. SDG&E expects to eventually recover the shortfall in base rate revenues through the normal operation of Electric Revenue Adjustment Mechanism (ERAM). SDG&E also requests that if any portion of ERAM is eliminated in the 3-Rs proceeding that it be allowed to recover the base rate shortfall in the remaining ERAM account. No party opposed SDG&E's request for a no net rate increase.

We will not set rates differently for SCE and SDG&E in this case. We are particularly concerned that we will be setting rates knowing that a revenue shortfall would result which would have to be collected later. Were we to adopt SDG&E's approach, we would be accepting the reality of this revenue shortfall at the same time we will be issuing decisions in SDG&E's general rate case and ECAC proceedings, each of which calls for a revenue reduction. We think it much better to set the base rate correctly at 0.108¢/kWh now to recover the entire base rate increase since the increase will be offset by decreases from other proceedings.

In addition, because actual rate changes will be deferred to January 1, 1989, there is no need for offsetting rate changes. SONGS 2&3 rate changes will be consolidated into changes ordered in other proceedings, as discussed in Section V below.

Table 6 summarizes these rate changes.

TABLE 6

SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
POST-COD PLANT ADDITIONS

Summary of Proposed Uniform Rate Changes

| Line No. | Item | Present (¢/kwhr) (A) | Proposed (¢/kwhr) (B) | Change (¢/kwhr) (C) | Adopted (¢/kwhr) (D) |
|--------------------|--|----------------------------|-----------------------------|---------------------------|----------------------------|
| <u>MAAC RATES</u> | | | | | |
| 1. | Pre-COD Average Ownership Rate | 0.000 | 0.000 | 0.000 | 0.000 |
| 2. | Post-COD Average Ownership Rate | 0.113 | 0.000 | (0.113) | 0.000 |
| 3. | Pre-COD Balancing Rate | (0.152) | (0.152) | 0.000 | (0.152) |
| 4. | Post-COD Balancing Rate | 0.000 | 0.084 | 0.084 | 0.084 |
| 5. | Total-Major Additions Adjustment Billing Factor (MAABF) | (0.039) | (0.068) | (0.029) | (0.068) |
| <u>BASE RATES</u> | | | | | |
| 6. | Proposed Equal Offsetting Uniform Change to Base Rates (1) | | | 0.029 | 0.108 (2) |
| <u>TOTAL RATES</u> | | | | | |
| 7. | Proposed Uniform Change to Total Rates [Line 5. + Line 6. - Col.(C)] | | | 0.000 | 0.079 |

(1) SDG&E proposes that the uniform change to base rates offset the uniform change to the MAABF in order to effect no change to total rate levels of its customers.

(2) This authorized base rate is not an equal uniform offsetting change to base rates

b. Phase 2 Issues

Since SDG&E opposed the ratemaking stipulation, no rate effects were presented for allocation of delay-related disallowances to AFUDC and for crediting the accumulation of interest for taxes on the undercollected MAAC balance. We will order SDG&E to effect rates that handle these issues in the manner we have discussed, subject to the revisions discussed in Section V below. ✓

V. Coordination With Other Proceedings

It was originally anticipated that this proceeding would be completed in mid-1988. However, the decision is now being adopted near the end of 1988. It is reasonable to minimize the number of rate changes confronting customers by coordinating the revenue and rate impacts authorized herein with other cases pending for SCE and SDG&E. We will authorize all revenue and rate changes to become effective January 1, 1989.

For SCE, the SONGS 2&3 changes will be consolidated with revenues and rates authorized in SCE's financial attrition application, A.88-07-023, and its anticipated operational attrition advice filing. In addition, it is likely that an ECAC revenue reduction will be requested, ending the amortization period for the uranium subaccount.

For SDG&E, the SONGS 2&3 changes will be consolidated with revenues and rates authorized in SDG&E's general rate case, A.87-12-003, and its current ECAC case, A.88-07-003. The base rate revenue requirement in A.87-12-003 is calculated without consideration of the reasonableness stipulation herein.

Deferral of the adopted revenue and rate changes to January 1, 1989 requires recalculation of revenue requirements to include the ratemaking factors adopted by the Commission for 1989. These factors include franchise fees and uncollectibles rates, rate

of return, and the jurisdictional factor. Adjustments for these factors will not change the substance of the SONGS 2&3 stipulations. In addition, we will update the balancing account amortization rates to reflect recorded September, 1988 account balances.

VI. Eligibility for Compensation

A. Request

On March 7, 1988, CCC requested a finding of eligibility for compensation for its participation in this proceeding. The request is made under Rule 76.54 of the Commission's Rules of Practice and Procedure.

Rule 76.54(a) requires that a customer seeking an award shall file a request for a finding of eligibility for compensation within 30 days of the first prehearing conference or within 45 days after the close of the evidentiary record. There was only one prehearing conference in this proceeding, held on February 11, 1988. CCC's "Rule 76.54 Request For Finding of Eligibility for Compensation," filed on March 7, 1988 is timely since it is within 30 days of the first prehearing conference.

Rule 76.54(a)(1) requires a party requesting compensation to show that participation in the hearing or proceeding would pose a significant financial hardship.

B. Issues

1. Significant Financial Hardship

Rule 76.52(f) defines "significant financial hardship" as meaning both:

"(1) That, in the judgment of the Commission, the customer has or represents an interest not otherwise adequately represented, representation of which is necessary for a fair determination of the proceeding; and

"(2) Either that the customer cannot afford to pay the costs of effective participation, including

advocate's fees, expert witness fees, and other reasonable costs of participation and the cost of obtaining judicial review, or that, in the case of a group or organization, the economic interest of the individual members of the group or organization is small in comparison to the costs of effective participation in the proceeding."

Rule 76.52(f)(1) weighs the economic interests of the organization's individual members against the costs of effective participation. CCC states that a large number of its members are customers who reside in Southern California, subscribing to SCE's utility service. CCC does not indicate the size of its membership. CCC alleges that it is the only entity actively seeking to enforce the terms of Assembly Bill 3648, Public Utilities Code Sections 8281 through 8285, which deals with Women and Minority Business Enterprises, although it presented no evidence in these proceedings dealing with Women and Minority Business Enterprises.

No other party specifically represents this interest and we conclude that CCC represents an interest that, although it overlaps with parts of other parties' interests, is not otherwise adequately represented. We also conclude that representation of this interest is necessary for a fair determination of this proceeding. Thus CCC has met the first prong of the test of the Rule 76.52(f) standard regarding significant financial hardship.

CCC states that it is impractical and not economically feasible for individual ratepayers to adequately represent their interests before the Commission, and that the majority of these individuals would be unrepresented due to the time and expense involved, were it not for the CCC. CCC further states that any benefit to the organization or individual ratepayers would not be significant compared to the cost of CCC representing the ratepayers at these hearings.

We agree that the individual economic benefit to CCC's members is small in comparison to the costs of participating in

this proceeding, and thus CCC meets the requirements of Rule 76.52(f)(2), the second prong of the test.

CCC states that it is presently working out of a home, with all work done by volunteers, except for secretarial and consultant fees. CCC's total resources consist of \$2,700 in cash and \$36,000 in fees from participation in A.87-01-002, having been found to be eligible for intervenor funding by the Commission in that proceeding. CCC indicates no grant funds.

We conclude that CCC has met the requirements of Rule 76.54(a)(1) and has shown that participation in this proceeding would pose a significant financial hardship.

2. Statement of Issues

Rule 76.54(a)(2) requires a statement of issues that the customer intends to raise in a hearing or proceeding. CCC indicates an intent to pursue general reasonableness issues dealing with construction and nuclear power plant operation issue. CCC therefore satisfies this requirement.

3. Estimate of Compensation

Rule 76.54(a)(3) requires an estimate of the compensation that will be sought. CCC estimates that it will seek compensation of \$15,875.

4. Budget

Rule 76.54(a)(4) requires a budget for the customer's presentation. CCC presents the following budget:

Intervenor Fees

| | | |
|------------------|----------------|----------|
| Virginia Jarrow | (@ \$100/hour) | \$ 1,250 |
| Kevin J. O'Brien | (@ \$100/hour) | 1,250 |

Research on Technical Data/Historical Perspective

| | | |
|------------------|---------------|--------|
| Kevin J. O'Brien | (@ \$65/hour) | 11,375 |
|------------------|---------------|--------|

Administrative/Secretarial

| | | |
|--------------|---------------|-----|
| Essie Morrow | (@ \$25/hour) | 300 |
|--------------|---------------|-----|

Expert Witness

Kevin J. O'Brien (3 days @ \$400/day) 1,200

Costs

Telephone, travel, postage, copying, etc. 500

Total \$15,875

C. Common Legal Representative

Rule 76.54(b) allows other parties to comment on the request, including a discussion of whether a common legal representative is appropriate. Under Rule 76.55 our decision on the request for eligibility may designate a common legal representative. No party commented on the appropriateness of a common legal representative, and we find no current need to designate such a representative in this proceeding.

D. Conclusion

We have determined that CCC has shown that its participation in this proceeding would pose a significant financial hardship, as defined in Rule 76.52, and has submitted the summary of finances required by Rule 76.54(a)(1). CCC has met the other three requirements of Rule 76.54(a), (2), (3), and (4). No party has raised the appropriateness of a common legal representative. Therefore, we will find that CCC is eligible to claim compensation for its participation in this proceeding.

VII. COMMENTS

Comments on the proposed decision were filed by SCE, SDG&E, and DRA. SCE and DRA point out several typographical errors dealing with ratemaking issues, and suggest editorial changes. The typographical errors have been corrected. Some nonsubstantive editorial changes have been made. The SCE revenue increase has

been changed from \$37.6 million to \$38.8 million to reflect the update furnished by SCE in compliance with Ordering Paragraph 19.

SDG&E's comments reargue positions taken at hearing and briefed subsequently. We have considered them and believe that the proposed decision need not be changed.

We have added Appendices C and D which include the responses to Ordering Paragraph 19 of the proposed decision by SCE and SDG&E, respectively. Included are tables reflecting the 12.75% return on common equity adopted in the proposed decision in the consolidated financial attrition proceeding, A.88-07-023 and A.87-12-003, for SCE and SDG&E, respectively. If the Commission adopts a different return on equity, the rate in the attached tables must be adjusted accordingly by advice letter filed no later than December 28, 1988 with the Commission Advisory and Compliance Division.

Findings of Fact

1. On May 18, 1987 SCE filed A.87-05-031 seeking Commission determination that its post-COD investment in SONGS 2&3 is reasonable, and requesting authority to recover through base rates the California jurisdictional portion of the associated revenue requirements.
2. On July 23, 1987 SDG&E filed A.87-07-044 seeking Commission determination that its 20% ownership share of the post-COD investments is reasonable, and requesting authority to transfer recovery of the investment to base rates.
3. D.83-09-007 authorized SCE and SDG&E to establish a MAAC, and to implement a MAABF and AMAR.
4. D.86-08-060 adopted procedures for transferring the revenue requirements associated with SONGS 2&3 from MAAC to base rates, including a reasonableness review of post-COD investment.
5. D.86-08-060 provides that investments in plant additions placed in service after December 31, 1987 are to be handled in SCE's 1988 T.Y. GRC application.
6. D.86-08-060 provides that SDG&E's investments in plant additions placed in service after December 31, 1987 and before January 1, 1989 are to be included in SDG&E's ARA filing, while

estimates of plant additions to be placed in service January 1, 1989 or later are to be in its 1989 T.Y. GRC application.

7. The total pre-COD cost for SONGS 2&3 was \$4,509 million.

8. In D.87-11-018, the Commission determined that \$265.0 million, including \$17.0 million in indirect costs, of the total SONGS 2&3 pre-COD costs was imprudently incurred. This imprudence level is 5.9% of the total plant costs.

9. Post-COD investment refers to investment in SONGS 2&3 in excess of the \$4,509 million pre-COD cost, and incurred before January 1, 1988. ✓

10. D.87-12-065 set post-COD interim rates using the same 5.9% ratio of imprudence as Phase 2, subject to a determination of reasonableness by the Commission.

11. The total post-COD investment requested by the applicants is \$447.5 million including litigation costs and Commission consultant costs.

12. On January 25, 1988 a stipulation between SCE, SDG&E, and DRA on the reasonableness of post-COD plant costs was filed, agreeing to a disallowance of \$41.2 million and the reclassification of the \$4.4 million of Commission consultant costs as an expense item in the MAAC post-COD balancing account. The reasonableness stipulation provides that the reasonable level of post-COD investment for California jurisdictional ratemaking purposes is \$294.8 million for SCE and \$80.4 million for SDG&E.

13. The reasonableness stipulation includes a 2.86% disallowance of costs based on the non-delay portion of the Phase 2 disallowance, resulting in disallowances of \$8.7 million for SCE and \$2.4 million for SDG&E.

14. The reasonableness stipulation provides an additional disallowance related to indirect costs for ratemaking purposes of \$0.377 million for SCE and \$0.103 million for SDG&E. ✓

15. The reasonableness stipulation provides that SCE and SDG&E will not recover their costs associated with their litigation for pre-COD and post-COD investment. ✓

16. The reasonableness stipulation provides that the costs of the Commission's consultants are to be paid by SCE and SDG&E by reclassifying them from post-COD investment to an expense item, including accrued interest, in the MAAC post-COD balancing account from the date such costs were paid to the Commission. ✓✓

17. Before executing the settlement, DRA hired a consultant, OKA, to perform a preliminary review of post-COD investment and identify questionable activities, along with potential disallowance recommendations, in order to gauge the reasonableness of the settlement. ✓

18. Based on OKA's analysis, DRA concluded that if the reasonableness of costs was litigated, the probable range of DRA recommended disallowances in this proceeding would be \$50.0 to \$97.5 million.

19. Substantial time and effort would be required to carry out a complete review of post-COD costs. As a result of such review, the amount of post-COD costs which the Commission finds to be reasonable could be more or less than the amount specified in the proposed stipulation. The \$41.2 million disallowance represents 42.3% to 82.4% of the maximum amount DRA would propose for disallowance, if the proceeding was fully litigated.

20. D.87-12-065 requires SCE and SDG&E to address two ratemaking issues that apply to both pre- and post-COD investment, (1) the allocation of delay-related disallowances adopted in Phase 2 between AFUDC and non-AFUDC, and (2) whether interest for utility expenses not yet paid should be applied to account debits in the MAAC balancing account. ✓

21. On January 25, 1988 a ratemaking stipulation between SCE and DRA was filed dealing with the two ratemaking issues from D.87-12-065 as they apply to SCE.

22. The ratemaking stipulation provides that all pre-COD delay-related disallowances be allocated to AFUDC.

23. The ratemaking stipulation provides that no interest accrue on the portion of the undercollected or overcollected income tax expense in the MAAC balancing accounts. ✓

24. The ratemaking stipulation provides that the interest rate applicable to SCE's MAAC balancing accounts be its then current after tax gross AFUDC rate. ✓

25. AFUDC/non-AFUDC allocation of disallowances has income tax and ratemaking consequences.

26. SDG&E proposed a different recommendation on these ratemaking issues.

27. SDG&E proposes a 32% AFUDC, 68% non-AFUDC allocation for pre-COD delay-related disallowances. ✓

28. SCE, SDG&E, and DRA agree that post-COD disallowances should be allocated based on the overall ratio of AFUDC to non-AFUDC for post-COD investments. ✓

29. Litigation and Commission consultant costs do not contain AFUDC elements. ✓

30. SDG&E believes that DRA's proposal to refund the accrued interest on the undercollected or overcollected income tax expense in the MAAC balancing account is prohibited since it would involve retroactive ratemaking. ✓

31. SDG&E made a motion to strike certain portions of the prepared testimony of O'Donnell relating to reconsidering the issue of pre-COD indirects disallowance decided in D.87-11-018.

Conclusions of Law

1. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is just and reasonable and should be adopted.

2. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is just and reasonable and should be adopted.

3. SDG&E's proposal for allocating the disallowance of pre-COD delay-related disallowances between AFUDC and non-AFUDC is not consistent with prior Commission policy as stated in D.87-11-018 and would result in unjust rates. ✓

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

5. Pre-COD delay-related disallowances of investments should be allocated to AFUDC. ✓

6. Post-COD disallowances of delay-related investments should be allocated to AFUDC/non-AFUDC based on the overall post-COD ratio of AFUDC to non-AFUDC. ✓

7. It is not reasonable for SCE and SDG&E to accrue interest on the MAAC balance associated with income tax, whether the balance is under- or overcollected. SCE and SDG&E should be ordered to revise their tariffs to reflect this change.

8. Refunding the accumulated interest on the income tax portion of the undercollected MAAC balance does not constitute retroactive ratemaking.

9. SCE and SDG&E should be ordered to refund the accrued interest on the income tax portion of the undercollected MAAC balancing accounts.

10. The disallowances and rates authorized should be subject to verification audit by the Commission Advisory and Compliance Division, and adjustment for ratemaking factors effective January 1, 1989.

11. SDG&E should be authorized to revise its Base Revenue Amount and base rates to reflect SONGS 2&3 post-COD costs, by incorporation of revenue and rate revisions into A.87-12-003, SDG&E's Test Year 1989 general rate case.

12. CCC is eligible to file for compensation in this proceeding.

POST-COD ORDER

IT IS ORDERED that:

1. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is adopted.

2. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is adopted.

3. Southern California Edison Company (SCE) is authorized to increase its Authorized Level of Base Rate Revenue by \$47,723,000, which reflects Attrition Year 1989 ratemaking factors, to reflect SONGS 2&3 post-commercial operation date (COD) costs.

4. SCE is authorized to increase its base rates to recover an increased revenue requirement of \$47,723,000, in order to transfer recovery of post-COD investment from the Major Additions Adjustment Clause (MAAC) to base rates. These amounts have been adjusted for 1989 ratemaking factors.

5. SCE is authorized to reduce its MAAC Average Ownership Rate (AOR) from 0.080¢/kWh to zero for a revenue decrease of

approximately \$52.2 million to reflect removal of revenue requirement recovery of post-COD investment from MAAC rates.

6. SCE is authorized to increase its MAAC post-COD balancing rate from zero to 0.066¢/kWh for a revenue increase of \$43.1 million to reflect amortization of the balance over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

7. SCE is authorized to reduce its MAAC pre-COD balancing rate of 0.013¢/kWh to 0.012¢/kWh to reflect amortization of the balance, after removing interest on undercollected income tax, over three years from January 1, 1989, for an annualized revenue decrease of approximately \$0.7 million.

8. San Diego Gas & Electric Company (SDG&E) is authorized to revise its Authorized Base Rate Revenue and base rates to reflect SONGS 2&3 post-COD costs, by incorporation of revenue and rates revisions into A.87-12-003, SDG&E's Test Year 1989 general rate case.

9. SDG&E is authorized to reduce its MAAC AOR from 0.113¢/kWh to zero for a revenue decrease of \$14.6 million to reflect removal of revenue requirement recovery of post-COD investment from MAAC rates.

10. SDG&E is authorized to increase its MAAC post-COD balancing rate from zero to 0.089¢/kWh for a revenue increase of \$11.5 million to reflect amortization of the balance over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

11. SDG&E is authorized to reduce its MAAC pre-COD balancing rate from (0.152)¢/kWh to (0.204)¢/kWh to reflect amortization of the balance, after removing interest on undercollected income tax, over three years from January 1, 1988, adjusted for 1989 ratemaking factors.

12. SDG&E shall adjust its rates to reflect allocation of pre-COD delay-related disallowances to AFUDC.

13. SDG&E shall adjust its rates to reflect removal of the accumulated interest on the income tax portion of its undercollected MAAC balance.

14. SCE and SDG&E are ordered to revise their MAAC tariffs to remove accrual of interest on the income tax portion of the MAAC balance and to adjust the December 31, 1988 MAAC account balances to remove those charges retroactively from the plant units COD.

15. SCE is authorized to revise its MAAC tariffs such that the interest rate applicable to SCE's MAAC account balances shall be SCE's after tax gross Allowance for Funds Used During Construction (AFUDC) rate.

16. The rates authorized herein are subject to verification audit by the Commission Advisory and Compliance Division, which shall be performed before June 30, 1989.

17. If the post-COD investments recorded through December 31, 1987 exceed the \$414.2 million (not including litigation and Commission consultant costs) considered in this opinion, SCE and SDG&E may request recovery in their next base rate proceedings filed after January 1, 1989.

18. The Consumers Coalition of California is eligible to claim compensation for its participation in this proceeding.

19. If the Commission adopts 1989 ratemaking factors other than those used to make the above adjustments, SCE and SDG&E shall update their calculations in their December 28, 1988 advice letter filings which implement rates authorized in the now pending general rate, ECAC, and attrition proceedings. ✓

20. The tariff revisions authorized by this decision shall conform to General Order 96-A, shall be marked to show that they were authorized by this decision, and become effective four (4) days after the date filed, but no sooner than January 1, 1989.

This order is effective today.

Dated December 9, 1988, at San Francisco, California.

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

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

W. J. Weisner
W. J. Weisner, Executive Director

APPENDIX A
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ATTACHMENT 1

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION,
SOUTHERN CALIFORNIA EDISON COMPANY, AND
SAN DIEGO GAS AND ELECTRIC COMPANY
REGARDING THE REASONABLENESS OF POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 post-COD investment-)
related costs to base rates pursuant)
to previously adopted procedures,)
and (ii) related substantive and)
procedural relief.)

Application No. 87-05-031

Related Matter)
_____)

Application No. 87-07-044

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION,
SOUTHERN CALIFORNIA EDISON COMPANY, AND
SAN DIEGO GAS AND ELECTRIC COMPANY
REGARDING THE REASONABLENESS OF POST-COD INVESTMENT IN
SAN ONOERE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

Dated: January 25, 1988

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SAN DIEGO GAS AND ELECTRIC COMPANY
REGARDING THE REASONABLENESS OF POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission"), Southern California Edison Company ("Edison"), and San Diego Gas and Electric Company ("SDG&E") ✓ hereby stipulate to and recommend that the Commission

✓ The DRA, Edison and SDG&E are collectively referred to herein as the "Parties." Edison and SDG&E are collectively referred to herein as the "Utilities."

adopt for California jurisdictional ratemaking purposes the proposed level of San Onofre Nuclear Generating Station Unit Nos. 2 and 3 ("SONGS 2 and 3") Post-COD Investment^{2/} of \$401.8 million which reflects:

- An investment disallowance of \$41.3 million (on a total plant basis) proposed herein; and
- The reclassification of \$4.4 million of Commission Consultant Costs as an expense item in the Utilities' Major Additions Adjustment Accounts.

In addition, the Parties recommend that the Commission adopt the proposed recovery of all amounts paid by Edison and SDG&E to the Commission for the Commission Consultant Costs, plus accrued interest. Approximately \$4.4 million of Commission Consultant Costs have been recorded as of November, 1987.

^{2/} The term "Post-COD Investment" refers to the SONGS 2 and 3 investment in excess of the \$4,509 million reviewed in Phase 2 of Application Nos. 82-02-40 and related matters, and expected to be recorded by Edison prior to January 1, 1988. SDG&E's share of Post-COD Investment is recorded approximately two months after it is recorded by Edison due to a lag in billing between Edison and SDG&E. In Phase 2 of Application Nos. 82-02-40, et al., the Commission conducted an extensive review of \$4,509 million of SONGS 2 and 3 investment. In Application Nos. 87-05-031 and 87-07-044 the DRA conducted an extensive review of the Post-COD Investment. These reviews are referred to herein as the "Phase 2 Reasonableness Review" and "Post-COD Reasonableness Review," respectively. The term "COD" refers to Commercial Operation Date. Post-COD Investment includes plant expenditures; legal fees, consultant and expert witness fees, and other costs associated with the Utilities' participation in the Phase 2 and Post-COD Reasonableness Reviews ("Litigation Costs"); and the amounts paid by Edison and SDG&E to the Commission for the purpose of funding the DRA's consultants in the Phase 2 and Post-COD Reasonableness Reviews ("Commission Consultant Costs"). Unless otherwise noted, all investment and disallowance amounts set forth herein are on a total plant and unjurisdictionalized basis.

INTRODUCTION

A. Procedural Background

On February 18, 1982, Edison filed Application No. 82-02-40 requesting authority to reflect Edison's share of SONGS 2 in rates through a Major Additions Adjustment Clause ("MAAC") procedure. On October 21, 1983, Edison filed Application No. 83-10-36 requesting authority to reflect Edison's share of SONGS 3 in rates through the MAAC procedure. SDG&E filed similar applications to reflect their 20 percent share of SONGS 2 and 3 in rates through the MAAC procedure.^{3/} Proceedings initiated by the various MAAC applications filed by Edison and SDG&E were consolidated for hearing and decision.^{4/} The Commission adopted balancing account treatment for SONGS 2 and 3 investment-related costs,^{5/} and conducted an extensive reasonableness review of the underlying investment. In Decision Nos. 86-10-069, 87-07-097, and 87-11-018 ("Phase 2 Decisions"), the Commission disallowed \$265.0 million of the \$4,509 million of SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review.

In Decision No. 86-08-060 the Commission adopted transition procedures that, among other things, provide for a reasonableness review of the Post-COD Investment (Post-COD Reasonableness

^{3/} Application Nos. 82-03-63 and 83-10-12 (SONGS 2), and 83-11-19 (SONGS 3).

^{4/} Decision No. 84-01-038, January 5, 1984.

^{5/} Decision No. 83-09-007, September 7, 1983.

Review). On May 18, 1987, Edison filed Application No. 87-05-031, and on July 23, 1987, SDG&E filed Application No. 87-07-044, wherein Edison and SDG&E requested authority to transfer recovery of Post-COD Investment from the MAAC to base rates. These applications (collectively, the "Post-COD Applications") were filed in contemplation of the Post-COD Reasonableness Review established by the transition procedures.

In July, 1986 DRA commenced its initial review of the Post-COD Investment. The initial review spanned approximately six months and encompassed a review of approximately 7,000 pages of data and analysis supplied by Edison in response to the initial data requests. Shortly after the DRA commenced its review, Edison approached DRA and proposed discussions for the purpose of determining whether the Parties could reach a stipulated settlement of issues related to the Post-COD Investment. These discussions ultimately resulted in a tentative settlement. However, the DRA made final acceptance of the tentative settlement dependent upon the outcome of a more detailed and complete review of the Post-COD Investment.

On March 24, 1987 DRA authorized O'Brien, Krietzberg & Associates and Technical Analysis Corporation to conduct such a review. The more detailed review was conducted over nine months and reviewed in excess of 44,000 pages of data and analysis supplied by Edison. In the DRA's opinion, the result of this extensive review supports the tentative settlement reached by the

Parties.^{5/} Thereafter, in December, 1987 and January, 1988 the Parties engaged in further negotiations to finalize this Stipulation.

B. Summary Of The Stipulation

This Stipulation proposes the following settlement of reasonableness issues related to the Post-COD Investment for California jurisdictional ratemaking purposes:

- A disallowance based, in part, on the results of the Phase 2 Reasonableness Review of \$11.9 million^{7/} of Post-COD Investment, or 2.86 percent of the \$414.2 million of the Post-COD Investment excluding Litigation Costs and Commission Consultant Costs;
- A disallowance related to indirect costs of an additional \$0.5 million of Post-COD Investment;
- Disallowance of all of the Utilities' Litigation Costs of \$28.9 million recorded through November, 1987,^{8/} and no rate recovery of Litigation Costs recorded after that date; and
- Recovery through the Utilities' Major Additions Adjustment Accounts ("MAAC Balancing Accounts") of all

^{5/} The DRA has not disclosed the results of its review to Edison or SDG&E prior to the filing of this Stipulation.

^{7/} Disallowance amounts set forth in this Stipulation are on a total plant and unjurisdictionalized basis unless otherwise noted. Calculation of the disallowances for each utility are set forth in Appendix A.

^{8/} Amounts referred to herein as "recorded through November, 1987" are recorded by Edison as of that date. SDG&E's share of such amounts are recorded approximately two months later due to a lag in billing between Edison and SDG&E.

of the Commission Consultant Costs (\$4.4 million recorded through November, 1987) plus interest and full recovery of Commission Consultant Costs, plus interest, recorded after that date.

II.

STIPULATION

The DRA, Edison, and SDG&E have entered this Stipulation on the basis that the elements of the agreement are not severable, and that all elements of the agreement be adopted in their entirety without modification. In addition, since the agreement reached by the Parties represents a compromise, the Parties entered into this Stipulation on the basis that the Commission's adoption of this Stipulation not be construed as a precedent or policy statement of any kind for or against the Parties in any current or future proceeding.

The Parties have stipulated to an investment disallowance based on the Phase 2 Reasonableness Review that is applicable to the \$414.2 million of Post-COD Investment excluding Litigation Costs and Commission Consultant Costs. In addition, the Parties have agreed and stipulated to a disallowance of the Utilities' Litigation Costs of \$28.9 million recorded through November, 1987, and no rate recovery of Litigation Costs recorded on and after December 1, 1987. The Parties have also agreed and stipulated that the total amount of Commission Consultant Costs (\$4.4 million has been recorded through November, 1987) plus interest shall be fully recoverable in rates through the Utilities' respective MAAC Balancing Accounts.

A. Determination Of The Reasonable Level Of Post-COD Investment
Based On The Results Of The Phase 2 Reasonableness Review

When the Parties entered the tentative settlement agreement in February 1987, the proposed reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes was based in part on an application of the results of the Commission's initial decision in the Phase 2 Reasonableness Review, issued on October 29, 1986. The Parties note that the Phase 2 Reasonableness Review was extensive and thorough. The Parties recognize that litigation following such reviews is difficult, costly and time consuming. Edison and SDG&E believe that all of the Post-COD Investment was prudently incurred. The DRA believes that a disallowance is warranted.^{2/}

In order to avoid difficult, costly and time-consuming litigation of the reasonableness of the Post-COD Investment, the Parties have agreed and stipulated that the reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes should be determined, in part, by reference to the results of the Phase 2 Reasonableness Review. The DRA has determined that the results of its extensive analysis of the Post-COD Investment supports the agreement. Therefore, the Parties propose that the stipulated reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes be determined by reducing the \$414.2 million of Post-COD Investment

^{2/} The DRA's conclusions regarding the Post-COD Investment are set forth in its testimony. The results of DRA's analysis have not been disclosed to the Utilities prior to the filing of this Stipulation.

excluding Litigation Costs and Commission Consultant Costs by 2.86 percent, and by an additional disallowance related to indirect costs. The formulas to which the Parties initially agreed are specifically set forth in the following sections, and the Parties agreed and stipulated that the formulas should remain unchanged regardless of subsequent events.

1. Disallowance of 2.86 Percent Of Post-COD Investment

The disallowance of 2.86 percent was initially derived in the following manner. In the initial Phase 2 Decision,^{10/} the Commission disallowed \$344.6 million of the \$4,509 million SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review. The disallowance was composed of the following elements:^{11/}

| <u>Issue</u> | <u>Disallowance</u> <u>(\$-millions)</u> |
|--|---|
| Issues related to delays in achieving commercial operation | \$215.7 |
| Quality Assurance/Quality Control ("QA/QC") | 20.3 |
| Productivity | 10.0 |
| Indirect Costs | <u>98.6</u> |
| TOTAL | <u>\$344.6</u> |

This disallowance represents 7.64 percent of the \$4,509 million reviewed in the Phase 2 Reasonableness Review.

^{10/} Decision No. 86-10-069, prior to modification by Decision Nos. 87-07-097 and 87-11-018.

^{11/} Decision No. 86-10-069, Appendix B.

With respect to the Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs), the Parties note that since the investment was incurred for plant additions placed in service after commercial operation, the Utilities' activities with respect to these plant additions did not contribute to delay in achieving commercial operation. Therefore, for purposes of settlement, the Parties have agreed that it is reasonable to calculate a disallowance based upon the relationship of the non-delay disallowance to the \$4,509 million of investment reviewed in the Phase 2 Reasonableness Review. The agreed-upon disallowance percentage of 2.86 was derived as follows:

| <u>Issue</u> | <u>Disallowance</u> (\$-millions) |
|--------------|--------------------------------------|
| QA/QC | \$20.3 |
| Productivity | 10.0 |
| Indirects | <u>98.6</u> |
| TOTAL | 128.9/4509 = .0286 or 2.86% |

The percentage disallowance derived above is utilized in the following manner for each utility. For California jurisdictional ratemaking purposes, the Post-COD Investment shall be reduced by the SONGS Disallowance ("SONGSD") and shall be calculated for each utility by using the following formula:

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SONGSD = PCODI X OS-X .0286 X JAF

Where:

- PCODI = \$414.2 million of Post-COD Investment on a total plant basis (excluding the Litigation Costs and the Commission Consultant Costs);
- OS = Ownership share in San Onofre Nuclear Generating Station Unit Nos. 2 and 3; and
- JAF = The retail jurisdictional demand allocation factors for Edison or SDG&E adopted by the Commission as of January 1986.

The calculation of the SONGS Disallowance for each utility is set forth in Appendix A.

Should the Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs) recorded through December 31, 1987 exceed \$414.2 million, the Utilities may apply for rate relief reflecting any investment in excess of that amount in their respective next base rate proceeding filed after January 1, 1988.^{12/} Edison and SDG&E acknowledge that in order to recover through rates the costs associated with any Post-COD Investment in excess of \$414.2 million (excluding Litigation Costs and Commission Consultant Costs) they will have the burden of showing such investment was reasonable. The Parties agree that this Stipulation should not be construed as having any precedential effect as

^{12/} The earliest these filings could be made would be the Attrition Rate Adjustment ("ARA") filing for attrition year 1989 for Edison and for attrition year 1990 for SDG&E. In OIR No. 86-10-001 (the 3-R's proceeding), the Commission is considering modifications to the ARA mechanism. Should the Commission modify the ARA mechanism or the times for filing for attrition adjustments, such modifications would be applicable to the filings discussed above.

to either the ratemaking treatment, to be afforded any Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs) in excess of \$414.2 million or the reasonableness of such amounts for California jurisdictional ratemaking purposes.

2. Additional Disallowance Related To Indirect Costs

The additional disallowance related to indirect costs was initially derived in the following manner. In the initial Phase 2 Decision,^{13/} the Commission disallowed \$98.6 million of indirect costs.^{14/} Edison and SDG&E filed applications for rehearing of the Phase 2 Decision asserting legal error and contesting the basis for the Commission's decision on this issue. The DRA filed a response to the Utilities' applications for rehearing supporting the Commission's decision and arguing that, if anything, the indirect costs disallowance should be increased.

With respect to the Post-COD Investment, the DRA believes that an additional disallowance beyond the SONGS Disallowance discussed in the preceding section is necessary to reflect an additional indirect costs disallowance. Edison and SDG&E disagree. However, as a compromise, the Parties agreed and stipulated to an additional disallowance amount of \$3 million assuming that Decision No. 86-10-069 remained unchanged with respect to the indirect cost issue (i.e., the

^{13/} Decision No. 86-10-069, prior to modification by Decision Nos. 87-07-097 and 87-11-018.

^{14/} D. 86-10-069, pp. 268-276.

indirect costs disallowance remained \$98.6 million).

However, the additional disallowance was made subject to adjustment as set forth below to reflect the final decision on rehearing of the indirect costs issue.

The Additional Disallowance ("AD") shall be calculated for each utility by using the following formula:

$$AD = \frac{(\$3 \text{ million})}{(\$98.6 \text{ million})} \times ID \times OS \times JAF$$

Where:

- ID = The ultimately adopted Indirect Costs Disallowance for SONGS 2 and 3 on rehearing of Decision No. 86-10-069;
- OS = Ownership share in San Onofre Nuclear Generating Station Unit Nos. 2 and 3; and
- JAF = The retail jurisdictional demand allocation factors for Edison or SDG&E adopted by the Commission as of January 1986.

Under the foregoing formula, it was intended that if rehearing of the indirect costs issues was denied, or if it was granted and no change from the \$98.6 million indirect cost disallowance was made on rehearing, the Additional Disallowance (on a total plant basis) would be \$3 million. If the \$98.6 million indirect cost disallowance was changed on rehearing, the Additional Disallowance (on a total plant basis) would be increased or decreased from the \$3 million level by the ratio of the ultimately adopted indirect cost disallowance to \$98.6 million. However, the Parties agreed that the Additional Disallowance calculated by the foregoing formula should not exceed \$6 million on a total plant basis.

Decision Nos. 87-07-097 and 87-11-018 reduced the disallowance of indirect costs from \$98.6 million to \$17 million. As a result of these decisions and the application of the agreed upon formula, the Additional Disallowance is \$0.5 million on a total plant basis. The calculation of the Additional Disallowance for each utility is set forth in Appendix A.

B. Disallowance Of The Utilities' Legal Fees, Consultant And Expert Witness Fees, And Other Costs Associated With Their Participation In The Phase 2 And Post-COD Reasonableness Reviews

Edison and SDG&E have incurred various costs in presenting and defending their showings in the Phase 2 and Post-COD Reasonableness Reviews. These costs include legal fees, consultant and expert witness fees, and other costs associated with their participation in the Phase 2^{15/} and Post-COD Reasonableness Reviews^{16/} (Litigation Costs). In order to compromise and arrive at a settlement, Edison and SDG&E have agreed to a disallowance of the Litigation Costs. Edison and SDG&E have agreed to this disallowance expressly and solely for the purpose of compromising and arriving at the agreement reflected in this Stipulation.

^{15/} The Litigation Costs for the Phase 2 Reasonableness Review are those recorded in Edison's Work Order No. 1809-0313 in the 184.xxx series of accounts (excluding 184.110).

^{16/} The Litigation Costs for the Post-COD Reasonableness Review are those recorded in Edison's Work Order No. 1809-0313, Account 184.110.

Because the Parties have agreed and stipulated to a disallowance of the Litigation Costs, such costs should be removed from the Post-COD Investment. The Utilities have recorded \$28.9 million of Litigation Costs through November, 1987.^{17/} The Parties have also agreed and stipulated that any additional Litigation Costs recorded on and after December 1, 1987 should not be reflected in future rates.

C. Recovery Of The Amounts Paid By Edison and SDG&E To Fund The DRA's Consultants For The Phase 2 And Post-COD Reasonableness Reviews

Prior to the initiation of the Phase 2 and Post-COD Reasonableness Reviews, Edison and SDG&E agreed to pay for the consultants hired by the Commission to assist the DRA in these reviews (Commission Consultant Costs). Edison and SDG&E have paid \$4.4 million through November, 1987. The Parties have agreed that it is reasonable to allow Edison and SDG&E to recover all Commission Consultant Costs plus accrued interest in rates through their respective MAAC Balancing Accounts. Therefore, the Parties have agreed and stipulated that the Commission Consultant Costs should be removed from the Post-COD Investment and recorded as an expense in the Utilities' respective MAAC Balancing Accounts in the months in which they were paid to the Commission. In addition, Edison and SDG&E should be authorized to recover the full amount of their respective shares of the Commission Consultant Costs through the conclusion of the Phase 2

^{17/} The Utilities' respective shares of the Litigation Costs and Commission Consultant Costs are: Edison = 80 percent.
SDG&E = 20 percent.

and Post-COD Reasonableness Reviews in the MAAC Balancing Account with interest and subsequently recover them in rates.

D. The Overall Disallowance Of Post-COD Investment And The Reasonable Level Of Post-COD Investment For California Jurisdictional Ratemaking Purposes

The Parties have agreed and stipulated that the total disallowance of Post-COD Investment for each utility for California jurisdictional ratemaking purposes should be the sum of the SONGS Disallowance, the Additional Disallowance, and each utility's respective share of the Litigation Costs. In addition, the Commission Consultant Costs should be removed from the Post-COD Investment and recorded as an expense in the Utilities' respective MAAC Balancing Accounts. For California jurisdictional ratemaking purposes, the reasonable level of Post-COD Investment for each utility shall be its respective share of the Post-COD Investment reduced by their respective share of the total disallowance of that investment. The stipulated reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes is \$294.8 million for Edison and \$80.4 million for SDG&E. The development of these amounts is set forth in Appendix A.

The preceding sections presented the derivation of the formulas the Parties used in arriving at this Stipulation. While the Parties have presented the formulas by which the stipulated disallowance was derived for purposes of explaining the derivation of the stipulated disallowance, the Parties agreed that subsequent events which may impact the formulas or the derivation of the disallowances should not change the stipulated

disallowance amounts. The Parties agree that the stipulated reasonable level of Post-COD Investment for each utility, as set forth in Appendix A, reflecting the stipulated disallowance amounts is reasonable for California jurisdictional ratemaking purposes.

The Parties agree and stipulate that the reasonable level of Post-COD Investment as set forth above should be reflected in the Utilities' base rates. At the same time as the reasonable level of Post-COD Investment is reflected in base rates, the Utilities' respective MAAC Average Ownership Rates attributable to the Post-COD Investment should be reduced to 0.000¢/kWh to remove current recovery of the Post-COD Investment from the MAAC. In addition, the balance in the Utilities' MAAC Balancing Accounts attributable to the reasonable level of Post-COD Investment set forth above and the Commission Consultant Costs, together with interest accrued through the amortization period, should be reflected in the Utilities' respective MAAC Balancing Rates.

III.

CONCLUSION

The foregoing Stipulation, together with Appendix A, which is attached hereto and incorporated herein by this reference, is the complete agreement between the Parties as to the reasonableness of the Post-COD Investment. The specific disallowances of investment set forth herein shall be subject to a verification audit to be performed by the Commission, and completed prior to December 31, 1988. The Parties believe the Stipulation produces

a result which is in the interests of ratepayers, shareholders,
and the public, and urge that it be adopted by the Commission.

Respectfully submitted,

Division of Ratepayer Advocates
California Public Utilities Commission

s/William R. Ahern
by: William R. Ahern
Director

Southern California Edison Company

s/Michael R. Peevey
by: Michael R. Peevey
Executive Vice President

San Diego Gas and Electric Company

s/Stephen L. Baum
by: Stephen L. Baum
Senior Vice President and
General Counsel

Dated: January 25, 1988

A.87-05-031, A.87-07-044 /ALJ/WRS/jt

APPENDIX A
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APPENDIX A

STIPULATED REASONABLE LEVEL OF SONGS 2 AND 3

POST-COD INVESTMENT

STIPULATED REASONABLE LEVEL OF
SONGS 2 AND 3 POST-COD INVESTMENTSONGS DISALLOWANCE

(Thousands of Dollars)

Formula:

$$\text{SONGSD} = \text{PCODI} * \text{OS} * .0286 * \text{JAF}$$

Where:

$$\text{SONGSD} = \text{SONGS Disallowance}$$

$$\text{PCODI} = \$414.2 \text{ million of Post-COD Investment (excluding the Litigation Costs and the Commission Consultant Costs).}$$

$$\text{OS} = \text{Ownership share in SONGS Unit Nos. 2 and 3. For the derivation on a total plant basis, the ownership share has been set at 100 percent.}$$

$$= 75.569 \text{ percent for Edison } \underline{1/}$$

$$= 20.014 \text{ percent for SDG\&E } \underline{2/}$$

$$\text{JAF} = \text{The retail jurisdictional demand allocation factors for Edison and SDG\&E adopted by the Commission as of January 1986. For the derivation on a total plant basis, the JAF has been set at 100 percent.}$$

$$= 97.05 \text{ percent for Edison}$$

$$= 100.00 \text{ percent for SDG\&E}$$

Result:

$$\text{SONGSD (Total Plant)} = 11,846 = 414,206 * 100\% * .0286 * 100\%$$

$$\text{SONGSD (Edison)} = 8,688 = 414,206 * 75.569\% * 0.0286 * 97.05\%$$

$$\text{SONGSD (SDG\&E)} = 2,371 = 414,206 * 20.014\% * 0.0286 * 100.00\%$$

1/ For this calculation, an ownership share of 75.569 percent was utilized to reflect Edison's actual share of the recorded Post-COD Investment. Edison's share of the Post-COD Investment is slightly higher than its 75.05 percent ownership share, since there are some recorded administrative and general costs capitalized to the work orders which are not shared by the other partners.

2/ For this calculation, an ownership share of 20.014 percent was utilized to reflect SDG&E's actual share of the recorded Post-COD Investment. SDG&E's share of the Post-COD Investment varies slightly due to a lag in Edison's billing to SDG&E, Edison non-billables, Edison and SDG&E administrative and general costs, and different AFUDC rates.

STIPULATED REASONABLE LEVEL OF
SONGS 2 AND 3 POST-COD INVESTMENTADDITIONAL DISALLOWANCE

(Thousands of Dollars)

Formula:

$$AD = \frac{(\$3,000)}{(\$98,600)} * ID * OS * JAF$$

Where:

AD = Additional Disallowance

ID = The ultimately adopted Indirect Cost Disallowance of \$17 million in Decision Nos. 87-07-087 and 87-11-018.

OS = Ownership share in SONGS Unit Nos. 2 and 3. For the derivation on a total plant basis, the ownership share has been set at 100 percent.

= 75.05 percent for Edison

= 20.00 percent for SDG&E

JAF = The retail jurisdiction demand allocation factors for Edison and SDG&E adopted by the Commission as of January 1986. For the derivation on a total plant basis, the JAF has been set at 100 percent.

= 97.05 percent for Edison

= 100.00 percent for SDG&E

Result:

$$SONGSD \text{ (Total Plant)} = \$517 = \frac{(\$3,000)}{(\$98,600)} * \$17,000 * 100\% * 100\%$$

$$SONGSD \text{ (Edison)} = \$377 = \frac{(\$3,000)}{(\$98,600)} * \$17,000 * 75.05\% * 97.05\%$$

$$SONGSD \text{ (SDG\&E)} = \$103 = \frac{(\$3,000)}{(\$98,600)} * \$17,000 * 20.00\% * 100.00\%$$

APPENDIX A

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TABLE A-3

(Revised)

STIPULATED REASONABLE LEVEL OF
SONGS 2 AND 3 POST-COD INVESTMENTOVERALL DISALLOWANCE OF POST-COD INVESTMENT

(Thousands of Dollars)

| Line No. | Description | Total Plant (1) | Edison Share CPUC Jurisdictional (2) | SDG&E Share (3) |
|----------|-----------------------------|--------------------|--|--------------------|
| 1. | Total Post-COD Investment | 447,454 | 329,490 | 89,472 |
| 2. | Less: | | | |
| 3. | SONGS Disallowance | 11,846 | 8,688 | 2,371 |
| 4. | Additional Disallowance | 517 | 377 | 103 |
| 5. | Litigation Costs | 28,874 | 22,425 | 5,695 |
| 6. | Commission Consultant Costs | <u>4,375</u> | <u>3,187</u> | <u>876</u> |
| 7. | Stipulated Reasonable | | | |
| 8. | Level of Post-COD | | | |
| 9. | Investment | 401,842 | 294,813 | 80,427 |

(END OF APPENDIX A)

Appendix A -3-

A.87-05-031, A.87-07-044 /ALJ/WRS/jt.

APPENDIX B
Page 1

ATTACHMENT 1

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
SOUTHERN CALIFORNIA EDISON COMPANY
FOR A COMMISSION ORDER REGARDING THE RATEMAKING TREATMENT
FOR EDISON'S SHARE OF THE POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 post-COD investment-)
related costs to base rates pursuant)
to previously adopted procedures,)
and (ii) related substantive and)
procedural relief.)

Application No. 87-05-031

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
SOUTHERN CALIFORNIA EDISON COMPANY
FOR A COMMISSION ORDER REGARDING THE RATEMAKING TREATMENT
FOR EDISON'S SHARE OF THE POST-COD INVESTMENT IN
SAN ONOFE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

Dated: January 25, 1988

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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 (i) authority to)
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related costs to base rates pursuant)
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STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
SOUTHERN CALIFORNIA EDISON COMPANY
FOR A COMMISSION ORDER REGARDING THE RATEMAKING TREATMENT
FOR EDISON'S SHARE OF THE POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") and Southern California Edison Company ("Edison") hereby stipulate to and recommend that the Commission adopt for California jurisdictional ratemaking purposes the ratemaking treatment set forth herein for Edison's share of the reasonable level of San Onofre Nuclear

Generating Station Unit Nos. 2 and 3 ("SONGS 2 and 3") Post-COD Investment, and related matters. ✓

I.

INTRODUCTION

On February 18, 1982, Edison filed Application No. 82-02-40 requesting authority to reflect Edison's share of SONGS 2 in rates through a Major Additions Adjustment Clause ("MAAC") procedure. On October 21, 1983, Edison filed Application No. 83-10-36 requesting authority to reflect Edison's share of SONGS 3 in rates through the MAAC procedure. San Diego Gas and Electric Company ("SDG&E") filed similar applications to reflect their share of SONGS 2 and 3 in rates through the MAAC

✓ The term "Post-COD Investment" refers to the SONGS 2 and 3 investment in excess of the \$4,509 million reviewed in Phase 2 of Application Nos. 82-02-40 and related matters, and expected to be recorded prior to January 1, 1988. In Phase 2 of Application Nos. 82-02-40, et al., the Commission conducted an extensive review of \$4,509 million of SONGS 2 and 3 investment. In Application Nos. 87-05-031 and 87-07-044 the DRA conducted an extensive review of the Post-COD Investment. These reviews are referred to herein as the "Phase 2 Reasonableness Review" and "Post-COD Reasonableness Review," respectively. The term "COD" refers to Commercial Operation Date. The \$4,509 million of SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review is referred to herein as the "Pre-COD Investment". Post-COD Investment includes plant expenditures; legal fees, consultant and expert witness fees, and other costs associated with the participation of Edison and SDG&E in the Phase 2 and Post-COD Reasonableness Reviews ("Litigation Costs"); and the amounts paid by Edison and SDG&E to the Commission for the purpose of funding the DRA's consultants in the Phase 2 and Post-COD Reasonableness Reviews ("Commission Consultant Costs"). The reasonable level of Post COD-Investment has been proposed to be determined pursuant to the Stipulation and Joint Motion For A Commission Order Regarding The Reasonableness Of Post COD-Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3, January 25, 1987 (Reasonableness Stipulation).

procedure.^{2/} Proceedings initiated by the various MAAC applications filed by Edison and SDG&E were consolidated for hearing and decision.^{3/} The Commission adopted balancing account treatment for SONGS 2 and 3 investment-related costs,^{4/} and conducted an extensive reasonableness review of the underlying investment. In Decision Nos. 86-10-069, 87-07-097, and 87-11-018 ("Phase 2 Decisions"), the Commission disallowed \$265.0 million of the \$4,509 million of SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review.

On October 3, 1985, Edison filed a motion in Application No. 82-02-40, et al., requesting that procedures be established to transfer recovery of its share of SONGS 2 and 3 investment-related costs from the MAAC to base rates. The Commission adopted transition procedures in Decision No. 86-08-060, and the Phase 2 Decisions ordered that those transition procedures be implemented with respect to the Pre-COD Investment.^{5/}

The transition procedures adopted in Decision No. 86-08-060 provided, among other things, that upon completion of the Phase 2 Reasonableness Review recovery of the revenue requirement associated with that portion of the Pre-COD Investment found reasonable be transferred to base rates, and that MAAC rates be established to reflect a percentage of the revenue requirement

^{2/} Application Nos. 82-03-63 and 83-10-12 (SONGS 2), and 83-11-19 (SONGS 3).

^{3/} Decision No. 84-01-038, January 5, 1984.

^{4/} Decision No. 83-09-007, September 7, 1983.

^{5/} Decision No. 86-10-069, Ordering Paragraphs 1 and 2, p. 305.

associated with the Post-COD Investment based upon the Phase 2 Decisions.^{6/}

Accordingly, on September 17, 1987 Edison filed a motion requesting authorization to establish rates in compliance with the Phase 2 Decisions. On October 1, 1987, SDG&E filed a similar motion. (The motion of Edison is referred to herein as the "Phase 2 Compliance Filing".) On December 22, 1987, the Commission granted the requested authority, providing, however, that the rates be set subject to adjustment pending later resolution of two issues.^{7/}

The transition procedures adopted in Decision No. 86-08-060 also provided for a reasonableness review of the Post-COD Investment. On May 18, 1987, Edison filed Application No. 87-05-031, and on July 23, 1987, SDG&E filed Application No. 87-07-044, wherein Edison and SDG&E requested authority to transfer recovery of Post-COD Investment from the MAAC to base rates. Edison's application (the "Post-COD Application") was

^{6/} Decision No. 86-08-060, Ordering Paragraph 2d, p. 20.

^{7/} Decision No. 87-12-065, December 22, 1987. The remaining issues to be resolved are (1) allocating the delay-related disallowances adopted in the Phase 2 Decisions between plant expenditures and AFUDC, and (2) the appropriate ratemaking treatment of interest on undercollected or overcollected income tax expense recorded in the MAAC Balancing Account. The Commission indicated that these issues were to be resolved after further testimony and consideration in proceedings on the Post-COD Applications. Decision No. 87-12-065, p. 7, Conclusions of Law Nos. 2 and 3, p. 18, Ordering Paragraph Nos. 10 and 11, p. 20. The resolution of the first issue applies only to the Pre-COD Investment. Resolution of the second issue applies to all of Edison's MAAC Balancing Accounts including those for both the Pre-COD and Post-COD Investments.

filed in contemplation of the Post-COD Reasonableness Review established by the transition procedures.

The DRA, Edison and SDG&E have stipulated to a proposed settlement of reasonableness issues regarding the Post-COD Investment ("Reasonableness Stipulation").^{8/} The Reasonableness Stipulation proposes:

- A disallowance of Post-COD Investment based upon the results of the Phase 2 Reasonableness Review;
- A disallowance of the Litigation Costs; and
- Reclassification of the Commission Consultant Costs reflected in the MAAC Post-COD Balancing Account as an expense item and recovery of such expenses plus interest through the MAAC Post-COD Balancing Account.

For Edison, the stipulated reasonable level of Post-COD Investment on a CPUC jurisdictional basis is \$294.8 million for California jurisdictional ratemaking purposes.^{9/}

In light of the Reasonableness Stipulation, and in order to avoid further litigation of the ratemaking issues with respect to the Post-COD Investment, the DRA and Edison engaged in discussions regarding the ratemaking issues. The DRA and Edison also discussed the two issues the Commission transferred to this proceeding in Decision No. 87-12-065.^{10/} Those discussions led to the settlement of ratemaking issues proposed herein.

^{8/} Stipulation and Joint Motion For A Commission Order Regarding Post-COD Investment In San Onofre Nuclear Generating Station Unit Nos. 2 and 3, January 25, 1987.

^{9/} Reasonableness Stipulation, Attachment 1, p. 15.

^{10/} See footnote 7, *SUPRA*, p. 4.

II.

STIPULATION

The DRA and Edison have entered this Stipulation on the basis that the elements of the agreement are not severable, and that all elements of the agreement be adopted in their entirety without modification. In addition, since the agreement represents a compromise, the DRA and Edison entered into this Stipulation on the basis that the Commission's adoption of this Stipulation not be construed as a precedent or policy statement of any kind for or against the DRA and Edison in any current or future proceeding.

In the Reasonableness Stipulation, the DRA, Edison and SDG&E agreed and stipulated that the reasonable level of Post-COD Investment should be reflected in the utilities' base rates. At the same time as the reasonable level of Post-COD Investment is reflected in base rates, the utilities' respective MAAC Average Ownership Rates attributable to the Post-COD Investment should be reduced to 0.000 ¢/kWh to remove current recovery of the Post-COD Investment from the MAAC. In addition, the balance in the utilities' MAAC Balancing Accounts attributable to the reasonable level of Post-COD Investment and the Commission Consultant Costs, together with interest through the amortization period, should be reflected in the utilities' respective MAAC Balancing Rates.

This Ratemaking Stipulation implements the foregoing ratemaking treatment for Edison. In addition to the foregoing, this Ratemaking Stipulation proposes a settlement of the two

ratemaking issues transferred to these proceedings by Decision No. 87-12-065.

The DRA and Edison have agreed and stipulated to the following ratemaking treatment for Edison's share of the reasonable level of Post-COD Investment, and related matters:

- The balances in all of Edison's MAAC Balancing Accounts should be adjusted to reflect non-recovery of all interest on undercollected or overcollected income tax expense accrued from the inception of all of the MAAC Balancing Accounts through the effective date of a Commission decision adopting this Ratemaking Stipulation. The MAAC Pre-COD and Post-COD Balancing Account balances should be reduced by \$2.5 million and \$12.4 million, respectively, to reflect such amounts recorded through December 31, 1987, and estimated to be recorded from January 1, 1988 through May 31, 1988;
- Edison's MAAC tariff should be modified to exclude the accrual of interest on undercollected or overcollected income tax expenses;
- The balance in Edison's MAAC Post-COD Balancing Account should be reduced to reflect the accumulated revenue requirement plus accrued interest associated with the SONGS Disallowance and Additional Disallowance, as set forth in the Reasonableness Stipulation, from January 1986 through the effective date of the tariffs authorized by the Commission's decision on this Ratemaking Stipulation;

- The balance in Edison's MAAC-Post-COD Balancing Account should be reduced to reflect exclusion of the revenue requirement plus accrued interest associated with Edison's share of the Litigation Costs, commencing on the date the revenue requirement associated with the Litigation Costs was recorded, and continuing through the effective date of the Commission's decision on this Ratemaking Stipulation, as provided in the Reasonableness Stipulation;
- The balance in Edison's MAAC Post-COD Balancing Account should be adjusted to reflect the reclassification of Edison's share of the Commission Consultant Costs as an expense item, effective as of the dates the payments were recorded, including interest, as provided in the Reasonableness Stipulation;
- The adjusted balance in Edison's MAAC Post-COD Balancing Account associated with the revenue requirement attributable to Edison's share of the stipulated reasonable level of Post-COD Investment and Commission Consultant Costs, plus accrued interest through the amortization period should be amortized over a three-year period commencing on the date Edison's tariffs implementing the stipulated ratemaking treatment are made effective as provided in a Commission decision adopting this Ratemaking Stipulation. The DRA and Edison propose a MAAC Post-COD Balancing Rate of 0.064¢/kWh for such amortization, and that such rate remain unchanged for the amortization period;

- The adjusted balance in the MAAC Pre-COD Balancing Account reflecting the removal of the interest expense associated with undercollected or overcollected income tax expense should be amortized over a three-year period. This results in no change to the Pre-COD Balancing Rate of 0.013¢/kWh which should remain unchanged for the amortization period;
- The recovery of the revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment should be transferred from the MAAC to base rates effective for service rendered on and after the date Edison's tariffs implementing the stipulated ratemaking treatment are made effective as provided in a Commission decision adopting this ratemaking Stipulation. This ratemaking treatment involves:
 - An increase in Edison's average base rate levels of 0.075¢/kWh and an increase in its Authorized Level of Base Rate Revenue under the Electric Revenue Adjustment Mechanism ("ERAM") of \$48.6 million to transfer recovery of the stipulated reasonable level of Post-COD Investment from the MAAC to base rates; and
 - A reduction of Edison's MAAC Average Ownership Rate associated with the Post-COD Investment to 0.000¢/kWh to reflect removal of the current recovery of the revenue requirement associated with post-COD Investment from the MAAC;

- Appropriate modifications to Edison's ERAM and MAAC tariffs should be made to reflect the stipulated ratemaking treatment;
- The revenue requirements and associated rate levels adopted pursuant to this Stipulation should be made subject to adjustment to reflect the final decisions in OII No. 86-11-019 and OIR No. 86-10-001; ^{ll/} and
- Implementation of the above-described ratemaking treatment should be made subject to adjustment pending a verification audit by the Commission to be completed by December 31, 1988.

The following table summarizes the rate level changes stipulated to herein:

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///
///
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///
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///
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^{ll/} In OII No. 86-11-019 ("the Tax OII"), the Commission is considering the ratemaking impacts of recent changes in state and federal tax law. In OIR No. 86-10-001 ("the 3-R's proceeding"), the Commission is considering modification of various ratemaking mechanisms.

CHANGES TO RATE LEVELS

| Line No. | Description | Present (c/kwh) (1) | Proposed (c/kwh) (2) | Change (c/kwh) (3) |
|----------|---------------------------------|------------------------|-------------------------|-----------------------|
| 1. | INCREASE TO AVERAGE BASE RATE | | | |
| 2. | LEVELS TO REFLECT POST-COD | | | |
| 3. | INVESTMENT | 0.000 | 0.075 | 0.075 |
| 4. | DECREASE TO THE MAJOR ADDITIONS | | | |
| 5. | ADJUSTMENT BILLING FACTOR: | | | |
| 6. | Post-COD Average Ownership Rate | 0.081 | 0.000 | (0.081) |
| 7. | Pre-COD Balancing Rate | 0.013 | 0.013 | 0.000 |
| 8. | Post-COD Balancing Rate | <u>0.000</u> | <u>0.064</u> | <u>0.064</u> |
| 9. | Total MAABF Change | 0.094 | 0.077 | (0.017) |

The foregoing ratemaking treatment results in the following changes in forecasted annualized revenue:

ANNUALIZED REVENUE CHANGES

(Twelve-Month Period Commencing June 1, 1988)

| Line No. | Customer Group | Sales (Gwh) (1) | Change From Present Rates | | | |
|----------|-------------------------------|--------------------|---------------------------|--------------------|--------------------|------------|
| | | | Base Rates (SM2) (2) | MAABF (SM2) (3) | Total (SM2) (4) | (%) (5) |
| 1. | Domestic | 19,832.0 | 14.8 | (3.4) | 11.4 | 0.7 |
| 2. | Lighting - Small | | | | | |
| 3. | & Med. Power | 21,798.2 | 16.3 | (3.7) | 12.6 | 0.6 |
| 4. | Large Power | 20,351.0 | 15.3 | (3.5) | 11.8 | 0.8 |
| 5. | Agricultural & Pumping | 2,077.0 | 1.6 | (0.3) | 1.3 | 0.8 |
| 7. | Street & Area Lighting | <u>471.0</u> | <u>0.3</u> | <u>(0.1)</u> | <u>0.2</u> | 0.3 |
| 9. | Total 5 Major Customer Groups | 64,529.2 | 48.3 | (11.0) | 37.3 | 0.7 |

A. Resolution Of Issues Held Over From The Phase 2 Compliance Filings

In its decision on the Phase 2 Compliance Filings, the Commission transferred further consideration of two issues to this proceeding regarding Post-COD Investment.^{12/} The two issues are:

- The allocation of delay-related disallowances adopted in the Phase 2 Decisions between plant expenditures and AFUDC;^{13/} and
- The ratemaking treatment of interest accrued on undercollected or overcollected income tax expense recorded in the MAAC Balancing Account.^{14/}

As noted in the Reasonableness Stipulation, Edison's and SDG&E's activities in incurring the Post-COD Investment did not contribute to delay in achieving commercial operation. Therefore, resolution of the first issue impacts the ratemaking treatment for the Pre-COD Investment only. Resolution of the second issue impacts the ratemaking treatment for both the Pre-COD and Post-COD Investment.

1. The Allocation Of Delay-Related Disallowances Between Plant Expenditures And AFUDC

In its Phase 2 Compliance Filing Edison allocated all of the delay-related disallowance adopted in the Phase 2 Decisions to AFUDC in accordance with Decision Nos. 87-07-097

^{12/} Decision No. 87-12-065, p. 7, and Ordering Paragraphs 10 and 11, p. 20.

^{13/} Decision No. 87-12-065, p.7.

^{14/} Decision No. 87-12-065, pp. 8-9.

and 87-11-018.^{15/} In its response to the Phase 2 Compliance Filings, the DRA noted that there is an apparent inconsistency between the Commission's initial Phase 2 decision, and its decisions on rehearing.^{16/} The DRA urged the Commission to resolve the apparent inconsistency, but also noted that "[t]he Edison approach does appear to reflect the most recent Commission discussion on the topic."^{17/}

In discussions between the DRA and Edison on this issue, the DRA noted that resolving the apparent inconsistency in the Commission's findings on this issue could involve a very complex reanalysis of the entire methodology used to calculate the disallowances adopted in the Phase 2 Decisions. Edison noted that its method of allocating all delay-related disallowances to AFUDC provided the maximum benefit of these disallowances to ratepayers. In order to avoid further litigation of this complex issue, the DRA and Edison have agreed and stipulated to the use of Edison's method for purposes of the ratemaking treatment applicable to Edison's share of the Pre-COD Investment.

^{15/} These decisions were issued on rehearing of Decision No. 86-10-069 (the initial Phase 2 decision), modifying that decision, in part, as to the calculation of the disallowances adopted in Phase 2.

^{16/} DRA's "Response To Motions For Commission Orders Authorizing Rates In Compliance With The Commission's Phase 2 Decision," December 10, 1987, pp. 3-4.

^{17/} Id., p.4.

2. Ratemaking Treatment Of Interest On The Overcollected Or Undercollected Income Tax Expense Recorded In The MAAC Balancing Account

Since the inception of the MAAC Balancing Account, Edison has been authorized to reflect therein the investment-related costs attributable to specified major additions authorized for inclusion in the MAAC.^{18/} Investment-related costs are defined to be depreciation, ad valorem taxes, income taxes, and return.^{19/} In addition, Edison has been authorized to record interest on amounts under- or overcollected in the MAAC Balancing Account.^{20/} The interest rate currently applicable to the MAAC Balancing Account is the three month prime commercial paper rate as defined in the MAAC tariff.^{21/}

In their response to the Phase 2 Compliance Filing, the DRA stated that it believed Edison's calculation of interest on the undercollections in its MAAC Balancing Accounts is in error because it included interest on the income tax component. The DRA noted that Edison will not pay income taxes on the amount of undercollected income tax expense until it is recovered through rates, and therefore

^{18/} Decision No. 83-09-007, September 7, 1983, p.3.

^{19/} Id., Appendix D, p.4.

^{20/} Id., Appendix D, pp.2 and 4.

^{21/} See Edison's currently effective MAAC tariff (Part K.3.e. to the Preliminary Statement of Edison's Tariffs).

it will not have an interest-compensable shortfall in revenue until that time.^{22/}

In order to compromise and arrive at a settlement of this issue, the DRA and Edison have agreed and stipulated that the interest accrued on undercollected or overcollected income tax expense recorded in the MAAC Balancing Account should not be recovered. Specifically, the DRA and Edison propose that:

- The balance in all of Edison's MAAC Balancing Accounts should be adjusted to reflect non-recovery of all interest on undercollected or overcollected income tax expense accrued from the inception of each of the MAAC Balancing Accounts through the effective date of the tariffs made effective by the Commission decision adopting this Ratemaking Stipulation. The MAAC Pre-COD and Post-COD Balancing Account balances should be reduced by \$2.5 million and \$12.4 million, respectively, to reflect such amounts recorded through December 31, 1987, and estimated from January 1, 1988 through May 31, 1988, and all additional amounts should not be recovered; and
- The MAAC Balancing Account procedure should be modified to exclude the accrual of any carrying

^{22/} DRA's "Response To Motions For Commission Orders Authorizing Rates In Compliance With The Commission's Phase 2 Decision," December 10, 1987, p.3, and Attachment p.3.

cost on undercollected or overcollected income tax expenses.

To properly compensate the Company for future undercollections or overcollections in the MAAC Balancing Accounts, the DRA and Edison have agreed and stipulated that the interest rate applicable to Edison's MAAC Balancing Accounts should be the Company's then-current after tax gross AFUDC rate, and that the MAAC procedure should be revised to reflect this change effective as of the date Edison's tariffs implementing the Commission's decision on this Stipulation become effective.^{23/}

However, the interest rate (defined as the "Carrying Cost Rate" in the MAAC tariff) set forth in the MAAC tariff shall not be applied to undercollected or overcollected income tax expense reflected in all of Edison's MAAC Balancing Accounts.

B. Adjustments To The Balances In The MAAC Balancing Accounts

The DRA and Edison have agreed and stipulated that the balances in Edison's MAAC Pre-COD and Post-COD Balancing Accounts should be adjusted to fully reflect the disallowances proposed in the Reasonableness Stipulation in the MAAC Post-COD Balancing Account, including the associated interest. The Adjustments also reflect the removal of interest on all undercollected or overcollected income tax expense in the MAAC Pre-COD and Post-COD Balancing Accounts.

^{23/} The proposed change to the interest rate is included in the MAAC tariff set forth in Appendix D.

The DRA and Edison have agreed that the balance in Edison's Post-COD Balancing Account should be reduced to reflect the accumulated revenue requirement plus interest associated with the SONGS Disallowance and Additional Disallowance from January 1986 through the effective date of the tariffs made effective by a Commission decision on this Ratemaking Stipulation. January, 1986 is the approximate date when one-half of the Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs) had been recorded. The mid-point was selected because it will have the effect of spreading the disallowances proposed in the Reasonableness Stipulation uniformly over the period the Post-COD Investment was incurred.

The adjustments to the balances in the MAAC Post-COD Balancing Account set forth in Appendix A also reflect removal of the revenue requirement plus accrued interest associated with Edison's share of the Litigation Costs. These adjustments were made in the month such costs were originally reflected in the MAAC Post-COD Balancing Account as provided in the Reasonableness Stipulation.

The adjustments to the balance in the MAAC Balancing Account set forth in Appendix A also reflect Edison's share of the Commission Consultant Costs recorded through November 30, 1987. The DRA and Edison recognize that the DRA's consultants have not yet submitted their final billings, and that the DRA may require further support from its consultants in any hearings that may be held on the Reasonableness Stipulation. Therefore, the DRA and Edison have agreed and stipulated that Edison should record any future billings from the Commission for DRA's consultants for the

Phase 2 and Post-COD Reasonable Balancing Account, and that such should be recoverable through a Balancing Rate.

C. Amortization Of The Balance

The DRA and Edison have agreed that Edison should be authorized to set its MAAC Post-COD Balancing Rate at a level which will amortize over a three-year period the adjusted balance in the MAAC Post-COD Balancing Account associated with Edison's share of the stipulated reasonable level of Post-COD Investment and the Commission's share of the interest on undercollected income tax expense issue transferred to Edison by Decision No. 87-12-065, plus accrued interest through the amortization period. The proposed MAAC Post-COD Balancing Rate is 0.064¢/kWh. The DRA and Edison have also agreed and stipulated that Edison should be authorized to set its MAAC Pre-COD Balancing Rate at a level which reflects removal of interest on under collected income tax expense and a three-year amortization of the adjusted May 31, 1988 expense in the MAAC Pre-COD Balancing Account. This results in a MAAC Pre-COD Balancing Rate of 0.013¢/kWh which is unchanged from its present level. The development of the MAAC Pre-COD and Post-COD Balancing Rates is set forth in Appendix B.

Reviews in the MAAC Post-COD Balancing Accounts, plus accrued interest, and resolution of the MAAC Post-COD Balancing Rate.

The MAAC Balancing Accounts

and stipulated that Edison should be authorized to set its MAAC Post-COD Balancing Rate at a level which will amortize over a three-year period the adjusted balance in the MAAC Post-COD Balancing Account associated with Edison's share of the stipulated reasonable level of Post-COD Investment and the Commission's share of the interest on undercollected income tax expense issue transferred to Edison by Decision No. 87-12-065, plus accrued interest through the amortization period. The proposed MAAC Post-COD Balancing Rate is 0.064¢/kWh. The DRA and Edison have also agreed and stipulated that Edison should be authorized to set its MAAC Pre-COD Balancing Rate at a level which reflects removal of interest on under collected income tax expense and a three-year amortization of the adjusted May 31, 1988 expense in the MAAC Pre-COD Balancing Account. This results in a MAAC Pre-COD Balancing Rate of 0.013¢/kWh which is unchanged from its present level. The development of the MAAC Pre-COD and Post-COD Balancing Rates is set forth in Appendix B.

CORRECTION

**THIS DOCUMENT HAS
BEEN REPHOTOGRAPHED**

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Phase 2 and Post-COD Reasonable Balancing Account, and that such should be recoverable through a Balancing Rate.

C. Amortization Of The Balance

The DRA and Edison have agreed that Edison should be authorized to set its MAAC Post-COD Balancing Rate at a level which will amortize over a three-year period the adjusted balance in the MAAC Post-COD Balancing Account associated with Edison's share of the stipulated reasonable level of Post-COD Investment and the Commission's share of the stipulated Investment and the Commission's share of the interest on undercollected income tax expense issue transferred to the MAAC Post-COD Balancing Account. No. 87-12-065, plus accrued interest through the amortization period. The proposed MAAC Post-COD Balancing Rate is 0.064¢/kWh. The DRA and Edison have also agreed and stipulated that Edison should be authorized to set its MAAC Pre-COD Balancing Rate at a level which reflects removal of interest on under collected income tax expense and a three-year amortization of the adjusted May 31, 1988 balance in the MAAC Pre-COD Balancing Account. This results in a MAAC Pre-COD Balancing Rate of 0.013¢/kWh which is unchanged from its present level. The development of the MAAC Pre-COD and Post-COD Balancing Rates is set forth in Appendix B.

Reviews in the MAAC Post-COD Balancing Accounts, plus accrued interest, and resolution of overcollected income tax proceeding by Decision No. 87-12-065, plus accrued interest through the amortization period. The proposed MAAC Post-COD Balancing Rate is 0.064¢/kWh. The DRA and Edison have also agreed and stipulated that Edison should be authorized to set its MAAC Pre-COD Balancing Rate at a level which reflects removal of interest on under collected income tax expense and a three-year amortization of the adjusted May 31, 1988 balance in the MAAC Pre-COD Balancing Account. This results in a MAAC Pre-COD Balancing Rate of 0.013¢/kWh which is unchanged from its present level. The development of the MAAC Pre-COD and Post-COD Balancing Rates is set forth in Appendix B.

The MAAC Balancing Accounts

The DRA and Edison have agreed and stipulated that Edison should be authorized to set its MAAC Post-COD Balancing Rate at a level which will amortize over a three-year period the adjusted balance in the MAAC Post-COD Balancing Account associated with Edison's share of the stipulated reasonable level of Post-COD Investment and the Commission's share of the stipulated Investment and the Commission's share of the interest on undercollected income tax expense issue transferred to the MAAC Post-COD Balancing Account. No. 87-12-065, plus accrued interest through the amortization period. The proposed MAAC Post-COD Balancing Rate is 0.064¢/kWh. The DRA and Edison have also agreed and stipulated that Edison should be authorized to set its MAAC Pre-COD Balancing Rate at a level which reflects removal of interest on under collected income tax expense and a three-year amortization of the adjusted May 31, 1988 balance in the MAAC Pre-COD Balancing Account. This results in a MAAC Pre-COD Balancing Rate of 0.013¢/kWh which is unchanged from its present level. The development of the MAAC Pre-COD and Post-COD Balancing Rates is set forth in Appendix B.

D. Transfer Of The Revenue Requirement Associated With Edison's Share Of The Stipulated Reasonable Level Of Post-COD Investment From The MAAC To Base Rate Recovery

In order to transfer recovery of the revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment from the MAAC to base rates, the DRA and Edison have agreed and stipulated that:

- The level of base rates should be increased to reflect the revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment;
- The MAAC Average Ownership Rate ("AOR") should be decreased to remove the revenue requirement associated with the Post-COD Investment from the MAAC; and
- The Major Additions Adjustment Billing Factor ("MAABF") should be adjusted to reflect the changes to the MAAC AOR and MAAC Balancing Rates.

1. Proposed Base Rate Increases

The DRA and Edison have agreed and stipulated that Edison should be authorized to increase its average base rate levels by 0.075¢/kWh and to increase its Authorized Level of Base Rate Revenue under the ERAM by \$48,597 thousand, effective for service rendered on and after the date Edison's tariffs implementing the Commission decision adopting this Ratemaking Stipulation are made effective. These changes will reflect the forecast annualized revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment. Edison's annualized revenue requirement associated with the stipulated reasonable level of Post-COD Investment is set forth in Appendix C, and is based on the revenue requirement factors adopted in its Test Year 1988 General Rate Case, Decision No. 87-12-066.

2. Proposed MAAC Rate Decreases

The DRA and Edison have agreed and stipulated that Edison should be authorized to decrease its MAAC AOR associated with the Post-COD Investment to 0.000¢/kWh effective for service rendered on and after the date Edison's tariffs implementing this Ratemaking Stipulation are made effective pursuant to a Commission decision adopting this Ratemaking Stipulation. This change will transfer current recovery of the revenue requirement attributable to the Post-COD Investment from MAAC to Base Rates.

3. Adjustment To The Major Additions Adjustment Billing Factor

The DRA and Edison have agreed and stipulated that Edison should be authorized to adjust its then-effective MAABF to reflect the stipulated changes to the MAAC AOR and MAAC Balancing Rates set forth herein. (The MAABF is the sum of the MAAC AOR's and MAAC Balancing Rates.) The change to the MAABF as a result of this Ratemaking Stipulation is -0.017¢/kWh.

E. Modification To The ERAM And MAAC Tariffs

The DRA and Edison have agreed and stipulated that Edison's ERAM and MAAC tariffs should be modified to reflect and implement the stipulated ratemaking treatment as set forth herein. The modified ERAM and MAAC tariffs are set forth in Appendix D.

F. Subject-To-Adjustment Provisions

The DRA and Edison have agreed and stipulated that the revenue requirements and rate levels set forth herein and adopted pursuant to this Ratemaking Stipulation should be subject to

adjustment to reflect the final decisions in the Tax OII and the 3-R's proceedings. The Commission has made the utility's base rate revenues subject to refund to reflect the impact of recent changes in federal and state tax laws.^{24/} In the 3-R's proceeding, the Commission is considering changes to various ratemaking mechanisms.^{25/} Edison's rates and revenues are not subject to retroactive adjustment to reflect the Commission's decision in the 3-R's proceeding; however, the matter is currently pending before the Commission. Should the Commission issue a decision in the 3-R's proceeding prior to a decision on this Ratemaking Stipulation, the revenue requirements and/or rate levels set forth herein may require adjustment to reflect the Commission's decision in the 3-R's proceeding.

In its decision on the Phase 2 Compliance Filings, the Commission directed that two issues raised by the DRA in response to those filings be considered further in proceedings on the Post-COD Applications.^{26/} The decision directed Edison and SDG&E to file testimony on the two issues within 60 days, or by February 22, 1987.^{27/} The DRA and Edison, through this Ratemaking Stipulation, have proposed a resolution of the two issues as they impact Edison. Therefore, the DRA (as regards Edison) and Edison will not be filing testimony on these issues.

^{24/} OII No. 86-11-019, November 14, 1986, Ordering Paragraph 3, p. 5.

^{25/} OIR No. 86-10-001, October 1, 1986, pp. 3-4.

^{26/} Decision No. 87-12-065, December 22, 1987, p.7.

^{27/} Id., Ordering Paragraphs 10 and 11, p. 20.

Should the Commission reject the proposed settlement of these issues, the DRA and Edison respectfully request that the Commission allow Edison 30 days from such rejection in which to file its testimony on these issues, and a further 30 days for the DRA to respond before further considering the issues.

III.

CONCLUSION

The foregoing Ratemaking Stipulation, together with Appendices A through D inclusive, which are attached hereto and incorporated herein by this reference, is the complete agreement between the DRA and Edison. The DRA and Edison believe this Ratemaking Stipulation produces a result which is in the interests of ratepayers, shareholders, and the public, and urge that it be adopted by the Commission.

Respectfully submitted,

Division of Ratepayer Advocates
California Public Utilities Commission

s/Kenneth K. Chew
by: Kenneth K. Chew
Principal Financial Examiner

Southern California Edison Company

s/Ronald Daniels
by: Ronald Daniels
Manager of Revenue Requirements

Dated: January 25, 1988

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APPENDIX B
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APPENDIX A

STIPULATED ADJUSTMENTS TO THE
MAAC PRE-COD AND POST-COD
BALANCING ACCOUNTS

SOUTHERN CALIFORNIA EDISON COMPANY
STIPULATED ADJUSTMENTS TO THE MAAC PRE-COD BALANCING ACCOUNT
(Thousands of Dollars)

| MONTHS | RECORDED REVENUE REQUIREMENT (total sys.) (excl. FF&U) | RECORDED REVENUE REQUIREMENT (CPUC Juris.) (excl. FF&U) | MAAF REVENUES BILLED LESS FRANCH. FEES & UNCOLLECT. | UNDER-COLLECTION | INTEREST EXPENSE | ADJUSTMENTS | BALANCING ACCOUNT BALANCE |
|-----------|--|---|---|------------------|------------------|---------------|---------------------------|
| | A | B | C | D=A-B | E | F | G |
| DEC. 1987 | | | | | | | 82,653.00 |
| JAN. 1988 | 0.00 | 0.00 | 40,861.00 | (40,861.00) | 348.96 | 0.00 | 42,140.96 |
| FEB. 1988 | 0.00 | 0.00 | 644.00 | (644.00) | 234.53 | (15,125.00)1) | 26,606.49 |
| MAR. 1988 | 0.00 | 0.00 | 644.00 | (644.00) | 147.41 | 0.00 | 26,109.90 |
| APR. 1988 | 0.00 | 0.00 | 624.00 | (624.00) | 128.34 | 0.00 | 25,614.24 |
| MAY 1988 | 0.00 | 0.00 | 644.00 | (644.00) | 125.83 | (2,540.00)2) | 22,556.07 |

- 1) Adjustment to reflect the flow-through to customers of the estimated level of income tax benefits associated with the election of income tax benefits for SDNGS Units 2 and 3 nuclear decommissioning per Decision No. 87-11-023.
- 2) Adjustment to reflect the accumulated interest associated with the undercollected income tax expense.

TABLE A - 2
SOUTHERN CALIFORNIA Edison COMPANY
STIMULATED ADJUSTMENTS TO THE MRAC POST-COD BALANCING ACCOUNT
(Thousands of Dollars)

| MONTHS | REVENUE REQUIREMENT OF DISALLOWANCES (excluding franch. fees & uncollectibles) (total system) | | | | ADJUSTED REVENUE REQUIREMENT (including FFAU) | | MRAC REVENUES BILLED LESS FRANCH. FEES & UNCOLLECT. | INTEREST EXPENSE | ADJUSTMENTS | BALANCING ACCOUNT BALANCE | | |
|-----------|---|--------------------|---------------------|--------------------------------------|---|-----------------|---|---------------------|-------------|---------------------------------|----------------------|----------|
| | RECORDED REVENUE REQUIREMENT (total sys.) (incl. FFAU) | PLANT ADDITIONS | LITIGATION COSTS | CPUC CONCILIANTS (Capitalized) | CPUC CONCILIANTS (Expensed) (total system) | TOTAL SYSTEM | | | | | CPUC JURISDICTION | |
| | A | B | C | D | E | F=A+B+C+D+E | G | H | I=H-G | J | K | L |
| OCT. 1983 | 1.64 | 0.00 | 0.00 | 1.64 | 129.50 | 129.50 | 119.48 | 0.00 | 119.48 | 0.46 | 0.00 | 119.94 |
| NOV. 1983 | 2.44 | 0.00 | 0.00 | 2.44 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.90 | 0.00 | 120.84 |
| DEC. 1983 | 2.41 | 0.00 | 0.00 | 2.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.92 | 0.00 | 121.76 |
| JAN. 1984 | 2.51 | 0.00 | 0.00 | 2.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.93 | 0.00 | 122.69 |
| FEB. 1984 | 2.50 | 0.00 | 0.00 | 2.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.94 | 0.00 | 123.63 |
| MAR. 1984 | 2.48 | 0.00 | 0.00 | 2.48 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.96 | 0.00 | 124.59 |
| APR. 1984 | 3.07 | 0.00 | 0.00 | 3.07 | 129.50 | 129.50 | 121.41 | 0.00 | 121.41 | 1.52 | 0.00 | 126.11 |
| MAY 1984 | 3.04 | 0.00 | 0.00 | 3.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.10 | 0.00 | 128.21 |
| JUN. 1984 | 11.04 | 0.00 | 0.00 | 11.04 | 300.20 | 300.20 | 282.26 | 0.00 | 282.26 | 3.47 | 0.00 | 131.68 |
| JUL. 1984 | 11.06 | 0.00 | 0.00 | 11.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.90 | 0.00 | 136.58 |
| AUG. 1984 | 10.99 | 0.00 | 0.00 | 10.99 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.04 | 0.00 | 141.62 |
| SEP. 1984 | 10.93 | 0.00 | 0.00 | 10.93 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.08 | 0.00 | 146.70 |
| OCT. 1984 | 13.69 | 0.00 | 2.82 | 10.87 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.04 | 0.00 | 151.74 |
| NOV. 1984 | 19.26 | 0.00 | 8.43 | 10.81 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.68 | 0.00 | 156.42 |
| DEC. 1984 | 23.00 | 0.00 | 14.17 | 10.83 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.21 | 0.00 | 160.63 |
| JAN. 1985 | 23.40 | 0.00 | 24.62 | 10.78 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.97 | 0.00 | 164.60 |
| FEB. 1985 | 41.81 | 0.00 | 31.11 | 10.70 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.80 | 0.00 | 168.40 |
| MAR. 1985 | 48.23 | 0.00 | 37.69 | 10.64 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.67 | 0.00 | 173.07 |
| APR. 1985 | 53.58 | 0.00 | 43.81 | 10.57 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.27 | 0.00 | 177.34 |
| MAY 1985 | 61.72 | 0.00 | 51.21 | 10.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.05 | 0.00 | 181.39 |
| JUN. 1985 | 86.65 | 0.00 | 62.06 | 24.59 | 692.20 | 692.20 | 650.25 | 0.00 | 650.25 | 5.94 | 0.00 | 187.33 |
| JUL. 1985 | 108.63 | 0.00 | 84.17 | 24.46 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 7.60 | 0.00 | 194.93 |
| AUG. 1985 | 130.73 | 0.00 | 130.48 | 24.31 | 0.00 | 379.94 | 335.59 | 0.00 | 335.59 | 8.98 | 0.00 | 203.91 |
| SEP. 1985 | 147.29 | 0.00 | 146.41 | 24.15 | 0.00 | 276.73 | 261.30 | 0.00 | 261.30 | 11.22 | 0.00 | 215.13 |
| OCT. 1985 | 198.87 | 0.00 | 175.68 | 24.38 | 0.00 | 298.81 | 282.78 | 0.00 | 282.78 | 13.22 | 0.00 | 228.35 |
| NOV. 1985 | 305.24 | 0.00 | 191.89 | 23.95 | 0.00 | 289.40 | 274.17 | 0.00 | 274.17 | 15.07 | 0.00 | 243.42 |
| DEC. 1985 | 1,040.21 | 0.00 | 202.51 | 23.75 | 0.00 | 1,612.95 | 1,530.30 | 0.00 | 1,530.30 | 20.95 | 0.00 | 264.37 |
| JAN. 1986 | 4,481.61 | 188.07 | 206.94 | 33.34 | 550.70 | 4,601.96 | 4,379.77 | 0.00 | 4,379.77 | 40.18 | 0.00 | 304.55 |
| FEB. 1986 | 4,319.90 | 187.24 | 239.84 | 33.16 | 0.00 | 3,859.66 | 3,684.29 | 0.00 | 3,684.29 | 66.20 | 0.00 | 370.75 |
| MAR. 1986 | 4,129.38 | 186.59 | 257.73 | 43.37 | 528.70 | 4,170.39 | 3,951.23 | 0.00 | 3,951.23 | 90.21 | 0.00 | 460.96 |
| APR. 1986 | 4,449.14 | 185.89 | 280.11 | 45.51 | 420.70 | 4,058.33 | 3,861.97 | 0.00 | 3,861.97 | 109.11 | 0.00 | 570.07 |
| MAY 1986 | 4,471.50 | 185.19 | 309.60 | 49.73 | 227.70 | 4,156.68 | 3,931.21 | 0.00 | 3,931.21 | 122.05 | 0.00 | 692.12 |
| JUN. 1986 | 4,552.17 | 184.51 | 342.15 | 49.47 | 0.00 | 3,976.04 | 3,762.69 | 0.00 | 3,762.69 | 144.31 | 0.00 | 836.43 |
| JUL. 1986 | 4,546.62 | 182.63 | 351.17 | 52.25 | 176.90 | 4,137.47 | 3,931.72 | 0.00 | 3,931.72 | 168.59 | 0.00 | 1,005.02 |
| AUG. 1986 | 4,817.55 | 181.94 | 371.14 | 51.95 | 0.00 | 4,232.52 | 4,042.92 | 0.00 | 4,042.92 | 180.97 | 0.00 | 1,186.00 |
| SEP. 1986 | 4,813.13 | 181.25 | 381.67 | 51.68 | 0.00 | 4,196.53 | 4,080.90 | 0.00 | 4,080.90 | 190.18 | 0.00 | 1,376.18 |
| OCT. 1986 | 4,882.33 | 180.57 | 386.33 | 51.41 | 0.00 | 4,264.62 | 4,203.75 | 0.00 | 4,203.75 | 202.98 | 0.00 | 1,579.16 |
| NOV. 1986 | 5,046.27 | 179.88 | 389.47 | 51.14 | 0.00 | 4,425.78 | 4,379.52 | 0.00 | 4,379.52 | 224.25 | 0.00 | 1,803.41 |
| DEC. 1986 | 5,811.67 | 192.89 | 419.03 | 56.41 | 79.50 | 5,223.04 | 5,159.59 | 0.00 | 5,159.59 | 251.38 | 0.00 | 2,054.79 |

Appendix A -2-

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APPENDIX B
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TABLE A - 2
SOUTHERN CALIFORNIA EDISON COMPANY
STIPULATED ADJUSTMENTS TO THE MISC POST-COB-BALANCING ACCOUNT
(Thousands of Dollars)

| MONTHS | REVENUE REQUIREMENT OF DISALLOWANCES (excluding franch. fees & uncollectibles) (total system) | | | | CPUC CONSULTANTS (Expensed) (total system) | ADJUSTED REVENUE REQUIREMENT (excluding FFAU) | | NONAF REVENUES BILLED LESS FRANCH. FEES & UNCOLLECT. | INTEREST EXPENSE | ADJUSTMENTS | BALANCING ACCOUNT BALANCE | |
|-----------|---|--------------------|---------------------|--------------------------------------|---|--|----------------------|--|---------------------|-------------|---------------------------------|----------------------|
| | RECORDED REVENUE REQUIREMENT (total sys.) (incl. FFAU) | PLANT ADDITIONS | LITIGATION COSTS | CPUC CONSULTANTS (Capitalized) | | TOTAL SYSTEM | CPUC JURISDICTION | | | | | UNDER- COLLECTION |
| | | | | | | | | | | | | |
| JAN. 1987 | 5,039.45 | 157.45 | 351.81 | 50.89 | 210.30 | 4,689.80 | 4,613.00 | 0.00 | 4,613.00 | 292.33 | 0.00 | 64,187.15 |
| FEB. 1987 | 5,133.06 | 156.64 | 351.46 | 50.62 | 0.00 | 4,574.34 | 4,496.48 | 0.00 | 4,496.48 | 381.46 | 0.00 | 64,907.09 |
| MAR. 1987 | 5,177.57 | 155.85 | 351.38 | 50.35 | 0.00 | 4,619.99 | 4,545.45 | 0.00 | 4,545.45 | 338.75 | 0.00 | 65,811.29 |
| APR. 1987 | 5,327.27 | 155.04 | 352.48 | 50.09 | 0.00 | 4,769.74 | 4,724.41 | 0.00 | 4,724.41 | 378.49 | 0.00 | 74,906.19 |
| MAY 1987 | 5,368.16 | 154.62 | 354.18 | 49.67 | 0.00 | 4,809.57 | 4,767.33 | 0.00 | 4,767.33 | 415.43 | 0.00 | 80,088.95 |
| JUN. 1987 | 5,437.91 | 153.83 | 354.01 | 49.79 | 5.50 | 4,849.78 | 4,819.28 | 0.00 | 4,819.28 | 476.52 | 0.00 | 85,414.75 |
| JUL. 1987 | 5,413.07 | 152.12 | 354.64 | 49.21 | 0.00 | 4,859.10 | 4,833.82 | 0.00 | 4,833.82 | 508.50 | 0.00 | 90,753.07 |
| AUG. 1987 | 5,442.98 | 151.37 | 357.65 | 49.03 | 8.30 | 4,893.15 | 4,862.34 | 0.00 | 4,862.34 | 516.41 | 0.00 | 96,133.82 |
| SEP. 1987 | 5,435.43 | 150.58 | 357.77 | 48.77 | 0.00 | 4,882.31 | 4,859.64 | 0.00 | 4,859.64 | 531.14 | 0.00 | 101,544.60 |
| OCT. 1987 | 5,381.44 | 149.88 | 357.82 | 48.52 | 0.00 | 4,825.30 | 4,798.21 | 0.00 | 4,798.21 | 638.39 | 0.00 | 106,981.20 |
| NOV. 1987 | 5,388.61 | 149.02 | 357.88 | 49.44 | 122.60 | 4,946.95 | 4,918.00 | 0.00 | 4,918.00 | 719.57 | 0.00 | 112,618.77 |
| DEC. 1987 | 5,399.38 | 148.24 | 355.79 | 49.18 | 0.00 | 4,844.17 | 4,802.97 | 0.00 | 4,802.97 | 687.25 | 0.00 | 118,111.99 |
| | | | | | | | | | | | | |
| JAN. 1988 | 4,801.46 | 133.46 | 314.97 | 43.77 | 0.00 | 4,309.26 | 4,183.52 | 1,726.00 | 2,457.52 | 669.30 | 0.00 | 121,238.81 |
| FEB. 1988 | 4,780.91 | 132.88 | 313.50 | 43.57 | 0.00 | 4,290.96 | 4,165.75 | 2,986.00 | 179.75 | 680.45 | 0.00 | 122,099.81 |
| MAR. 1988 | 4,764.37 | 132.30 | 312.04 | 43.37 | 0.00 | 4,272.64 | 4,147.98 | 4,025.00 | 112.98 | 685.09 | 0.00 | 122,897.08 |
| APR. 1988 | 4,739.83 | 131.73 | 310.59 | 43.16 | 0.00 | 4,254.35 | 4,130.21 | 3,894.00 | 236.21 | 612.00 | 0.00 | 123,745.29 |
| MAY 1988 | 4,719.74 | 131.15 | 309.58 | 42.97 | 0.00 | 4,236.04 | 4,112.43 | 3,998.00 | 114.43 | 615.92 | (12,544.00)1 | 111,931.64 |

1) Adjustments to reflect the accumulated interest associated with the uncollected income tax expense.

01/22/88

A.87-05-031, A.87-07-044 /ALJ/WRS/jt

APPENDIX B
Page 30

APPENDIX B

STIPULATED MAJOR ADDITIONS ADJUSTMENT CLAUSE
REVENUE REQUIREMENTS AND
RESULTANT PROPOSED MAAC BALANCING RATE LEVELS

SOUTHERN CALIFORNIA EDISON COMPANYMAJOR ADDITIONS ADJUSTMENT ACCOUNTPRE-COD INVESTMENT

| Line No. | Description | (SM) (1) | Forecast Sales (GWh) (2) | MAAC Balancing Rate (¢/kWh) (3) |
|----------|---|--------------|--------------------------------|---------------------------------------|
| 1. | Forecast May 31, 1988, Major Additions Adjustment Account | | | |
| 3. | Balance Plus Billing Lag | 22,146 | | |
| 4. | Forecast Interest Expense During Three-Year Amortization Period | <u>2,768</u> | | |
| 6. | Forecast Total Amount to Be Recovered | 24,914 | | |
| 8. | Increased for Franchise Fees and Uncollectible Accounts | 25,152 | | |
| 10. | Forecast Amortization Period | | | |
| 11. | Sales <u>1/</u> | | 193,502 | |
| 12. | Major Additions Adjustment | | | |
| 13. | Account Balancing Rate <u>2/</u> | | | 0.013 |

- 1/ For purposes of ease of presentation, the forecast 1988 annual sales level adopted in Edison's Test Year 1988 General Rate Case was assumed for 1989 and 1990. The sales shown include a reduction of 86.1 GWh (28.7 * 3 years) to reflect the impact of Rate Schedule No. DE - Discount.
- 2/ Per Decision No. 87-12-066 (Edison's Test Year 1988 General Rate Case), the rate adjustment was allocated on an equal cents-per-kilowatt-hour basis since the overall rate change is less than 1 percent.

APPENDIX B

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TABLE B-2

SOUTHERN CALIFORNIA EDISON COMPANYMAJOR ADDITIONS ADJUSTMENT ACCOUNTPOST-COD INVESTMENT

| Line No. | Description | (SM) (1) | (GWh) (2) | MAAC Balancing Rate (c/kwh) (3) |
|----------|----------------------------------|---------------|--------------|---|
| 1. | Forecast May 31, 1988, Major | | | |
| 2. | Additions Adjustment Account | | | |
| 3. | Balance Plus Billing Lag | 109,375 | | |
| 4. | Forecast Interest Expense During | | | |
| 5. | Three-Year Amortization Period | <u>13,672</u> | | |
| 6. | Forecast Total Amount to Be | | | |
| 7. | Recovered | 123,047 | | |
| 8. | Increased for Franchise Fees and | | | |
| 9. | Uncollectible Accounts | 124,216 | | |
| 10. | Forecast Amortization Period | | | |
| 11. | Sales <u>1/</u> | | 193,502 | |
| 12. | Major Additions Adjustment | | | |
| 13. | Account Balancing Rate <u>2/</u> | | | 0.064 |

1/ For purposes of ease of presentation, the forecast 1988 annual sales level adopted in Edison's Test Year 1988 General Rate Case was assumed for 1989 and 1990. The sales shown include a reduction of 86.1 GWh (28.7 * 3 years) to reflect the impact of Rate Schedule No. DE - Discount.

2/ Per Decision No. 87-12-066, the rate adjustment was allocated on an equal cents-per-kilowatt-hour basis since the overall rate change is less than 1 percent.

A.87-05-031, A.87-07-044 /ALJ/WRS/jt

APPENDIX B
Page 33

APPENDIX C

STIPULATED BASE RATE REVENUE REQUIREMENT FOR
SONGS 2 AND 3 POST-COD INVESTMENT AND
ASSOCIATED AVERAGE BASE RATE LEVEL INCREASE

SOUTHERN CALIFORNIA EDISON COMPANY

BASE RATE REVENUE REQUIREMENT FOR STIPULATED
 REASONABLE LEVEL OF SONGS 2 AND 3 POST-COD INVESTMENT

EDISON SHARE

(Thousands of Dollars)

| Line No. | Item | Total System (1) | CPUC 1/ Jurisdiction (2) |
|----------|---------------------------|------------------|--------------------------|
| 1. | TOTAL REVENUE REQUIREMENT | 50,058 | 48,597 2/ |
| 2. | EXPENSES | | |
| 3. | Income Taxes | 8,967 | 8,705 |
| 4. | Ad Valorem Taxes | 3,550 | 3,446 |
| 5. | Depreciation Expenses | 10,407 | 10,103 |
| 6. | Franchise Fees | 365 | 354 |
| 7. | Uncollectibles | <u>107</u> | <u>104</u> |
| 8. | TOTAL EXPENSES | 23,396 | 22,712 |
| 9. | NET REVENUE | 26,662 | 25,885 |
| 10. | RATE BASE | 248,023 | 240,786 |
| 11. | RATE OF RETURN (%) | 10.75% | 10.75% |

1/ Based on a CPUC-Jurisdictional Allocation Factor of 97.082% as adopted in Decision No. 87-12-066 (Edison's Test Year 1988 General Rate Case).
 2/ The Total Revenue Requirement on a CPUC-jurisdictional basis is the increase to the Authorized Level of Base Rate Revenue under the ERAM.

SOUTHERN CALIFORNIA EDISON COMPANY

AVERAGE BASE RATE LEVEL INCREASE ASSOCIATED WITH THE STIPULATED
 REASONABLE LEVEL OF SONGS 2 AND 3 POST-COO INVESTMENT

| Line No. | Description | (SM) (1) | (GWh) (2) | Average Base Rate Increase (C/kWh) (3) |
|----------|-----------------------------------|-------------|-----------------|--|
| 1. | Forecast 1988 Revenue Requirement | 48,597 | | |
| 2. | Forecast 1988 Sales <u>1/</u> | | <u>64,500.5</u> | |
| 3. | Forecast Average Base Rate Level | | | |
| 4. | Increase <u>2/</u> | | | .075 |

1/ The CPUC-jurisdictional factor of 97.082% and the forecast 1988 sales are as adopted in Decision No. 87-12-066 (Edison's Test Year 1988 General Rate Case). The sales shown include a reduction of 28.7 kwh to reflect the impact of Rate Schedule No. DE - Discount.

2/ Per Decision No. 87-12-066, the rate adjustment was allocated on an equal cents-per-kilowatthour basis since the overall rate change is less than 1 percent.

A.87-05-031, A.87-07-044 /ALJ/WRS/jt

APPENDIX B
Page 36

APPENDIX D

PROPOSED ERAM AND MAAC TARIFFS



PRELIMINARY STATEMENT

(Continued)

J. ELECTRIC REVENUE ADJUSTMENT MECHANISM (ERAM) (Continued)

4. Electric Revenue Adjustment Account. Beginning as of January 1, 1983, the Company shall maintain an Electric Revenue Adjustment Account (Balancing Account). Entries to be made to this account at the end of each month will be determined from the following calculations:

a. The currently Authorized Level of Base Rate Revenue of \$ _____ pursuant to Commission Decision No. 87-12-066 and Resolution No. E- _____ shall be multiplied by the applicable monthly distribution percentage from the table below:

| Month | Factors For Rate Change Effective | | | |
|---------------|-----------------------------------|----------|----------|----------|
| | 09/11/87 | 01/01/88 | 01/20/88 | 06/01/88 |
| January, 1988 | 4.79 | 2.00 | 1.26 | |
| February | 0.06 | 2.59 | 4.34 | |
| March | | 0.07 | 6.99 | |
| April | | | 6.81 | |
| May | | | 6.99 | |
| June | | | 4.50 | 3.43 |
| July | | | 0.18 | 10.20 |
| August | | | | 10.69 |
| September | | | | 11.20 |
| October | | | | 9.55 |
| November | | | | 7.56 |
| December | | | | 7.31 |
| January, 1989 | | | | 7.55 |
| February | | | | 6.97 |
| March | | | | 7.06 |
| April | | | | 6.81 |
| May | | | | 6.99 |
| June | | | | 4.50 |
| July | | | | 0.18 |

- b. Plus: The balance in the Interim Major Additions Adjustment Account on January 1, 1988;
- c. Plus: Any adjustment or other entries after January 1, 1988, if any, which would have accrued to the Interim Major Additions Account prior to January 1, 1988;
- d. Plus: Any amount above the Authorized Level of Base Rate Revenue described in 4.a. above for the Monthly Recovered Deferred Debit Revenue Requirement Amount including interest determined pursuant to Part L of the Preliminary Statement, increased to provide for Franchise Fees and Uncollectible Accounts;

(Continued)

(To be inserted by user)
 Advice Letter No. -E
 Decision No. _____

Issued by:
Michael R. Peevey
 Name
Executive Vice President
 Title

(To be inserted by Cal. P.U.C.)
 Date Filed _____
 Effective _____
 Resolution No. _____



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC)

1. Purpose. The purpose of the Major Additions Adjustment Clause (MAAC) is to reflect in rates, through application of the Major Additions Adjustment Billing Factor (MAABF) and the Annual Major Additions Rate (AMAR), certain costs of owning, operating, and maintaining (excluding all costs recovered through the Company's Energy Cost Adjustment Clause of through the currently effective Base Rates) specified major plant additions (Specified Major Additions) authorized for inclusion in the MAAC by the California Public Utilities Commission (Commission). The currently authorized Specified Major Additions are set forth in Section 3.k. The costs applicable for inclusion in the MAAC for each Specified Major Addition will be recovered through the MAAC until base rates become effective which include all such costs. At such time as the MAAC provision is terminated, any accumulated differential in the Major Additions Adjustment Accounts, as described and limited in Section 7, shall be transferred to the Energy Cost Adjustment Account or such other appropriate balancing account.
2. Applicability. The MAAC provision applies to certain rate schedules and certain special contracts subject to the jurisdiction of the Commission.
3. Definitions.
 - a. Authorization Date:
The Authorization Date shall be the date on which the Commission authorizes the inclusion of a Specified Major Addition in the MAAC.
 - b. Commission Consultant Costs:
The Commission Consultant Costs shall be those amounts paid to the California Public Utilities Commission for funding its consultants for the SONGS 2 and 3 Phase 2 and Post-COD Reasonableness Reviews, and authorized for inclusion as an expense in the MAAC Balancing Account pursuant to Decision No. _____.
 - c. Undercollected or Overcollected Income Tax Expense:
Undercollected or Overcollected Income Tax Expense shall be the product of the monthly entry (excluding interest) recorded in each Major Additions Adjustment Account and the Company's current composite income tax rate.
 - d. Effective Date:
The Effective Date for the revised MAAC rates shall be the Revision Date or such other date as the Commission may authorize. The revised MAAC rates shall be applied to sales for service rendered on and after the Effective Date and shall continue thereafter until the next such MAAC rates become effective or until the MAAC is terminated.
 - e. Forecast Period:
The Forecast Period for calculating the MAABF and the AMAR shall be the twelve-calendar-month period commencing with the Revision Date.
 - f. Franchise Fees and Uncollectible Accounts:
Franchise Fees and Uncollectible Accounts shall be the rate derived from the Company's most recent general rate decision to provide for franchise fees and uncollectible accounts expense.
 - g. Carrying Cost Rate:
The Carrying Cost Rate shall be 1/12 of the Company's after tax gross Allowance For Funds Used During Construction (AFUDC) rate calculated in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts.
 - h. Pre-COD Investment:
The Pre-COD Investment shall be the investment in a portion of the Company's Electric Plant In-Service made prior to the Commercial Operating Date.

(Continued)

(To be inserted by utility)

ISSUED BY

(To be inserted by Cal. P.U.C.)

Advice Letter No. -E

Michael R. Peavey

Date Filed _____

Decision No.

Name

Effective _____

Executive Vice President

Resolution No. _____

871214C02/, (1)

Title

Appendix D -2-



Southern California Edison

2244 Walnut Grove Avenue, Rosemead, California 91770

Cancelling Revised Cal. P.U.C. Sheet No.

-E

PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

3. Definitions. (Continued)

i. Post-COD Investment:

The Post-COD Investment shall be the investment in a portion of the Company's Electric Plant In-Service made on or after the Commercial Operating Date.

j. Revision Date:

The Revision Date for calculating the MAABF and the AMAR shall be January 1 of each year. Applications for MAAC rate revisions calculated in accordance with the provisions described herein shall be filed with the Commission at least 90 days prior to the Revision Date.

k. Specified Major Addition:

A Specified Major Addition is an addition to the Company's Electric Plant In-Service between general rate proceedings which has been authorized for inclusion in the MAAC by the Commission. For purposes of calculating revisions to the MAAC rates and the entries to the Major Additions Adjustment Account, those Pre-COD Investment and Post-COD Investment-related costs applicable for inclusion in the MAAC associated with the following Specified Major Additions shall be included:

| <u>Specified Major Addition</u> | <u>Authorization Date</u> | <u>Termination Date</u> |
|---|---------------------------|-------------------------|
| San Onofre Nuclear Generating Station Unit 2, Pre-COD Investment | 09/07/83 | 01/01/88 |
| San Onofre Nuclear Generating Station Unit 3, Pre-COD Investment | 04/01/84 | 01/01/88 |
| San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 | 09/07/83 | 06/01/88 |
| San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87 | 04/01/84 | 06/01/88 |
| Balsam Meadow Hydro Electric Generating Plant | 01/01/88 | - |
| Devers-Valley-Serrano 500 kV Transmission Line | 01/01/88 | - |

l. Termination Dates:

The Termination Date shall be the date on which the revenue requirement associated with the investment-related costs incurred thereafter for a Specified Major Addition shall no longer be applicable for inclusion in the MAAC.

4. Calculation of the Average Ownership Rate. Individual rates to reflect certain costs of owning each Specified Major Addition shall be calculated as authorized by the Commission. The Average Ownership Rate for each Specified Major Addition shall be determined from the following calculations:

- a. The Forecast Period depreciation;
- b. Plus: The Forecast Period ad valorem taxes;

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Advice Letter No. -E

Decision No.

971214C02/ (2)

Issued by

Michael R. Peavey

Name

Executive Vice President

Title

(To be inserted by Cal. P.U.C.)

Date Filed _____

Effective _____

Resolution No. _____



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS-ADJUSTMENT CLAUSE (MAAC) (Continued)

4. Calculation of the Average Ownership Rate (Continued)

- c. Plus: The Forecast Period taxes based on income, including the following tax adjustments:
 - 1. The tax deductions resulting from items "a" and "b" above;
 - 2. Investment tax credits;
 - 3. The tax effect of the excess of liberalized depreciation over booked depreciation;
 - 4. Interest charge deductions;
 - 5. Other appropriate tax adjustments;
- d. Plus: The Forecast Period return which shall be the Forecast Period rate base multiplied by the Company's system rate of return most recently authorized by the Commission.
- e. The sum of "a" through "d" shall be multiplied by the most recently adopted retail jurisdictional allocation factor;
- f. The amounts in "e" above, increased to provide for Franchise Fees and Uncollectible Accounts, shall be divided by the sales subject to the MAAC estimated to be sold during the Forecast Period. The result shall be the Average Ownership Rate, expressed in cents per kilowatthour, as set forth below:

| Specified Major Addition | Average Ownership Rate (¢/kwh) |
|---|--------------------------------|
| San Onofre Nuclear Generating Station Unit 2, Pre-COD Investment | 0.000 * |
| San Onofre Nuclear Generating Station Unit 3, Pre-COD Investment | |
| San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 | 0.000 * |
| San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87 | |
| Balsam Meadow Hydro Electric Generating Plant | 0.056 |
| Devers-Valley-Serrano 500 kV Transmission Line | 0.030 |
| * Combined | |

At such times as the Commission authorizes any adjustments which affect the amounts applicable for inclusion in the Average Ownership Rate, the Average Ownership Rate shall be appropriately revised.

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. -E

Decision No.

871214C02/ (3)

Michael R. Peevey

Name

Executive Vice President

Title

Date Filed: _____

Effective: _____

Resolution No. _____

CHANGE {

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PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

5. Calculation of the Balancing Rate for each Specified Major Addition. The Balancing Rate for each Specified Major Addition shall be calculated by dividing the estimated balance in the Major Additions Adjustment Account (on the Revision Date or such other date as the Commission may authorize and calculated in accordance with the procedure set forth in Paragraph 7), plus the interest forecast to accrue during the amortization period, increased to provide for Franchise Fees and Uncollectible Accounts, by the sales subject to the MAAC estimated to be sold during the amortization period. The result shall be the Balancing Rate, expressed in cents per kilowatt-hour. The Balancing Rate associated with each Specified Major Addition authorized for inclusion in the MAAC is set forth below:

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CHANGE {

| Specified Major Addition | Balancing Rate (¢/kwh) |
|---|------------------------|
| San Onofre Nuclear Generating Station Unit 2, Pre-COD Investment | 0.073 * |
| San Onofre Nuclear Generating Station Unit 3, Pre-COD Investment | |
| San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 | 0.064 * |
| San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87 | |
| Balsam Meadow Hydro Electric Generating Plant | 0.000 |
| Devers-Valley-Serrano 500 kV Transmission Line | 0.000 |
| * Combined | |

6. Major Additions Adjustment Billing Factor (MAABF). The MAABF shall be the sum of the Average Ownership Rates and the Balancing Rates for each Specified Major Addition. Such MAABF, expressed in cents per kilowatt-hour, shall be applied on a uniform cents-per-kilowatt-hour basis to all sales subject to the MAAC. The application of the MAABF to sales shall be as set forth on the applicable rate schedule.

The MAABF listed below have been, or are, in effect for the periods indicated:

| Effective Date | Major Additions Adjustment Billing Factor (¢/kwh) |
|----------------|---|
| 10/09/83 | 0.311 |
| 01/01/84 | 0.492 |
| 04/01/84 | 0.767 |
| 01/01/85 | 1.270 |
| 01/01/88 | 0.180 |
| 06/01/88 | 0.163 |

NEW {

(Continued)

(To be inserted by utility)

Advice Letter No. -E

Decision No.

871214002/ (4)

Issued by

Michael R. Peavey

Name

Executive Vice President

Title

Date Filed

(To be inserted by Cal. P.U.C.)

Effective

Resolution No.



Southern California Edison

2244 Walnut Grove Avenue, Rosemead, California 91770

PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

7. Major Additions Adjustment Account for each Specified Major Addition. The Company shall maintain a Major Additions Adjustment Account (Balancing Account) for each Specified Major Addition. Entries to be made to these accounts at the end of each month will be determined from the calculations set forth in "a" through "m" below. In addition to the calculations in "a" through "m" the entries to be made to the Major Additions Adjustment Accounts associated with the San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 and the San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87, shall include the calculation set forth in "g" below:

NEW

- a. Depreciation as recorded during the month;
- b. Plus: Ad valorem taxes as recorded during the month;
- c. Plus: Taxes based on income, including appropriate tax adjustments, all as recorded during the month;
- d. Plus: Return, which shall be one-twelfth of the rate of return authorized by the Commission for each Specified Major Addition multiplied by the average depreciated rate base, as recorded during the month;
- e. Less: The sum of "a" through "d" multiplied by the most recently adopted resale jurisdictional allocation factor;
- f. Less: The amount of revenue attributable to each Specified Major Addition. This amount of revenue shall be calculated by multiplying the sum of the Average Ownership Rate and Balancing Rate for each Specified Major Addition, by the kilowatt-hours sold during the month applicable to the MAABF, reduced to provide for Franchise Fees and Uncollectible Accounts.

(The following calculation is applicable only to the Major Additions Adjustment Accounts associated with the San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 and the San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87.)

NEW

g. Plus: The Commission Consultant Costs authorized by Decision No. _____ as recorded during the month.

If the above calculation produces a positive amount (undercollection), such amount will be debited to the Balancing Account in conjunction with the Specified Major Addition as approved by the Commission. If the calculation produces a negative amount (overcollection), such amount will be credited to the Balancing Account. Interest will accrue monthly to the Balancing Account by applying the Carrying Cost Rate to the average of the beginning balance less the accumulated retail jurisdictional Undercollected or Overcollected Income Tax Expense and the ending balance less the accumulated retail jurisdictional Undercollected or Overcollected Income Tax Expense.

CHANGE

(Continued)

(To be inserted by utility)

Advice Letter No. -E
Decision No.

871214C02/ (5)

Issued by

Michael R. Peevey

Name

Executive Vice President

Title

(To be inserted by Cal. P.U.C.)

Date Filed _____
Effective _____
Resolution No. _____



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

8. Calculation of the Average Noninvestment-Related Expense Rate. Individual rates to reflect certain noninvestment-related costs associated with each Specified Major Addition shall be calculated as authorized by the Commission. The Average Noninvestment-Related Expense Rate for each Specified Major Addition shall be determined from the following calculations:
- a. The Forecast Period operation and maintenance expenses (excluding all costs recovered through the Company's Energy Cost Adjustment Clause or through the currently-effective base rates) appropriate for inclusion in the MAAC;
 - b. Plus: The Forecast Period pensions and benefits expense associated with the labor portion of "a" above;
 - c. Plus: The Forecast Period payroll tax expense associated with the labor portion of "a" above;
 - d. Plus: The Forecast Period property, liability, and replacement generation insurance expenses.
 - e. The sum of "a" through "d" shall be multiplied by the most recently adopted retail jurisdictional allocation factor.
 - f. The amount in "e" above, increased to provide for Franchise Fees and Uncollectible Accounts, shall be divided by the sales subject to the MAAC estimated to be sold during the Forecast Period. The result shall be the Average Noninvestment-Related Expense Rate, expressed in cents per kilowatt-hour, as set forth below:

| Specified Major Addition | Average Noninvestment Related Expense Rate (c/kwh) |
|--|--|
| San Onofre Nuclear Generating Station Unit 2 | 0.000 |
| San Onofre Nuclear Generating Station Unit 3 | 0.000 |

9. Annual Major Additions Rate (AMAR). The AMAR shall be the sum of the Average Noninvestment-Related Expense Rates for each Specified Major Addition. Such AMAR, expressed in cents per kilowatt-hour, shall be applied on a uniform cents-per-kilowatt-hour basis to all sales subject to the MAAC. The application of the AMAR to sales shall be as set forth on the applicable rate schedule.

The AMAR listed below have been, or are, in effect for the periods indicated:

| Effective Date | Annual Major Additions Rate (c/kwh) |
|----------------|-------------------------------------|
| 10/09/83 | 0.071 |
| 03/23/84 | 0.077 |
| 04/01/84 | 0.154 |
| 01/01/85 | 0.000 |

(Continued)

(To be received by utility)
 Advice Letter No. -E

Decision No.

871214C02/ (6)

Issued By
Michael R. Peavey
 Name
Executive Vice President
 Title

(To be received by Cal. P.U.C.)
 Date Filed _____
 Effective _____
 Resolution No. _____

APPENDIX C

Southern California Edison Company
Balancing Account Balances, Rate-making Factors,
Modified Revenue Requirements and Rate Levels
And Related Material

TABLE C-1

SOUTHERN CALIFORNIA EDISON COMPANY
 SONGS 2 AND 3 MAAC PRE-COD BALANCING ACCOUNT
 (Recorded Through September 30, 1988)

1988
 (Thousands of Dollars)

| ITEM | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP |
|----------------------------|----------|---------------------------|---------------------|---------|---------|---------|--------|------------------------|--------|
| BEGINNING BALANCE | 82,854 | 42,909 | 24,154 | 22,751 | 21,251 | 19,898 | 18,064 | 17,330 | 22,520 |
| UNDER/(OVER) COLLECTION | | | | | | | | | |
| A. Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| B. Net Revenues | 40,142 | 2,486 | 1,544 | 1,821 | 1,670 | 1,747 | 844 | 796 | 805 |
| C. Under/(Over) Collection | (40,142) | (2,486) | (1,544) | (1,821) | (1,670) | (1,747) | (844) | (796) | (805) |
| INTEREST | 397 | 145 | 128 | 121 | 117 | 113 | 110 | 110 | 152 |
| ADJUSTMENTS | 0 | (16,414) ^{1>} | 13 ^{2>} | 0 | 0 | 0 | 0 | 5,876 ^{3>} | 0 |
| ENDING BALANCE | 42,909 | 24,154 | 22,751 | 21,251 | 19,898 | 18,064 | 17,330 | 22,520 | 21,867 |

- 1> Adjustment to flow through to ratepayers the income tax benefits associated with nuclear decommissioning expense.
- 2> Adjustment to correct interest income relating to the February 1988 decommissioning expense adjustment.
- 3> Adjustment to properly reflect MAAC revenues which were restated for the period January 1, 1988 through August 31, 1988.

TABLE C-2

SOUTHERN CALIFORNIA EDISON COMPANYMAJOR ADDITIONS ADJUSTMENT CLAUSESONGS 2 & 3 PRE-COD BALANCING RATE

| Line No. | Description | (SM) (1) | Forecast Sales (GWh) (2) | Balancing Rate (¢/kWh) (3) |
|----------|----------------------------------|-------------|--------------------------------|----------------------------------|
| 1. | Recorded September 30, 1988, | | | |
| 2. | Balance | 21,867 | | |
| 3. | Adjustment (as of September 30, | | | |
| 4. | 1988) for interest on under/ | | | |
| 5. | overcollected income tax | | | |
| 6. | expense | (2,564) | | |
| 7. | Adjusted September 30, 1988, | | | |
| 8. | Balance | 19,303 | | |
| 9. | Forecast Interest Expense During | | | |
| 10. | Three-Year Amortization | | | |
| 11. | Period | 3,303 | | |
| 12. | Forecast Amount to Be | | | |
| 13. | Recovered | 22,606 | | |
| 14. | Increased for Franchise Fees and | | | |
| 15. | Uncollectible Accounts | 22,812 | | |
| 16. | Forecast Amortization Period | | | |
| 17. | Sales 1/ | | 195,931 | |
| 18. | Pre-COD Balancing Rate | | | 0.012 |

1/ For purposes of ease of presentation, the forecast annual sales level adopted in Decision No. 88-09-031 was assumed for 1989, 1990 and 1991. The sales shown include a reduction to reflect the impact of Rate Schedule No. DE - Discount.

TABLE C-3

SOUTHERN CALIFORNIA EDISON COMPANY
SONGS 2 AND 3 MAAC POST-COD BALANCING ACCOUNT
(Recorded Through September 30, 1988)

1988
(Thousands of Dollars)

| ITEM | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BEGINNING BALANCE | 112,843 | 114,943 | 115,682 | 116,329 | 116,958 | 117,651 | 117,961 | 118,050 | 117,856 |
| UNDER/(OVER) COLLECTION | | | | | | | | | |
| A. Costs | 4,079 | 4,055 | 4,039 | 4,017 | 3,983 | 3,964 | 3,944 | 3,929 | 3,894 |
| B. Net Revenues | 2,699 | 3,974 | 4,026 | 4,030 | 3,959 | 4,358 | 4,589 | 4,889 | 4,920 |
| C. Under/(Over) Collection | 1,380 | 81 | 13 | (13) | 24 | (394) | (645) | (960) | (1,026) |
| INTEREST | 720 | 658 | 634 | 642 | 669 | 704 | 734 | 766 | 808 |
| ADJUSTMENTS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ENDING BALANCE | 114,943 | 115,682 | 116,329 | 116,958 | 117,651 | 117,961 | 118,050 | 117,856 | 117,838 |

1> Excludes SCE's Litigation Costs associated with the Phase 2 and Post-COD Reasonableness Reviews. Adjusted to reflect the SONGS Disallowance and Additional Disallowance as stipulated to in the Reasonableness Stipulation.

SOUTHERN CALIFORNIA EDISON COMPANYMAJOR ADDITIONS ADJUSTMENT CLAUSESONGS 2 & 3 POST-COD BALANCING RATE

| Line No. | Description | (\$M) (1) | Forecast | Balancing |
|-------------|----------------------------------|---------------|-----------------------|------------------------|
| | | | Sales (GWh) (2) | Rate (¢/kWh) (3) |
| 1. | Recorded September 30, 1988, | | | |
| 2. | Balance | 117,638 | | |
| 3. | Adjustments (as of September 30, | | | |
| 4. | 1988): | | | |
| 5. | Interest on Under/Overcollected | | | |
| 6. | Income Tax Expense | (13,352) | | |
| 7. | Commission Consultant Costs 1/ | <u>4,275</u> | | |
| 8. | Adjusted September 30, 1988, | | | |
| 9. | Balance | 108,561 | | |
| 10. | Forecast Interest Expense During | | | |
| 11. | Three-Year Amortization Period | <u>16,568</u> | | |
| 12. | Forecast Amount to Be | | | |
| 13. | Recovered | 125,129 | | |
| 14. | Increased for Franchise Fees and | | | |
| 15. | Uncollectible Accounts | 126,324 | | |
| 16. | Forecast Amortization Period | | | |
| 17. | Sales 2/ | | 195,931 | <u> </u> |
| 18. | Post-COD Balancing Rate | | | 0.065 |

1/ Includes accrued interest through September 30, 1988.

2/ For purposes of ease of presentation, the forecast annual sales level adopted in Decision No. 88-09-031 was assumed for 1989, 1990, and 1991. The sales shown include a reduction to reflect the impact of Rate Schedule No. DE - Discount.

SOUTHERN CALIFORNIA EDISON COMPANYBASE RATE REVENUE REQUIREMENT FOR STIPULATED
REASONABLE LEVEL OF SONGS 2 AND 3 POST-COD INVESTMENTEDISON SHARE

(Thousands of Dollars)

| Line No. | Item | Total System (1) | CPUC Jurisdiction 1/ (2) |
|----------|---------------------------|------------------|--------------------------|
| 1. | TOTAL REVENUE REQUIREMENT | 50,527 | 49,949 2/ |
| 2. | EXPENSES | | |
| 3. | Income Taxes | 9,279 | 9,173 |
| 4. | Ad Valorem Taxes | 3,550 | 3,509 |
| 5. | Depreciation Expenses | 10,407 | 10,288 |
| 6. | Franchise Fees | 369 | 365 |
| 7. | Uncollectibles | 108 | 107 |
| 8. | TOTAL EXPENSES | 23,713 | 23,442 |
| 9. | NET REVENUE | 26,816 | 26,509 |
| 10. | RATE BASE | 238,155 | 235,431 |
| 11. | RATE OF RETURN (%) | 11.26% | 11.26% |

1/ Based on a CPUC-Jurisdictional Allocation Factor of 98.856% as proposed in Edison's 1989 Operational Attrition Filing.

2/ The Total Revenue Requirement on a CPUC-jurisdictional basis is the increase to the Authorized Level of Base Rate Revenue under the ERAM.

TABLE C-5a

SOUTHERN CALIFORNIA EDISON COMPANYBASE RATE REVENUE REQUIREMENT FOR STIPULATED
REASONABLE LEVEL OF SONGS 2 AND 3 POST-COD INVESTMENTEDISON SHARE

(Thousands of Dollars)

| Line No. | Item | Total System (1) | CPUC Jurisdiction 1/ (2) |
|----------|---------------------------|------------------|--------------------------|
| 1. | TOTAL REVENUE REQUIREMENT | 48,687 | 47,723 2/3/ |
| 2. | EXPENSES | | |
| 3. | Income Taxes | 8,549 | 8,380 |
| 4. | Ad Valorem Taxes | 3,550 | 3,480 |
| 5. | Depreciation Expenses | 10,407 | 10,201 |
| 6. | Franchise Fees | 355 | 348 |
| 7. | Uncollectibles | <u>104</u> | <u>102</u> |
| 8. | TOTAL EXPENSES | 22,965 | 22,511 |
| 9. | NET REVENUE | 25,722 | 25,212 |
| 10. | RATE BASE | 238,155 | 233,440 |
| 11. | RATE OF RETURN (%) | 10.80% | 10.80% |

1/ Based on a CPUC-Jurisdictional Allocation Factor of 98.02%.

2/ The Total Revenue Requirement on a CPUC-jurisdictional basis is the increase to the Authorized Level of Base Rate Revenue under the ERAM.

3/ Based on 12.75% return on common equity in proposed decision in A.88-07-023.

SOUTHERN CALIFORNIA EDISON COMPANY1989 RATEMAKING FACTORS

Income Tax Rates:

| | |
|------------|--------|
| Federal | 34.00% |
| California | 8.967% |
| Arizona | 0.024% |
| New Mexico | 0.003% |

Franchise Fees Factor 0.730%

Uncollectibles Factor 0.214%

CPUC Jurisdictional Factor 0.98856

Capitol Structure and
Associated Rate of Return:

| | |
|-----------------------|--------|
| Long-Term Debt: Ratio | 48.00% |
| Cost Factor | 9.30% |

| | |
|------------------|-------|
| Preferred: Ratio | 6.00% |
| Cost Factor | 7.84% |

| | |
|---------------|--------|
| Common: Ratio | 46.00% |
| Cost Factor | 13.75% |

Rate of Return on Rate Base 11.26%

Net-to-Gross Multiplier 1.6808

Sales Forecast

Unadjusted 65,340.00 GWh

Employee Discount and
Fringe Sales 29.75 GWh

Adjusted 65,310.25 GWh

Gross After Tax AFUDC Rate
(MAAC Interest Rate) 10.80%

TABLE C-6a

SOUTHERN CALIFORNIA EDISON COMPANY1989 RATEMAKING FACTORS 1/

Income Tax Rates:

| | |
|------------|--------|
| Federal | 34.00% |
| California | 8.967% |
| Arizona | 0.024% |
| New Mexico | 0.003% |

Franchise Fees Factor

0.730%

Uncollectibles Factor

0.214%

CPUC Jurisdictional Factor

0.9802

Capital Structure and
Associated Rate of Return:

| | | |
|-----------------|-------------|--------|
| Long-Term Debt: | Ratio | 48.00% |
| | Cost Factor | 9.30% |
| Preferred: | Ratio | 6.00% |
| | Cost Factor | 7.84% |
| Common: | Ratio | 46.00% |
| | Cost Factor | 12.75% |

Rate of Return on Rate Base

10.80%

Net-to-Gross Multiplier

1.6808

Sales Forecast

| | |
|---------------------------------------|---------------|
| Unadjusted | 65,340.00 GWh |
| Employee Discount and Fringe Sales | 29.75 GWh |
| Adjusted | 65,310.25 GWh |

Gross After Tax AFUDC Rate
(MAAC Interest Rate)

10.80%

1/ Based on 12.75% return on common equity in proposed decision in A.88-07-023.

SOUTHERN CALIFORNIA EDISON COMPANY

REVENUE CHANGES ADOPTED FOR REVENUE ALLOCATION AND RATE DESIGN

CALIFORNIA JURISDICTION

| Line No. | Revenue Element | Present Rate Revenues 1/ 2/ (\$ Millions) | Adopted Revenue 1/ 3/ (\$ Millions) | Revenue Change (\$ Millions) | Average Rate (¢/kWh) |
|----------|-----------------------------|---|-------------------------------------|------------------------------|----------------------|
| | | (1) | (2) | (3) | (4) |
| 1. | Base Rate: | | | | |
| 2. | SONGS Units 2 & 3 Post-COD | | | | |
| 3. | Investment | 0.000 | 49.949 | 49.949 | 0.076 |
| 4. | Major Additions Adjustment | | | | |
| 5. | Clause (MAAC): | | | | |
| 6. | SONGS Units 2 & 3 Pre-COD | | | | |
| 7. | Investment | 0.000 | 0.000 | 0.000 | 0.000 |
| 8. | SONGS Units 2 & 3 Pre-COD | | | | |
| 9. | Balancing Account | 8.490 | 7.837 4/ | (0.653) | 0.012 |
| 10. | SONGS Units 2 & 3 Post-COD | | | | |
| 11. | Investment | 52.901 | 0.000 4/ | (52.901) | 0.000 |
| 12. | SONGS Units 2 & 3 Post-COD | | | | |
| 13. | Balancing Account | 0.000 | 42.451 4/ | 42.451 | 0.065 |
| 14. | SONGS Unit 2 Noninvestment- | | | | |
| 15. | Related Expense | 0.000 | 0.000 | 0.000 | 0.000 |
| 16. | SONGS Unit 3 Noninvestment- | | | | |
| 17. | Related Expense | 0.000 | 0.000 | 0.000 | 0.000 |
| 18. | Balsam Meadow Generating | | | | |
| 19. | Plant Investment | 35.921 | 35.829 | 0.000 | 0.055 |
| 20. | Balsam Meadow Generating | | | | |
| 21. | Plant Balancing Account | 0.000 | 0.000 | 0.000 | 0.000 |
| 22. | Devers-Valley-Serrano | | | | |
| 23. | Transmission Line | | | | |
| 24. | Investment | 19.593 | 19.442 | 0.000 | 0.030 |
| 25. | Devers-Valley-Serrano | | | | |
| 26. | Transmission Line | | | | |
| 27. | Balancing Account | <u>0.000</u> | <u>0.000</u> | <u>0.000</u> | <u>0.000</u> |
| 28. | TOTAL MAAC | 116.905 | 105.559 | (11.103) | 0.162 |

1/ Based on sales adopted in D.88-09-031 of 65,310.25 GWh, after adjustment for employee discounts and exclusion of fringe and Sequoia sales (65,340 GWh unadjusted).

2/ Based on present rates using current tariffs.

3/ Reflects total revenue changes due to all authorized base revenue changes to be made effective January 1, 1989.

4/ Reflects changes adopted in this Decision.

TABLE C7a

SOUTHERN CALIFORNIA EDISON COMPANYREVENUE CHANGES ADOPTED FOR REVENUE ALLOCATION AND RATE DESIGN

CALIFORNIA JURISDICTION

| Line No. | Revenue Element | Present Rate Revenues 1/ 2/ (\$ Millions) | Adopted Revenue 1/ 3/ (\$ Millions) ^{5/} | Revenue Change (\$ Millions) | Average Rate (¢/kWh) |
|----------|-----------------------------|---|---|------------------------------------|----------------------------|
| | | (1) | (2) | (3) | (4) |
| 1. | Base Rate: | | | | |
| 2. | SONGS Units 2 & 3 Post-COD | | | | |
| 3. | Investment | 0.000 | 47.723 ^{4/} | 47.723 | 0.073 |
| 4. | Major Additions Adjustment | | | | |
| 5. | Clause (MAAC): | | | | |
| 6. | SONGS Units 2 & 3 Pre-COD | | | | |
| 7. | Investment | 0.000 | 0.000 | 0.000 | 0.000 |
| 8. | SONGS Units 2 & 3 Pre-COD | | | | |
| 9. | Balancing Account | 8.490 | 7.837 ^{4/} | (0.653) | 0.012 |
| 10. | SONGS Units 2 & 3 Post-COD | | | | |
| 11. | Investment | 52.901 | 0.000 ^{4/} | (52.901) | 0.000 |
| 12. | SONGS Units 2 & 3 Post-COD | | | | |
| 13. | Balancing Account | 0.000 | 43.105 ^{4/} | 43.105 | 0.066 |
| 14. | SONGS Unit 2 Noninvestment- | | | | |
| 15. | Related Expense | 0.000 | 0.000 | 0.000 | 0.000 |
| 16. | SONGS Unit 3 Noninvestment- | | | | |
| 17. | Related Expense | 0.000 | 0.000 | 0.000 | 0.000 |
| 18. | Balsam Meadow Generating | | | | |
| 19. | Plant Investment | 35.921 | 35.829 | 0.000 | 0.055 |
| 20. | Balsam Meadow Generating | | | | |
| 21. | Plant Balancing Account | 0.000 | 0.000 | 0.000 | 0.000 |
| 22. | Devers-Valley-Serrano | | | | |
| 23. | Transmission Line | | | | |
| 24. | Investment | 19.593 | 19.442 | 0.000 | 0.030 |
| 25. | Devers-Valley-Serrano | | | | |
| 26. | Transmission Line | | | | |
| 27. | Balancing Account | <u>0.000</u> | <u>0.000</u> | <u>0.000</u> | <u>0.000</u> |
| 28. | TOTAL MAAC | 116.905 | 106.213 | (10.692) | 0.163 |

^{1/} Based on sales adopted in D.88-09-031 of 65,310.25 GWh, after adjustment for employee discounts and exclusion of fringe and Sequoia sales (65,340 GWh unadjusted).

^{2/} Based on present rates using current tariffs.

^{3/} Reflects total revenue changes due to all authorized revenue changes to be made effective January 1, 1989.

^{4/} Reflects changes adopted in this Decision.

^{5/} Based on 12.75% return on common equity in proposed decision in A.88-07-023.

A-87-05-031, A-87-07-044 ALJ/WRS/jt

APPENDIX D

San Diego Gas & Electric Company
Balancing Account Balances, Ratemaking
Factors, Proposed Revenue Requirements
and Rate Levels, and Proposed Changes
to the Electric Preliminary Statement

APPENDIX D

TABLE 1

SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
PRE-COD PLANT ADDITIONS

Development of Balancing Account Balance as of September 30, 1988
Related to Reasonable Level of SONGS 2 and 3 Pre-COD Investment
(Reflects Allocation of Pre-COD Delay - Related Disallowances to
AFUDC and Interest Not Applied to Monthly (Over)/Under Collection
Allocated to Income Taxes)
(Thousands of Dollars)

| | | Pre-COD Balancing Account (Over)/Under Collection Including Interest ⁽¹⁾ | | | | | | |
|-------------|----------|--|-----------|------------|---------|----------|--------------|------------|
| | | Monthly | | | | | Pre-COD | |
| Line No. | Month | Allocated | Allocated | OTI 86 | Pre-COD | Interest | (Over)/Under | |
| | | Total | Dis- | Income Tax | Offset | | Monthly | Cumulative |
| | | Revenue | allowance | Refunds | Revenue | (4) | (A-B+C-D+E) | Balance |
| | | Requirement(2) | (2) | (3) | (D) | (E) | (F) | (G) |
| | | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
| 1. | Sep 1983 | 8,038 | 474 | 0 | 0 | 32 | 7,596 | 7,596 |
| 2. | Oct | 9,833 | 597 | 0 | 1,452 | 93 | 7,877 | 15,473 |
| 3. | Nov | 9,503 | 594 | 0 | 4,243 | 141 | 4,807 | 20,280 |
| 4. | Dec 1983 | 9,031 | 592 | 0 | 4,180 | 180 | 4,439 | 24,719 |
| 5. | Jan 1984 | 9,254 | 587 | 0 | 5,843 | 218 | 3,042 | 27,761 |
| 6. | Feb | 9,213 | 585 | 0 | 7,380 | 229 | 1,477 | 29,238 |
| 7. | Mar | 9,170 | 582 | 0 | 7,454 | 244 | 1,378 | 30,616 |
| 8. | Apr | 18,848 | 1,086 | 0 | 8,703 | 303 | 9,362 | 39,978 |
| 9. | May | 18,823 | 1,081 | 0 | 9,474 | 393 | 8,661 | 48,639 |
| 10. | Jun | 18,815 | 1,076 | 0 | 11,129 | 483 | 7,093 | 55,732 |
| 11. | Jul | 18,875 | 1,068 | 0 | 12,129 | 560 | 6,238 | 61,970 |
| 12. | Aug | 18,822 | 1,065 | 0 | 12,614 | 629 | 5,772 | 67,742 |
| 13. | Sep | 18,030 | 1,058 | 0 | 13,291 | 677 | 4,358 | 72,100 |
| 14. | Oct | 18,148 | 1,053 | 0 | 12,962 | 713 | 4,846 | 76,946 |
| 15. | Nov | 18,085 | 1,049 | 0 | 11,593 | 705 | 6,158 | 83,104 |
| 16. | Dec 1984 | 17,618 | 1,047 | 0 | 12,001 | 678 | 5,248 | 88,352 |
| 17. | Jan 1985 | 18,544 | 1,063 | 0 | 16,464 | 644 | 1,661 | 90,013 |
| 18. | Feb | 18,521 | 1,057 | 0 | 19,085 | 616 | (1,005) | 89,008 |
| 19. | Mar | 18,478 | 1,053 | 0 | 18,619 | 648 | (546) | 88,462 |
| 20. | Apr | 18,226 | 1,049 | 0 | 17,616 | 673 | 234 | 88,696 |
| 21. | May | 18,225 | 1,042 | 0 | 17,397 | 636 | 422 | 89,118 |
| 22. | Jun | 18,584 | 1,038 | 0 | 18,399 | 597 | (256) | 88,862 |
| 23. | Jul | 18,523 | 1,031 | 0 | 21,324 | 533 | (3,299) | 85,563 |
| 24. | Aug | 18,463 | 1,026 | 0 | 20,265 | 530 | (2,298) | 83,265 |
| 25. | Sep | 18,399 | 1,021 | 0 | 20,761 | 525 | (2,858) | 80,407 |
| 26. | Oct | 18,329 | 1,017 | 0 | 19,165 | 519 | (1,334) | 79,073 |
| 27. | Nov | 18,154 | 1,012 | 0 | 18,859 | 508 | (1,209) | 77,864 |
| 28. | Dec 1985 | 18,500 | 1,008 | 0 | 20,390 | 495 | (2,403) | 75,461 |

(Continued)

APPENDIX D

TABLE 1

Pre-COD Balancing Account
(Over)/Under Collection Including Interest (1)

| Line No. | Month | Monthly | | | | | Pre-COD | |
|----------|----------|--|---------------------------------------|---|--------------------------------------|------------------------|---|----------------------------------|
| | | Allocated Total Revenue Requirement (2) (A) | Allocated Dis-allowance (2) (B) | OII 86 Income Tax Refunds (3) (C) | Pre-COD Offset Revenue (4) (D) | Interest (4) (E) | (Over)/Under Collection Monthly (A-B+C-D+E) (F) | Cumulative Balance (C) (G) |
| 29. | Jan 1986 | 17,321 | 988 | 0 | 20,545 | 473 | (3,739) | 71,722 |
| 30. | Feb | 18,427 | 983 | 0 | 19,412 | 454 | (1,514) | 70,208 |
| 31. | Mar | 16,738 | 979 | 0 | 19,530 | 434 | (3,337) | 66,871 |
| 32. | Apr | 17,299 | 975 | 0 | 18,775 | 394 | (2,057) | 64,814 |
| 33. | May | 17,328 | 971 | 0 | 18,753 | 350 | (2,046) | 62,768 |
| 34. | Jun | 16,932 | 966 | 0 | 19,620 | 336 | (3,318) | 59,450 |
| 35. | Jul | 17,525 | 964 | 0 | 20,560 | 321 | (3,678) | 55,772 |
| 36. | Aug | 16,391 | 960 | 0 | 20,900 | 280 | (5,189) | 50,583 |
| 37. | Sep | 16,544 | 956 | 0 | 23,220 | 231 | (7,401) | 43,182 |
| 38. | Oct | 16,499 | 952 | 0 | 19,142 | 196 | (3,399) | 39,783 |
| 39. | Nov | 17,770 | 948 | 0 | 20,107 | 180 | (3,105) | 36,678 |
| 40. | Dec 1986 | 16,480 | 945 | 0 | 21,017 | 163 | (5,319) | 31,359 |
| 41. | Jan 1987 | 14,607 | 827 | 0 | 22,095 | 138 | (8,177) | 23,182 |
| 42. | Feb | 14,820 | 823 | 0 | 19,497 | 99 | (5,401) | 17,781 |
| 43. | Mar | 14,710 | 819 | 0 | 18,161 | 79 | (4,191) | 13,590 |
| 44. | Apr | 14,907 | 816 | 0 | 17,290 | 62 | (3,137) | 10,453 |
| 45. | May | 14,857 | 813 | 0 | 18,629 | 44 | (4,541) | 5,912 |
| 46. | Jun | 15,089 | 809 | 0 | 16,679 | 27 | (2,372) | 3,540 |
| 47. | Jul | 14,570 | 800 | 0 | 18,672 | 6 | (4,896) | (1,356) |
| 48. | Aug | 14,462 | 798 | 0 | 18,639 | (21) | (4,996) | (6,352) |
| 49. | Sep | 14,028 | 794 | 0 | 19,235 | (52) | (6,053) | (12,405) |
| 50. | Oct | 14,048 | 790 | 0 | 18,944 | (93) | (5,779) | (18,184) |
| 51. | Nov | 13,807 | 787 | 0 | 18,906 | (140) | (6,026) | (24,210) |
| 52. | Dec 1987 | 13,755 | 783 | 0 | 19,485 | (164) | (6,677) | (30,887) |
| 53. | Jan 1988 | 0 | 0 | 0 | 8,772 | (224) | (8,996) | (39,883) |
| 54. | Feb | 0 | 0 | (4,576) | (1,566) | (250) | (3,260) | (43,143) |
| 55. | Mar | 0 | 0 | (1,936) | (1,500) | (238) | (674) | (43,817) |
| 56. | Apr | 0 | 0 | 0 | (1,456) | (238) | 1,218 | (42,599) |
| 57. | May | 0 | 0 | 0 | (1,452) | (239) | 1,213 | (41,386) |
| 58. | Jun | 0 | 0 | 0 | (1,637) | (243) | 1,394 | (39,992) |
| 59. | Jul | 0 | 0 | 0 | (1,622) | (245) | 1,377 | (38,615) |
| 60. | Aug | 0 | 0 | 0 | (1,647) | (246) | 1,401 | (37,214) |
| 61. | Sep 1988 | 0 | 0 | 0 | (1,764) | (250) | 1,514 | (35,700) |
| 62. | TOTAL | 829,966 | 47,257 | (6,512) | 826,723 | 14,826 | (35,700) | |

(Continued)

TABLE 1

| | | Pre-COD Balancing Account (Over)/Under Collection Including Interest (1) | | | | | | |
|-------------|--|---|--|---|-------------------------------------|------------------------|---|------------------------------|
| Line No. | Month | Monthly | | | | | Pre-COD | |
| | | Allocated Total Revenue Requirement(2) (A) | Allocated Dis- allowance (2) (B) | OII 86 Income Tax Refunds (3) (C) | Pre-COD Offset Revenue (D) | Interest (4) (E) | (Over)/Under Monthly Collection (A-B+C-D+E) (F) | Cumulative Balance (G) |
| 63. | <u>ADJUSTMENTS</u> | | | | | | | |
| 64. | Only Delay Days to AFUDC | | 6,853 | | | (1,526) | | (8,379) |
| 65. | Revised TOTAL | 829,966 | 54,110 | (6,512) | 826,723 | 13,300 | | (44,079) |
| 66. | Only Removal of Interest on Inc. Taxes | | | | | (5,670) | | (5,670) |
| 67. | Revised TOTAL | 829,966 | 47,257 | (6,512) | 826,723 | 9,156 | | (41,370) |
| 68. | Combined Adjustments | | 6,853 | | | (6,620) | | (13,473) |
| 69. | Revised TOTAL (5) | 829,966 | 54,110 | (6,512) | 826,723 | 8,206 | | (49,173) |

- (1) Recorded through September 1988. Columns A, B, & C have been allocated to MAAC rate recovery.
 (2) Includes Depreciation, Ad Valorem Taxes, Income Taxes and Return on Investment.
 (3) Adjustments for OII 86 Income Tax Refunds submitted to IRS.
 (4) Interest was not applied to monthly over/under collection allocated to Income Taxes.
 (5) Pursuant to Ordering Paragraph 19.a. of proposed decision in Application 87-07-044.

APPENDIX D

TABLE 2

SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
PRE-COD PLANT ADDITIONS

Development of a Uniform MAAC Pre-COD Balancing Rate, Effective January 1, 1989, For a Two-Year Amortization of the Balancing Account Balance as of September 30, 1988 Related to Reasonable Level of SONGS 2 and 3 Pre-COD Investment and Reflecting 1) Allocation of Pre-COD Delay-Related Disallowances to AFUDC and 2) Interest Not Applied to Monthly (Over)/Under Collection Allocated to Income Taxes

| Line No. | Item | Units | Amount |
|----------|--|----------------------|-----------|
| 1. | Recorded September 30, 1988 Balancing Account Balance Attributable to Pre-COD Plant Investment (Table 1) | M\$ | (49,173) |
| 2. | Forecast Interest Expense During Two-Year Amortization Period @ 8.46% | M\$ | (2,644) |
| 3. | Forecast Total Amount to be Amortized (Line 1. + Line 2.) | M\$ | (51,817) |
| 4. | Line 3. Increased for Franchise Fees and Uncollectibles (Line 3. x 1.0222) | M\$ | (52,967) |
| 5. | Forecast Amortization Period Adjusted Sales (1) | M ² /kwhr | 25,990.89 |
| 6. | Proposed MAAC Pre-COD Balancing Rate (Line 4. / Line 5.) | ¢/kwhr | (0.204) |

(1) The forecast annual sales level of 12,888,026 Mkwhrs stipulated to in SDG&E's Fall 1988 ECAC Application 88-07-003 was assumed for 1989 and 1990. The sales shown (12,995,446 Mkwhrs X 2) have been adjusted for the effect of Employee and Voltage Discounts and City of San Diego Franchise Fee Differential.

APPENDIX D

TABLE 3

SAN DIEGO GAS & ELECTRIC COMPANY
 SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
 POST-COD PLANT ADDITIONS

Development of Balancing Account Balance as of September 30, 1988
 Related to Stipulated Reasonable Level of SONGS 2 and 3 Post-COD Investment
 (Reflects Interest not Applied to Monthly (Over)/Under Collection
 Allocated to Income Taxes)
 (Thousands of Dollars)

| | | Post-COD Balancing Account (Over)/Under Collection Including Interest (1) | | | | | | | |
|----------|----------|--|-----------------------------|-----------------------------|-----------------------------|--------------|--|------------------------|--|
| | | Monthly | | | | | Post-COD | | |
| Line No. | Month | Allocated Total Revenue Requirement (2) | Allocated Dis-allowance (2) | CPUC Consultant Expense (3) | Post-COD Offset Revenue (D) | Interest (4) | Post-COD (Over)/Under Collection Monthly (A-B+C-D+E) (F) | Cumulative Balance (G) | |
| | | (A) | (B) | (C) | (D) | (E) | (F) | (G) | |
| 1. | Sep 1983 | 0 | 0 | 24 | 0 | 0 | 24 | 24 | |
| 2. | Oct | 0 | 1 | 45 | 0 | 0 | 44 | 68 | |
| 3. | Nov | 0 | 2 | 0 | 0 | 1 | (1) | 67 | |
| 4. | Dec 1983 | 0 | 2 | 0 | 0 | 1 | (1) | 66 | |
| 5. | Jan 1984 | 0 | 1 | 0 | 0 | 1 | 0 | 66 | |
| 6. | Feb | 0 | 1 | 0 | 0 | 0 | (1) | 65 | |
| 7. | Mar | 0 | 1 | 0 | 0 | 0 | (1) | 64 | |
| 8. | Apr | 0 | 1 | 0 | 0 | 1 | 0 | 64 | |
| 9. | May | 0 | 1 | 0 | 0 | 1 | 0 | 64 | |
| 10. | Jun | 0 | 1 | 0 | 0 | 1 | 0 | 64 | |
| 11. | Jul | 0 | 1 | 0 | 0 | 1 | 0 | 64 | |
| 12. | Aug | 0 | 2 | 80 | 0 | 1 | 79 | 143 | |
| 13. | Sep | 0 | 3 | 0 | 0 | 1 | (2) | 141 | |
| 14. | Oct | 0 | 3 | 0 | 0 | 1 | (2) | 139 | |
| 15. | Nov | 0 | 3 | 0 | 0 | 1 | (2) | 137 | |
| 16. | Dec 1984 | 2 | 4 | 0 | 0 | 1 | (1) | 136 | |
| 17. | Jan 1985 | 2 | 4 | 0 | 0 | 1 | (1) | 135 | |
| 18. | Feb | 3 | 6 | 0 | 0 | 1 | (2) | 133 | |
| 19. | Mar | 5 | 8 | 0 | 0 | 1 | (2) | 131 | |
| 20. | Apr | 7 | 9 | 0 | 0 | 1 | (1) | 130 | |
| 21. | May | 9 | 11 | 0 | 0 | 1 | (1) | 129 | |
| 22. | Jun | 11 | 12 | 0 | 0 | 1 | 0 | 129 | |
| 23. | Jul | 13 | 14 | 0 | 0 | 1 | 0 | 129 | |
| 24. | Aug | 62 | 17 | 0 | 0 | 1 | 46 | 175 | |
| 25. | Sep | 102 | 21 | 0 | 0 | 1 | 82 | 257 | |
| 26. | Oct | 115 | 34 | 187 | 0 | 3 | 271 | 528 | |
| 27. | Nov | 326 | 44 | 0 | 0 | 4 | 286 | 814 | |
| 28. | Dec 1985 | 689 | 54 | 0 | 0 | 7 | 642 | 1,456 | |

(Continued)

APPENDIX D
TABLE 3Post-COD Balancing Account (1)
(Over)/Under Collection Including Interest

| Line No. | Month | Monthly | | | | | Post-COD | |
|----------|----------|---|---------------------------------------|---------------------------------------|--------------------------------|------------------------|--|--------------------------------------|
| | | Allocated Total Revenue Requirement(2) (A) | Allocated Dis-allowance (2) (B) | CPUC Consultant Expense (3) (C) | Post-COD Offset Revenue (D) | Interest (4) (E) | (Over)/Under Monthly (A-B+C-D+E) (F) | Collection Cumulative Balance (G) |
| 29. | Jan 1986 | 625 | 71 | 148 | 0 | 12 | 714 | 2,170 |
| 30. | Feb | 957 | 98 | 0 | 0 | 17 | 876 | 3,046 |
| 31. | Mar | 1,066 | 102 | 142 | 0 | 23 | 1,129 | 4,175 |
| 32. | Apr | 1,069 | 108 | 32 | 0 | 28 | 1,021 | 5,196 |
| 33. | May | 1,022 | 115 | 61 | 0 | 31 | 999 | 6,195 |
| 34. | Jun | 974 | 121 | 0 | 0 | 36 | 889 | 7,084 |
| 35. | Jul | 1,055 | 138 | 47 | 0 | 42 | 1,006 | 8,090 |
| 36. | Aug | 1,044 | 147 | 0 | 0 | 45 | 942 | 9,032 |
| 37. | Sep | 1,046 | 152 | 0 | 0 | 47 | 941 | 9,973 |
| 38. | Oct | 1,045 | 157 | 0 | 0 | 49 | 937 | 10,910 |
| 39. | Nov | 1,194 | 161 | 0 | 0 | 54 | 1,087 | 11,997 |
| 40. | Dec 1986 | 1,298 | 165 | 21 | 0 | 60 | 1,214 | 13,211 |
| 41. | Jan 1987 | 1,220 | 147 | 56 | 0 | 70 | 1,199 | 14,410 |
| 42. | Feb | 1,302 | 147 | 0 | 0 | 73 | 1,228 | 15,638 |
| 43. | Mar | 1,295 | 147 | 0 | 0 | 82 | 1,230 | 16,868 |
| 44. | Apr | 1,286 | 147 | 0 | 0 | 89 | 1,228 | 18,096 |
| 45. | May | 1,286 | 146 | 0 | 0 | 100 | 1,240 | 19,336 |
| 46. | Jun | 1,289 | 146 | 2 | 0 | 115 | 1,260 | 20,596 |
| 47. | Jul | 1,288 | 150 | 0 | 0 | 122 | 1,260 | 21,856 |
| 48. | Aug | 1,285 | 150 | 2 | 0 | 124 | 1,261 | 23,117 |
| 49. | Sep | 1,283 | 150 | 0 | 0 | 132 | 1,265 | 24,382 |
| 50. | Oct | 1,282 | 151 | 0 | 0 | 153 | 1,284 | 25,666 |
| 51. | Nov | 1,293 | 152 | 28 | 0 | 173 | 1,342 | 27,008 |
| 52. | Dec 1987 | 1,573 | 152 | 26 | 0 | 166 | 1,613 | 28,621 |
| 53. | Jan 1988 | 1,434 | 121 | 0 | 674 | 183 | 822 | 29,443 |
| 54. | Feb | 1,548 | 121 | 12 | 1,162 | 169 | 446 | 29,889 |
| 55. | Mar | 1,502 | 120 | 0 | 1,119 | 165 | 428 | 30,317 |
| 56. | Apr | 1,437 | 119 | 8 | 1,086 | 168 | 408 | 30,725 |
| 57. | May | 1,291 | 119 | 0 | 1,083 | 176 | 265 | 30,990 |
| 58. | Jun | 1,404 | 120 | 0 | 1,222 | 186 | 248 | 31,238 |
| 59. | Jul | 1,328 | 120 | 16 | 1,210 | 195 | 209 | 31,447 |
| 60. | Aug | 1,267 | 119 | 0 | 1,229 | 205 | 124 | 31,571 |
| 61. | Sep 1988 | 1,416 | 119 | 0 | 1,316 | 217 | 198 | 31,769 |
| 62. | TOTAL | 42,050 | 4,659 | 937 | 10,101 | 3,542 | 31,769 | |

(Continued)

APPENDIX D
TABLE 3

| | | Post-COD Balancing Account (Over)/Under Collection Including Interest ⁽¹⁾ | | | | | |
|----------|-----------------------------------|---|------------------------------------|------------------------------------|------------------------------------|---------------------|---|
| | | Monthly | | | | Post-COD | |
| Line No. | Month | Allocated Total Revenue Requirement(2) (A) | Allocated Dis-allowance (2) (B) | CPUC Consultant Expense (3) (C) | Post-COD Offset Revenue (4) (D) | Interest (4) (E) | (Over)/Under Collection Monthly Cumulative Balance (A-B+C-D+E) (F) (G) |
| 63. | <u>ADJUSTMENTS</u> | | | | | | |
| 64. | Removal of Interest on Inc. Taxes | | | | | (948) | (948) |
| 65. | Revised TOTAL ⁽⁵⁾ | 42,050 | 4,659 | 937 | 10,101 | 2,594 | 30,821 |

- (1) Recorded through September 1988. Columns A, B, & C have been allocated to MAAC rate recovery.
 (2) Includes Depreciation, Ad Valorem Taxes, Income Taxes and Return on Investment.
 (3) Includes CPUC Consultant's Fees through September 1988.
 (4) Interest was not applied to monthly over/under collection allocated to Income Taxes.
 (5) Pursuant to Ordering Paragraph 19.a. of proposed decision in Application 87-07-044.

APPENDIX D
TABLE 4SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
POST-COD PLANT ADDITIONS

Development of a Uniform MAAC Post-COD Balancing Rate, Effective January 1, 1989, For a Three-Year Amortization of the Balancing Account Balance as of September 30, 1988 Related to Stipulated Reasonable Level of SONGS 2 and 3 Post-COD Investment and Reflecting Interest Not Applied to Monthly (Over)/Under Collection Allocated to Income Taxes

| Line No. | Item | Units | Amount |
|----------|---|---------------------|-----------|
| 1. | Recorded September 30, 1988 Balancing Account Balance Attributable to Post-COD Plant Investment (Table 3) | M\$ | 30,821 |
| 2. | Forecast Interest Expense During Three-Year Amortization Period @ 8.56% | M\$ | 3,185 |
| 3. | Forecast Total Amount to be Amortized (Line 1. + Line 2.) | M\$ | 34,006 |
| 4. | Line 3. Increased for Franchise Fees and Uncollectibles (Line 3. x 1.0222) | M\$ | 34,761 |
| 5. | Forecast Amortization Period Adjusted Sales (1) | M ² kwhr | 38,986.34 |
| 6. | Proposed MAAC Post-COD Balancing Rate (Line 4. / Line 5.) | ¢/kwhr | 0.089 |

(1) The forecast annual sales level of 12,888,026 Mkwhrs stipulated to in SDG&E's Fall 1988 ECAC Application 88-07-003 was assumed for 1989, 1990 and 1991. The sales shown (12,995,446 Mkwhrs X 3) have been adjusted for the effect of Employee and Voltage Discounts and City of San Diego Franchise Fee Differential.

APPENDIX D
TABLE 5SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
PRE-COD AND POST-COD PLANT ADDITIONSSummary of Proposed MAAC Uniform Rate Changes
To Become Effective January 1, 1989

| Line No. | Item | Present (c/kwhr) (A) | Proposed (c/kwhr) (B) | Change (c/kwhr) (C) |
|--------------------|---|----------------------------|-----------------------------|---------------------------|
| <u>MAAC RATES</u> | | | | |
| 1. | Pre-COD Average Ownership Rate | 0.000 | 0.000 | 0.000 |
| 2. | Post-COD Average Ownership Rate | 0.113 | 0.000 | (0.113) |
| 3. | Pre-COD Balancing Rate | (0.152) | (0.204) | (0.052) |
| 4. | Post-COD Balancing Rate | 0.000 | 0.089 | 0.089 |
| 5. | Total-Major Additions Adjust- ment Billing Factor (MAABF) | (0.039) | (0.115) | (0.076) |
| <u>BASE RATES</u> | | | | |
| 6. | Proposed Uniform Change to Base Rates ⁽¹⁾ | | | 0.000 |
| <u>TOTAL RATES</u> | | | | |
| 7. | Proposed Uniform Change to Total Rates (Line 5. + Line 6.) | | | (0.076) |

(1) Adjustments to SDG&E's Authorized Base Rate Revenue and base rates for the revenue requirement related to adopted Pre-COD and Post-COD plant investment are to be reflected in CPUC decision for Application 87-12-003, SDG&E's Test Year 1989 General Rate Case.

APPENDIX D
TABLE 6

SAN DIEGO GAS & ELECTRIC COMPANY

SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
PRE-COD AND POST-COD PLANT ADDITIONS

Summary of Proposed MAAC Net Annual Revenue Changes
(Assumes Uniform c/kwhr MAAC Rate Changes)

| Line No. | Customer Class | Sales (1) (Mkwhr) (A) | Revenue At Present Rates (2) (MS) (B) | Revenue Change Related to | | | | |
|----------|-----------------------|--------------------------------|--|---------------------------|----------------------------------|----------------------------------|-----------------------------|------------|
| | | | | Post-COD | | Pre-COD | MAABF | |
| | | | | AOR (MS) (C) | Balancing Rate (MS) (D) | Balancing Rate (MS) (E) | Total (3) (MS) (F) | (%) (G) |
| 1. | Residential | 5,059,998 | 547,997 | (5,748) | 4,528 | (2,646) | (3,866) | (0.7) |
| 2. | Commercial/Industrial | 7,613,799 | 679,164 | (8,693) | 6,846 | (4,000) | (5,847) | (0.9) |
| 3. | Agricultural Power | 144,346 | 13,845 | (164) | 129 | (75) | (110) | (0.8) |
| 4. | Street Lighting | 69,883 | 8,023 | (80) | 63 | (37) | (54) | (0.7) |
| 5. | Total Retail | 12,888,026 | 1,249,029 | (14,685) | 11,566 | (6,758) | (9,877) | (0.8) |

(1) Forecast annual sales level stipulated to in SDG&E's Fall 1988 ECAC Application 88-07-003.

(2) Rates in effect November 1, 1988.

(3) SDG&E proposes that the total retail revenue change be incorporated in the adopted revenue allocation and subsequent adopted rates for SDG&E's 1989 General Rate Case Application 87-12-003.

APPENDIX D
TABLE 7SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
PRE-COD AND POST-COD PLANT ADDITIONSSummary of Annual MAAC Related Revenues
Pursuant to Ordering Paragraph
19.c of Proposed Decision in Application 87-07-044

| Line No. | Customer Class | Sales (1) (Mkwhr) (A) | Annual Revenues From | | |
|----------|-----------------------|-----------------------------|--|--|---|
| | | | Current Post-COD AOR of 0.113c/kwhr (M\$) (B) | Proposed Post-COD Balancing Rate of 0.089c/kwhr (M\$) (C) | Proposed Pre-COD Balancing Rate of (0.204)c/kwhr (M\$) (D) |
| 1. | Residential | 5,059,998 | 5,748 | 4,528 | (10,378) |
| 2. | Commercial/Industrial | 7,613,799 | 8,693 | 6,846 | (15,694) |
| 3. | Agricultural Power | 144,346 | 164 | 129 | (295) |
| 4. | Street Lighting | 69,883 | 80 | 63 | (144) |
| 5. | Total Retail | 12,888,026 | 14,685 | 11,566 | (26,511) |

(1) Forecast annual sales level stipulated to in SDG&E's Fall 1988 ECAC Application 88-07-003.

A.87-05-031, A.87-07-044 ALJ/WRS/jt

APPENDIX D
TABLE 8SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
PRE-COD AND POST-COD PLANT ADDITIONS

Proposed Changes to SDG&E's Electric Preliminary Statement

1. In the second sentence of Section 14.(a), revise "Paragraph (c) (9)" to read "Paragraph (c) (11)".
2. Add new Sections 14.(c) (2) and 14.(c) (3) to read as follows:

(2) Commission Consultant Costs:

The Commission Consultant Costs shall be those amounts paid to the California Public Utilities Commission for funding its consultants for the SONGS 2 and 3 Phase 2 and Post-COD Reasonableness Reviews, and authorized for inclusion as an expense in the MAAC Balancing Account pursuant to Decision No. _____.

(3) Over or Under Collection Related to Income Tax Expenses:

The Over and Under Collection related to Income Tax Expense shall be determined monthly for each Balancing Account (Pre-COD or Post-COD) as the product of 1) the ratio of allocated Income Tax Expense to total allocated MAAC Expenses times 2) the total Over or Under Collection.

3. Re-identify present Sections 14.(c) (2) through 14.(c) (9) as new Sections 14.(c) (4) through 14.(c) (11), respectively.
4. Revise new Section 14.(c) (11) to read as follows:

| <u>Specified Major Addition</u> | <u>Authorization Date</u> | <u>Non-Investment Related Expense Rate</u> c/kwhr | <u>Average Ownership Rate</u> c/kwhr |
|---|---------------------------|--|---|
| San Onofre Nuclear Generating Station Units 2 & 3: | | | |
| Pre-COD Investment | 1-1-88 | 0.000 | 0.000 |
| Post-COD Investment | 1-1-89 | 0.000 | 0.000 |
| Total | | 0.000 | 0.000 |

APPENDIX D

TABLE 8

5. Revise Section 14.(d)(1) to read as follows:

The authorized annual revenue for Units 2 & 3 is as follows:

| | |
|---------------------|------|
| Pre-COD Investment | \$ - |
| Post-COD Investment | \$ - |

6. In the second sentence of Section 14.(d)(3), revise "Paragraph (c)(9)" to read "Paragraph (c)(11)".
7. Revise the rate summary shown in Section 14.(e) to read as follows:

| | <u>Effective Date</u> | <u>Balancing Rate</u> ¢/kwhr. |
|---|---------------------------|--------------------------------------|
| San Onofre Nuclear Generating Station Units 2 & 3: | | |
| Pre-COD Investment | 1-1-89 | (0.204) |
| Post-COD Investment | 1-1-89 | 0.089 |
| Total | | (0.115) |

8. Revise the last paragraph of Section 14.(f) to read as follows:

The current MAABF, effective January 1, 1989, is (0.115)¢/kwhr.

9. Insert the following after Section 14.(g)(6):

(The following calculation is applicable only to the Major Additions Adjustment Account associated with SONGS Units 2 and 3, Post-COD Investment recorded through 12/31/88.)

(7) Plus: The Commission Consultant Costs authorized by Decision No. _____ as recorded during the month.

10. Revise the last sentence of the last paragraph of Section 14.(g) to read as follows:

Interest will accrue monthly to the Balancing Account by applying the Interest Rate to the average of the beginning balance less the accumulated Over or Under Collection related to Income Tax Expense and the ending balance less the accumulated Over or Under Collection related to Income Tax Expense.

11. In the last sentence of Section 14.(i)(3), revise "Paragraph (c)(9)" to read "Paragraph (c)(11)".

APPENDIX D
TABLE 9

SAN DIEGO GAS & ELECTRIC

SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3

INCREMENTAL IMPACT TO 1989 REVENUE REQUIREMENT
AT SDG&E'S REQUESTED COST OF CAPITAL

(\$ 1,000)

Post COD Stipulated Disallowance

| | |
|------------------------------------|-------------|
| Revenue Requirement | (\$1,545.6) |
| Franchis Fees & Uncollectibles (1) | (33.5) |
| Depreciation & Amortization | (312.1) |
| Ad Valorem Taxes | (96.8) |
| Income Taxes | (315.5) |
| Net Operating Income (2) | (787.7) |
| Weighted Average Rate Base | (7,064.5) |

Change In AFUDC Methodology

| | |
|------------------------------------|-------------|
| Revenue Requirement | (\$1,226.2) |
| Franchis Fees & Uncollectibles (1) | (26.6) |
| Depreciation & Amortization | ---- |
| Ad Valorem Taxes | ---- |
| Income Taxes | (600.3) |
| Net Operating Income (2) | (599.3) |
| Weighted Average Rate Base | (5,375.0) |

(1) Assumes 2.168% FF&U rate per SDG&E's request in 1989 GRC (Electric Department).

(2) Assumes 11.15% return per SDG&E's request in 1989 GRC (weighted cost of debt is 3.94%).

APPENDIX D
TABLE 10

SAN DIEGO GAS & ELECTRIC

SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3

INCREMENTAL IMPACT TO 1989 REVENUE REQUIREMENT
WITH COST OF CAPITAL ADOPTED IN PROPOSED DECISION IN A.87-12-003
(\$1,000)

Post COD Stipulated Disallowance

| | |
|---|-------------|
| Revenue Requirement | (\$1,487.3) |
| Franchis Fees & Uncollectibles ⁽¹⁾ | (32.2) |
| Depreciation & Amortization | (312.1) |
| Ad Valorem Taxes | (96.8) |
| Income Taxes | (284.6) |
| Net Operating Income ⁽²⁾ | (761.6) |
| Weighted Average Rate Base | (7,064.5) |

Change In AFUDC Methodology

| | |
|---|-------------|
| Revenue Requirement | (\$1,182.0) |
| Franchis Fees & Uncollectibles ⁽¹⁾ | (25.6) |
| Depreciation & Amortization | ---- |
| Ad Valorem Taxes | ---- |
| Income Taxes | (577.0) |
| Net Operating Income ⁽²⁾ | (579.4) |
| Weighted Average Rate Base | (5,375.0) |

(1) Assumes 2.168% FF&U rate per SDG&E's request in 1989 GRC (Electric Department).

(2) Assumes 10.78% return per ALJ's recommendation in 1989 GRC (weighted cost of debt is 4.22%).

SAN DIEGO GAS & ELECTRIC

SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3

1989 RATEMAKING FACTORS WITH SDG&E'S REQUESTED COST OF CAPITAL

Income Tax Rates:

| | |
|--------------------------------------|--------|
| Federal | 34.00% |
| California | 9.30% |
| Franchise Fees Factor ⁽¹⁾ | 1.957% |
| Uncollectibles Factor ⁽¹⁾ | 0.211% |
| CPUC Jurisdictional Factor | 1.0 |

Capital Structure and
Associated Rate of Return:

| | | |
|-----------------------------|-------------------|--------|
| Long-Term Debt: | Ratio | 42.75% |
| | Cost Factor | 9.22% |
| Preferred: | Ratio | 6.25% |
| | Cost Factor | 7.21% |
| Common: | Ratio | 51.00% |
| | Cost Factor | 13.25% |
| Rate of Return on Rate Base | | 11.15% |
| Net-to-Gross Multiplier | | 1.6705 |
| Sales Forecast Adjusted | 12,888,026 Mkwhrs | |
| MAAC Interest Rate | | |
| Two Year Amortization | | 8.46% |
| Three Year Amortization | | 8.56% |

(1) Per SDG&E's request in its 1989 General Rate Case.

APPENDIX D

TABLE 12

SAN DIEGO GAS & ELECTRIC

SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3

1989 RATEMAKING FACTORS WITH COST OF CAPITAL ADOPTED IN PROPOSED

DECISION IN A.87-12-003

Income Tax Rates:

| | |
|--------------------------------------|--------|
| Federal | 34.00% |
| California | 9.30% |
| Franchise Fees Factor ⁽¹⁾ | 1.957% |
| Uncollectibles Factor ⁽¹⁾ | 0.211% |
| CPUC Jurisdictional Factor | 1.0 |

Capital Structure and
Associated Rate of Return:

| | | |
|-----------------------------|-------------------|--------|
| Long-Term Debt: | Ratio | 45.75% |
| | Cost Factor | 9.23% |
| Preferred: | Ratio | 6.25% |
| | Cost Factor | 6.97% |
| Common: | Ratio | 48.00% |
| | Cost Factor | 12.75% |
| Rate of Return on Rate Base | | 10.78% |
| Net-to-Gross Multiplier | | 1.6705 |
| Sales Forecast Adjusted | 12,888,026 Mkwhrs | |
| MAAC Interest Rate | | |
| Two Year Amortization | | 8.46% |
| Three Year Amortization | | 8.56% |

(1) Per SDG&E's request in its 1989 General Rate Case.

Decision PROPOSED DECISION OF ALJ STALDER (Mailed 10/24/88)

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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 Post-COD investment-)
related costs to base rates)
pursuant to previously adopted)
procedures, and (ii) related sub-)
stantive and procedural relief.)

Application 87-05-031
(Filed May 18, 1987)

In the Matter of the Application of)
SAN DIEGO GAS & ELECTRIC COMPANY,)
for authority to (i) increase its)
base electric rates to reflect the)
transfer of San Onofre Nuclear)
Generating Station Units 2 and 3)
Post-COD investment-related costs)
to base rates, and (ii) reduce its)
electric Major Additions Adjustment)
Billing Factor (MAABF) rates to)
reflect the transfer of the invest-)
ments to base rates.)
(U 902-E))

Application 87-07-044
(Filed July 23, 1987)

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of California, interested parties.

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POST-COD OPINION

I. Summary of Decision

In this decision we address the reasonableness of Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) post-commercial operating date (COD) investment in San Onofre Nuclear Operating Station Units 2 and 3 (SONGS 2&3).

We adopt a reasonableness stipulation between SCE, SDG&E, and Division of Ratepayer Advocates (DRA) dealing with post-COD investment. The stipulation provides for a total post-COD disallowance of \$41.2 million, consisting of \$11.8 million of post-COD investment, \$0.5 million of post-COD indirect costs, and \$28.9 million of SCE and SDG&E legal, consultant, and expert witness fees.

We find that \$401.8 million of the \$447.5 million post-COD investment is reasonable. Of the \$401.8 million, SCE's jurisdictional share is \$294.8 million, SDG&E's share is \$80.4 million.

We also address two Phase 2 ratemaking issues dealing with (1) allocation of delay-related disallowances to Allowance for Funds Used During Construction (AFUDC)/non-AFUDC, and (2) the appropriateness of accruing interest on the income tax portion of the undercollected Major Additions/Adjustment Account (MAAC) balance. We adopt a ratemaking stipulation between SCE and DRA which allocates all pre-COD delay-related disallowances to AFUDC, and refunds interest and eliminates future interest on the income tax portion of undercollected MAAC balances. SDG&E is ordered to reflect the same ratemaking principles in its rates and tariffs.

This decision will result in a revenue increase for SCE of \$37.6 million and approximately \$10.1 million for SDG&E. Rates will not increase at this time. Instead, revenue and rate changes

are deferred to January 1, 1989, to be consolidated with changes ordered in other proceedings.

II. Introduction

In Decision (D.) 87-12-065 the Commission set a MAAC rate for post-COD expenses based on an interim reasonableness factor determined by D.87-07-097. The interim reasonableness factor is the ratio of SONGS 2&3 plant investment determined prudent by the Commission in Phase 2, to the total plant investment identified in that phase, or 94.1%. That factor was to be used until the post-COD investments were reviewed and a decision issued on their reasonableness. D.87-12-065 also set rates to amortize the pre-COD MAAC account balance, but not the post-COD MAAC account balance. The decision also required SCE and SDG&E to address two ratemaking issues in these post-COD reasonableness review proceedings, (1) the allocation of delay-related unreasonable SONGS 2&3 plant costs to AFUDC and non-AFUDC, and (2) whether interest should be applied to MAAC account debits for utility expenses not yet paid. Both issues apply to the entire history of SONGS 2&3, i.e., Phases 1 and 2 and post-COD.

On May 18, 1987 SCE filed Application (A.) 87-05-031 seeking Commission determination that its post-COD investment in SONGS 2&3 be found reasonable. Post-COD investment refers to investment in SONGS 2&3 in excess of the \$4,509 million reviewed in the Phase 2 Reasonableness Review (Phase 2) and expected to be placed in service prior to January 1, 1988. (Phase 2 reviewed investments made prior to the COD of each SONGS unit, August 18, 1983 for Unit 2 and April 1, 1984 for Unit 3.) D.86-08-060 provides that investments on plant additions placed in service after December 31, 1987 are to be handled in SCE's 1988 Test Year General Rate Case (GRC) application.

In addition, SCE requested authority to transfer recovery of that investment to base rates by making necessary adjustments to both base rates and MAAC rates. SCE's jurisdictional share of post-COD investment is \$329.5 million based on its 75.05% ownership share, including litigation costs and its share of Commission consultant costs related to the SONGS 2&3 reasonableness review.

Similarly, on July 23, 1987, SDG&E filed A.87-07-044 seeking Commission determination that its share of the post-COD investments based on 20% ownership of SONGS 2&3 is reasonable, and requesting authority to transfer recovery of the investment to base rates. D.86-08-060 provides that investments on plant additions placed in service after December 31, 1987 and before January 1, 1989 are to be included in SDG&E's Attrition Rate Adjustment (ARA) filing, while estimates of investments on plant additions to be placed in service January 1, 1989 or later are to be in its 1989 Test Year GRC application. SDG&E's share of the post-COD investment is \$89.5 million, including litigation costs and its share of Commission consultant costs.

A definition of terms to be used later follows:

- Direct costs are the actual costs of labor and materials used in the SONGS 2&3 construction.
- Indirect costs are all other actual expenditures, including engineering, design, procurement, management, and supervision, licensing, startup, quality assurance and quality control.
- AFUDC costs represent the capitalized value of the carrying costs for the direct and indirect costs during construction of SONGS 2&3.
- Non-AFUDC costs represent all costs of construction of SONGS 2&3 except carrying costs.

A prehearing conference and five days of hearings, including public participation hearings, were held in Los Angeles, San Francisco, and San Diego.

III. Reasonableness of Post-COD Plant Investments

A. Applicants

The applicants believe that all post-COD expenses are just and reasonable.

B. DRA

DRA undertook a major review of the reasonableness of post-COD investments. The review was conducted by both DRA staff and consultants under contract to DRA. Between July and December 1986 DRA witness Jeffrey O'Donnell conducted an initial review of 7,000 pages of responses to his data requests. This information covered 39 separate areas of activity representing \$253 million of post-COD investment.

After extensive negotiations, a tentative settlement in the form of a reasonableness stipulation was agreed to in November 1987 by SCE, SDG&E, and DRA. Although tentatively agreeing to the reasonableness stipulation, DRA believed that further review was needed either to verify that it was reasonable, or to indicate a need for further investigation of post-COD expenses.

Under DRA's direction, consultants, O'Brien-Kreitzberg & Associates and Technical Analysis Corporation (OKA) undertook a review of post-COD construction activities and expenses. OKA had undertaken the extensive review of pre-COD operations and therefore was familiar with SONGS 2&3. DRA did not inform OKA of the settlement until the OKA report was completed.

The OKA investigation was designed to determine the probable disallowance recommendation range that would result if a full investigation were undertaken, using the same evaluation standards as used previously in the pre-COD reasonableness review.

If the Commission's decision on the pre-COD reasonableness review held that a disputed utility action was reasonable, OKA was instructed to assume that post-COD costs resulting from that action are reasonable, unless an additional unreasonable action was found by OKA. Construction packages of less than \$500,000 were not reviewed by OKA.

The report's conclusions were categorized as follows:

- OKA finds that a cost is reasonable.
- OKA finds that a cost or range of costs is unreasonable or questionable.
- OKA is unsure whether a cost is reasonable, but has insufficient information to conclude that it is unreasonable.

OKA analyzed a total of 41 work packages, including several that had been grouped together in order to reach the \$500,000 minimum level for review. The examination of the plant modifications was made from both technical and financial approaches.

OKA's technical approach focused on reasonableness of selection, design, and implementation. Examples of unreasonable expenditures identified by OKA are:

- \$2.886 million in unreasonable costs for Radiation Monitoring System modifications due to poor management and inadequate purchasing controls.
- \$4.58 million in unreasonable costs for Main Steam Isolation Valve modifications due to poor management and inadequate purchasing controls.
- \$0.56 million in unreasonable costs for Toxic Gas Isolation System modifications caused by inadequate management review of the original design.

OKA's technical approach identified approximately \$36.536 million in unreasonable or questionable costs.

OKA's financial approach focused on the reasonableness of the cost of plant modifications. A number of areas were determined to be questionable due to unjustified or excessive overtime. For example, \$600,000 in direct costs for Health Physics Facilities Modifications was identified as questionable. The financial approach determined a range of \$20-\$50 million of questionable indirect costs. The \$20 million level was based on excessive overtime work, while the \$50 million level was based on analysis of the level of indirect manpower in relation to plant outages.

Since there is some duplication in identification of unreasonable or questionable costs between the technical and financial approaches, the totals identified in each cannot be added together to determine a grand total.

Table 1, following, summarizes the results of the OKA review.

OKA determined that the technical approach unreasonable and questionable costs of \$36.536 million (\$13.578 + \$23.558) should include the \$600,000 direct costs for Health Physics Facilities Modifications, which yield a total of \$37.136 million. OKA then assumes that conservatively one-half of the total, or \$18.568 million, is indirect costs that can be added to the range of questionable indirect costs determined by the financial approach (\$20-50 million). The total range of unreasonable and questionable costs for the OKA study is \$38.568 million to \$68.568 million.

TABLE 1

SUMMARY OF UNREASONABLE OR QUESTIONABLE EXPENDITURES

| <u>Description of Modification/Issue</u> | <u>Unreasonable Cost</u> | <u>Questionable Cost</u> |
|---|--------------------------|--------------------------|
| Engineered Safety Features Bypass/ Inoperable Status Monitoring Panel Logic Modifications | \$ 687,800 | |
| Radiation Monitoring System Modifications | \$2,886,400 | |
| Main Steam Isolation Valve Modifications | \$4,580,900 | |
| Toxic Gas Isolation System Modifications | \$ 564,500 | |
| Temporary Makeup Demineralizer System Relocation | \$ 752,188 | |
| Fire Hazards Analyses, Appendix R Reviews and Fire Protection System Modifications | | \$ 2,000,000 |
| Sodium Hypochlorite Chlorination System Replacement | | \$ 1,898,700 |
| Chemical and Volume Control System Modifications | \$1,290,500 | |
| Training Program Descriptions | | \$ 979,400 |
| Oily Waste Sump Pump Replacement | \$1,000,500 | |
| Chemical and Volume Control System Charging Pumps Cylinder Block Replacements | \$1,250,600 | |
| Mainfeed Pump Turbine Gland Seal Steam Line Orifice Replacement | \$ 564,800 | |
| Safety Injection Tank Valve Modifications | | \$ 403,900 |
| CEDM Timer Board Replacement | | \$ 1,139,700 |
| Pressurizer System Modifications | | \$11,304,000 |
| Permanent Plant Lighting Additions | | \$ 1,003,000 |
| Component Cooling Water Heat Exchanger Modification | | \$ 3,427,700 |
| Rain Covers for the Motor Control Centers and Local Control Panels in the Turbine Buildings | | \$ 801,800 |
| Health Physics Facilities Modifications | | \$ 600,000 |
| Subtotal | \$13,578,188 | \$23,558,200 |
| Indirect Costs | | \$20-50 million |

O'Donnell estimates a range of litigation costs recommended for disallowance of \$11.4 to \$28.9 million. The \$11.4 estimate is based on costs for consultants and legal services for persons or firms not actually involved in the construction of SONGS 2&3. The upper limit, \$28.9 million, is an estimate of all litigation costs. When added to the OKA identified range of unreasonable or questionable plant costs of \$38.6 to \$68.6 million, this yields a total estimated range of potential disallowance of \$50.0 to \$97.5 million.

These disallowance costs are on a total plant basis and do not include MAAC balancing account carrying costs.

C. CCC

Consumers Coalition of California (CCC) presented the testimony of Kevin J. O'Brien, who questioned many areas of the applicants' post-COD expenses and ratemaking. O'Brien recommended further study of the post-COD reasonableness. He also recommended that ratepayers should not pay for the "profit making center" of SONGS 2&3 but rather should pay only for the energy, but offered no recommendation on how such energy should be priced. O'Brien further questioned why such extensive modifications and additions were needed after COD, and whether the technology was available only six years ago during the SONGS 2&3 construction. O'Brien testified that the disallowance should be at least in the upper end of the OKA identified range of questionable expenses, i.e. \$38.6 to \$68.6 million. Additionally, he questioned why ratepayers should pay for the review of SONGS 2&3 post-COD costs, believing instead that if SCE's management of the project caused problems or raised questions, the cost of the review should be born by SCE and SDG&E.

D. Other Parties

No other parties offered witnesses. The City of San Diego and Edward Duncan, protestant, cross-examined witnesses.

E. Reasonableness Stipulation

The Stipulation Between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is attached as Appendix A.

1. Description

The reasonableness stipulation provides for a disallowance of \$41.2 million of the post-COD investment for California jurisdictional ratemaking purposes, consisting of the following components:

\$11.8 million disallowance of post-COD investment, determined by 2.86% of \$414.2 million of post-COD investment excluding litigation and Commission consultant costs. This is based on the results of the Phase 2 reasonableness review, D.86-10-069.

0.5 million additional disallowance of post-COD indirect costs.

28.9 million disallowance of all of the SCE and SDG&E legal fees, consultant and expert witness fees, and other costs related to participation in the Phase 2 and post-COD reasonableness reviews as of November 1987.

\$41.2 million total disallowance

The Commission disallowed 2.86% of the total pre-COD plant investment, excluding delay-related disallowances. The parties agreed to the same percentage disallowance for post-COD plant investment.

The resulting \$11.8 million disallowance was determined as follows, from Appendix B to D.86-10-069:

| <u>Issue</u> | <u>Phase 2 Disallowance</u> (\$ in millions) |
|---|---|
| Quality Assurance/ Quality Control (QA/QC) | \$ 20.3 |
| Productivity | 10.0 |
| Indirects | <u>98.6</u> |
| Total | \$128.9 |

Phase 2 disallowance rate = \$128.9 disallowance/\$4,509
Total Cost of Plant = .0286 or 2.86%

\$414.2 million x .0286 = \$11.8 million post-COD
disallowance

Each utility's share of the disallowance is determined by the formula:

$$\text{SONGS disallowance} = \text{PCODI} \times \text{OS} \times .0286 \times \text{JAF}$$

where:

PCODI = \$414.2 million of post-COD investment on a total plant basis.¹

OS = Ownership share in SONGS 2&3

= 75.569% for SCE²

= 20.014% for SDG&E³

JAF = The retail jurisdictional demand allocation factor for SCE or SDG&E adopted by the Commission as of January 1986.

The resulting disallowances are \$8.7 million for SCE and \$2.4 million for SDG&E.

The \$0.5 million additional disallowance of post-COD indirect costs was derived as follows:

1 If the post-COD investment (excluding litigation and Commission consultant costs) exceeds \$414.2 million, SCE and SDG&E may apply for rate relief reflecting the amount in excess in their next base rate proceeding filed after January 1, 1988.

2 For this calculation, an ownership share of 75.569% was used to reflect SCE's actual share of the recorded post-COD investment. SCE's share of the post-COD investment is slightly higher than its 75.05% ownership share, since there are some recorded administrative and general costs capitalized to the work orders which are not shared by the other partners.

3 For this calculation, an ownership share of 20.014% was used to reflect SDG&E's actual share of the recorded post-COD investment. SDG&E's share of the post-COD investment varies slightly due to a lag in SCE's billing to SDG&E, SCE nonbillables, SCE and SDG&E administrative and general costs, and different AFUDC rates.

The parties agreed to a \$3 million additional disallowance assuming the \$98.6 million indirects cost disallowance in D.86-10-069 remained unchanged. However, this additional disallowance was made subject to adjustment to reflect the final decision on rehearing of the indirects cost issue as follows:

$$AD = \frac{(\$3 \text{ million})}{(\$98.6 \text{ million})} \times ID \times OS \times JAF$$

where:

AD = Additional disallowance

ID = The final adopted indirects disallowance for SONGS 2&3 on rehearing of D.86-10-069

OS = Each utility's ownership share in SONGS 2&3

JAF = as defined above
97.05% for SCE
100.00% for SDG&E

The final disallowance for indirect costs was \$17 million (by D.87-07-097 and D.87-11-018). When applied to the above formula the total indirects disallowance becomes \$0.5 million for the total plant.

The total additional disallowance of \$0.5 million is allocated \$0.377 million to SCE, \$0.103 million to SDG&E.

The \$28.9 million disallowance of litigation costs as defined above covers recorded costs through November 1987. The reasonableness stipulation also provides that any additional litigation costs recorded after November 30, 1987 are not to be reflected in rates.

The reasonableness stipulation further provides that SCE and SDG&E are to remove the cost of Commission consultants from the post-COD investment and record it as an expense in their respective MAAC balancing accounts. The utilities are to be authorized to recover the full amount of their respective shares of the

Commission consultant through Phase 2 and post-COD, with interest. This amount is \$4.4 million through November 1987.

The stipulation disallowances require a verification audit to be completed by the Commission prior to December 31, 1988.

The parties believe this stipulation is an equitable compromise offering benefits to ratepayers and shareholders, and believe it to be in the public interest. SCE indicates that avoiding the substantial and time-consuming litigation of reasonableness issues frees utility personnel for more important and pressing tasks facing the utility. DRA expresses similar desires. Both parties place a value on certainty that results from the stipulation. Although SCE states that it believes it can prove the reasonableness of post-COD costs, it realizes that DRA would likely make a convincing showing of unreasonableness on certain items. DRA realizes that more detailed analysis by OKA would result in determining that some questionable items are either reasonable, or a compelling case of unreasonableness cannot be made. DRA also assumes that we may not adopt all its recommendations for disallowance.

2. Positions of Parties

The CCC opposes the reasonableness stipulation. CCC contends that the recommended disallowance is too low, and that further study of post-COD costs is warranted before the Commission decides on the reasonableness. If a reasonableness stipulation were effected, CCC believes it should be in the upper end of the OKA identified range of questionable expenses, i.e. around \$68.6 million. O'Brien expresses concern over the issue of operator training, guidance, and qualifications as it affects ongoing plant operation.

Duncan presented no testimony, but cross-examined DRA witness O'Donnell and SCE witness Peevey on the strategy of negotiating the stipulation and how the parties prepared for the negotiations.

3. Discussion

We agree with DRA, SCE, and SDG&E that the stipulation represents an equitable compromise, representing benefits to both ratepayers and shareholders. The settlement disallows all of SDG&E and SCE's litigation costs, as well as nearly one-third of the potential disallowance of post-COD investment costs, as estimated by DRA. Ratepayers gain the benefit of a certain and substantial disallowance, a disallowance that might not be realized if the case were fully litigated. The utilities, on the other hand, gain the benefit of recovering, in a timely manner, the overall post-COD costs, while avoiding the lengthy and time-consuming costs of litigating the reasonableness issues.

CCC opposes the settlement because it is not in the upper range of DRA's estimate of potential disallowances. However, as DRA and OXA testified, the estimate of potential disallowances is merely an indication of the range of questionable expenses that require further study. Once these questionable expenses were studied in detail, DRA expects that some expenses would be found to be reasonable and other expenses, while questionable, would lack sufficient evidence to support a finding of unreasonableness. Thus, if the reasonableness of these expenses were studied further, fully litigated and decided by the Commission, the amount which we would disallow could be less than the upper range of DRA's preliminary estimate.

The final Phase 2 disallowance (D.87-07-097), after years of exhaustive investigation and litigation, was 5.9% of the total costs. The percentage of total post-COD costs to be disallowed pursuant to the stipulation is 9.2% of the total post-COD plant costs requested by the applicants. CCC has failed to demonstrate why it is reasonable to believe that the post-COD disallowance, if fully litigated, is likely to be any greater.

Finally, we consider CCC's recommendation that ratepayers should not be held responsible for the costs of consultant review.

We believe that Commission review using consultants in a proceeding of this type is necessary in order to protect the interests of ratepayers. Whether or not any unreasonableness is found does not alter the need for such a review of plant expenses of the magnitude of SONGS 2&3 post-COD. The Commission would be subject to valid criticism if it determined that a consultant review was not warranted due to cost. Such costs are insignificant compared to the project costs that ratepayers may be ultimately responsible for. We view this as a normal cost of regulation intended to protect the ratepayers' interests, and therefore conclude that the cost should be born by the ratepayers.

The resulting rates are just and reasonable, and we will therefore approve the reasonableness stipulation.

Table 2 below itemizes the stipulated disallowances.

TABLE 2

Stipulated Reasonable Level of
SONGS 2 and 3 Post-COD Investment
Overall Disallowance of Post-COD Investment
(\$ in thousands)

| <u>Description</u> | <u>Total Plant</u> | <u>SCE Share CPUC Jurisdictional</u> | <u>SDG&E Share</u> |
|--|--------------------|--------------------------------------|------------------------|
| Total Post-COD Investment | \$447,454 | \$329,490 | \$89,472 |
| Less: | | | |
| SONGS Disallowance | 11,846 | 8,688 | 2,371 |
| Additional Disallowance | 517 | 377 | 103 |
| Litigation Costs | 28,874 | 22,425 | 5,695 |
| Commission Consultant Costs | <u>4,375</u> | <u>3,187</u> | <u>876</u> |
| Stipulated Reasonable Level of Post-COD Investment | \$401,842 | \$294,813 | \$80,427 |

We will approve the reasonableness stipulation and order the Commission Advisory and Compliance Division to perform a verification audit prior to December 31, 1988, to determine the final disallowance amounts due to the reasonableness stipulation for SCE and for SDG&E.

IV. Rate-making Issues

A. Phase 2 Issues

There are two ratemaking issues to address from Phase 2.

The first issue is allocation of unreasonable SONGS 2&3 pre-COD plant investment to AFUDC and non-AFUDC. This allocation is important because of the different tax effects and resulting costs to the ratepayers and utilities depending on the allocation used.

In D.87-11-018 the Commission found the following SONGS 2&3 pre-COD costs to be reasonable:

TABLE 3

Summary of Disallowance
(\$ in millions)

| <u>Unit 2</u> | <u>Unit 3</u> | <u>Total</u> | <u>Issue</u> |
|---------------|---------------|---------------|------------------|
| \$ 10.0 | \$ 10.3 | \$ 20.3 | QA/QC |
| 8.0 | 2.0 | 10.0 | Productivity |
| 114.2 | 101.5 | 215.7 | Delay days |
| 11.2 | 5.8 | 17.0 | Indirects |
| <u>+ 1.0</u> | <u>+ 1.0</u> | <u>+ 2.0*</u> | Beach Mitigation |
| \$144.4 | \$120.6 | \$265.0* | Total |

* Less imputed AFUDC on \$1.4 million of prudent mitigation costs.

AFUDC represents the capitalized value of the carrying costs for the direct and indirect costs during SONGS 2&3 construction. The following deals with tax laws applicable to the pre-COD construction period, which differ from current tax laws.

An AFUDC disallowance is not recognized by the Internal Revenue Service (IRS) as an expense that can be deducted from earnings for income tax purposes, while other costs usually are deductible. An AFUDC disallowance of plant does not affect depreciable plant for tax purposes, and therefore does not affect the income tax. In order for a utility to recover one dollar of AFUDC it must collect approximately two dollars in revenue. (One dollar is used to pay the tax, assuming a 50% tax obligation.) One dollar of AFUDC disallowance reduces revenues by two dollars.

Non-AFUDC costs are tax deductible, so only one dollar needs to be collected in revenue to recover one dollar of non-AFUDC costs. One dollar of non-AFUDC disallowance reduces revenue by one dollar. However, a non-AFUDC disallowance reduces the amount of depreciable plant for tax purposes and increases income tax. The increased income tax requires an increase in revenue requirement to ratepayers over the life of the plant. SDG&E estimates that allocation of the delay-related indirects/disallowance to AFUDC/non-AFUDC at the 32%/68% ratio it proposes would initially require additional revenues of about one million dollars per year, declining over time.

The difference between allocating to AFUDC and non-AFUDC is that the ratepayer benefits under AFUDC allocation while shareholders benefit in proportion to the amount of non-AFUDC allocation.

The second issue is whether under- and overcollected balances in the MAAC balancing account relating to income tax should accrue interest.

B. Ratemaking Stipulation

The Stipulation Between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and

3 dated January 25, 1988, is referred to as the ratemaking stipulation, attached as Appendix B. It deals with ratemaking issues, and involves DRA and SCE only. SDG&E is not a party to it, and has presented opposing ratemaking recommendations for both issues. The stipulation requests Commission approval of the following ratemaking issues applying to SONGS 2&3:

- All delay-related pre-COD disallowances adopted in D.86-10-069, D.87-07-097, and D.87-11-018 are to be allocated to AFUDC for ratemaking purposes.
- All SCE MAAC balancing accounts are to be adjusted to remove interest accrued on all undercollected or overcollected income tax expense.
- SCE MAAC balancing accounts are to be adjusted to reflect the stipulated disallowances.
- SCE MAAC balancing accounts are to be adjusted to reflect recovery of the amounts paid to the Commission to fund the DRA's consultants for the Phase 2 and post-COD reasonableness reviews.
- Transfer of recovery of the revenue requirement from MAAC to base rates.

The revenue requirements and rate levels are subject to adjustment to reflect the final decisions in certain other proceedings set forth in Attachment 1 of the stipulation. Those proceedings are Investigation (I.) 86-11-019 (the Tax OII), in which the Commission is considering the ratemaking impacts of recent changes in state and federal tax law, and I.86-10-001 (the 3-R's Proceeding) in which the Commission is considering modifications of various ratemaking mechanisms.

Finally, the ratemaking-related accounting adjustments relative to post-COD investment are subject to a verification audit by the Commission.

C. Allocation of Unreasonable SONGS 2&3
Pre-COD Plant Costs to AFUDC/non-AFUDC

1. Positions of Other Parties

a. SDG&E

SDG&E recommends that the pre-COD indirects disallowance be allocated 32% AFUDC, 68% non-AFUDC, using the same allocation ratios used by DRA for total pre-COD investment in Phase 2.

The testimony of SDG&E can be summarized as follows:

- A method was needed to allocate the pre-COD delay-related indirects disallowance to AFUDC and non-AFUDC.
- The Commission acknowledged in earlier SONGS 2&3 decisions that this disallowance contained both AFUDC and non-AFUDC components.
- The Commission agreed that precise determination of the proper AFUDC/non-AFUDC split was impossible with the available data, and would be impractical even if sufficient data were available.
- DRA recommends using the all AFUDC allocation method only because it is most favorable to the ratepayers, at the expense of shareholders.
- SDG&E's proposed allocation is reasonable and is consistent with Commission intent.

b. City of San Diego

City supports allocating all indirects disallowance to AFUDC, citing earlier decisions that it believes indicate Commission intent in this matter. However, City acknowledges that the intent is subject to interpretation.

2. Discussion

In D.86-10-069 we adopted a method for allowing recovery of indirect costs:

"Indirect costs should be disallowed in the same proportion as Direct and AFUDC costs are disallowed.

"We find that it is reasonable to disallow a portion of total project costs, not previously disallowed, that reflects the ratio of disallowance to total plant expenditures in the Direct and AFUDC cost categories."
(D.86-10-069, p. 275.)

In Appendix B, page 4, E., the disallowance ratio (D.R.) is defined as the equation:

$$\text{D.R.} = \frac{\text{Directs (disallowed)} + \text{AFUDC disallowed (Table B-5)}}{\text{Total plant directs} + \text{AFUDC}}$$

City correctly interprets this to mean that the Commission intended indirects to be allocated to AFUDC since no mention is made of any proration ratio of indirects cost to AFUDC and non-AFUDC.

That interpretation would make the equation mean:

$$\text{D.R.} = \frac{\text{Directs disallowed} + \text{indirects disallowed}}{\text{Total plant directs} + \text{indirects}}$$

In D.87-07-097, which modified the disallowance and disallowance ratio, the equation was changed to eliminate the AFUDC component from both the numerator and denominator of the equation, explaining at page 11:

"In our original evaluation we found only 179 disallowable days out of years of actual delay. Thus it appears somewhat unfair to include AFUDC in calculating the disallowance ratio. Consequently, we will recalculate our level of indirects disallowance, using only disallowed directs, not AFUDC, in calculating the disallowance ratio."

The equation becomes: $\text{D.R.} = \frac{\text{Directs disallowed}}{\text{Total plant directs}}$

D.87-11-018 modified both D.86-10-069 and D.87-07-097, stating at page 6:

"We further conclude, however, that the relationship between AFUDC and indirect costs, as evidenced in this proceeding, does not warrant disallowance of indirects based on their association with AFUDC disallowances."

There is no evidence to show that imprudent delay, as quantified by the AFUDC disallowance, caused an incremental increase in indirect expenditures in proportion to the delay."

DRA and City correctly interpret this to mean that imprudent delay and AFUDC are essentially one and the same, for ratemaking purposes. SDG&E argues that such an interpretation is illogical, and that the Commission used the AFUDC disallowance as another name for delay cost disallowance quantified using the AFUDC method, and did not mean that all delay cost disallowance should be AFUDC. SDG&E's position requires the assumptions that the Commission used the terms "AFUDC" and "AFUDC method" interchangeably, and "AFUDC disallowance" and "delay disallowance" interchangeably. However, SDG&E witness Garrett acknowledged that the Commission understood the distinctions and differences between those terms.

The above quotes, especially the last one from D.87-11-018, clearly indicate our intent that, absent a thorough determination of allocation, indirects/delay-related disallowances should be treated for ratemaking purposes entirely as AFUDC.

We approve the ratemaking stipulation between SCE and DRA regarding the allocation. This is consistent with Commission policy as expressed in D.87-11-018.

We do not approve SDG&E's proposal to allocate pre-COD delay-related indirects disallowance 32% to AFUDC and 68% to non-AFUDC since doing so is contrary to Commission policy as indicated above. Instead, we will adopt the same approach for SDG&E as SCE, and allocate SDG&E's share of the pre-COD delay-related indirects disallowance to AFUDC for ratemaking purposes.

The allocation of post-COD delay-related unreasonable investments is not in dispute. DRA, SCE, and SDG&E agree that the overall allocation ratios for post-COD costs be used to allocate the reasonableness stipulation disallowance. The litigation and

consultant costs do not have AFUDC elements and should be disallowed as recorded. No party opposed this.

Finally, we turn to a pending motion by SDG&E to strike certain portions of the prepared testimony of O'Donnell relating to the indirects disallowance. O'Donnell recommended that, for ratepayer equity reasons, the pre-COD indirects disallowance finally decided in D.87-11-018 should be increased if the Commission decides to allocate the delay-related disallowance to both AFUDC and non-AFUDC. SDG&E argues that the indirects disallowance issue has been finally decided, and the period for petitioning the Commission for rehearing or for filing a notice of appeal with the California Supreme Court has ended. We agree with SDG&E. We do not intend to reopen the indirects disallowance issue in this proceeding. However, since we are allocating the indirects disallowance to AFUDC, the portions of O'Donnell's testimony under the motion to strike are moot. Therefore, there is no need to strike them.

D. Interest Applied to MAAC Balancing
Accounts for Utility Expenses Not Yet Paid

1. Positions of Other Parties

a. DRA

This issue was raised by DRA, questioning why interest should be accumulated on MAAC balancing account debits for taxes, since the utility(s) has no obligation to pay the tax on the undercollected amount until it is billed to the ratepayers. The income tax undercollection is associated with a revenue undercollection. The revenues billed and taxes owed are in balance at all times. When the undercollected revenue is billed to the ratepayers, the income tax associated with it becomes due. No interest or penalty by the IRS applies.

DRA believes that since there is no tax liability to the utility during the period of undercollection, there should be no accrual of interest on this item, only for undercollections.

DRA argues that interest accrual is appropriate on the income tax portion of overcollected balance since the ratepayer has already paid the taxes early and does suffer the loss of the time value of the money.

DRA does not allege that SDG&E has not complied with its tariffs, but rather that the tariffs do not comply with Commission intent. The tariff rule should be changed and refunds made to ratepayers on the order of \$6,000,000 for interest accrued on the income tax portion of the undercollected MAAC balance.

b. SDG&E.

SDG&E argues that DRA's proposal to refund the accrued interest on undercollected MAAC balance is prohibited since it implies retroactive ratemaking, especially since DRA's proposal would involve changing the tariff rule retroactively. SDG&E further argues that it is appropriate to accrue interest on the undercollected balance as an equity measure, since SDG&E is not able to earn its authorized rate of return due to other factors.

In addition, SDG&E alleges that the ratepayers actually received a net benefit of \$10 million from the treatment of income taxes in MAAC, as a result of the effect of deferred taxes on reduced rate base. In establishing the MAAC revenue requirement, rate base is reduced by the amount of deferred taxes that are assumed will be collected. However, when the MAAC balancing account is undercollected, a portion of the undercollection is attributable to those deferred taxes. Therefore, the ratepayer receives the benefit of the reduced rate base before paying the undercollected balance.

In order to understand the income tax consequences, a brief explanation of the depreciation methods is appropriate here. The Economic Recovery Tax Act of 1981 (ERTA) allowed utilities (and others) to use the accelerated cost recovery system for federal income tax purposes. ERTA prohibited flow-through of the income tax benefits to utility ratepayers, since doing so would negate the

benefit to the utility. Straight-line depreciation was required for ratemaking purposes.

The result is that in the earlier years of depreciation the utility pays less income taxes than the ratepayer is charged. This is due to ERTA allowing greater depreciation expense in the earlier years, which reduces income tax liability. The situation reverses in later years as less depreciation expense is available resulting in greater income tax liability. The income taxes are not avoided, rather are only deferred.

In order to compensate the ratepayers for advancing the deferred taxes, the utility is required to reduce its rate base by the amount of deferred taxes. In reducing rate base, the return (on rate base) that the ratepayers are responsible for is reduced.

Deferred taxes are booked for ratemaking purposes only when two conditions are met:

1. There is a tax savings associated with the use of accelerated versus straight-line depreciation, and
2. The taxes have been collected from ratepayers.

When the MAAC balancing account is undercollected, the second requirement has not been met and the ratepayers have paid less deferred taxes than were used to reduce rate base by the amount of deferred taxes assumed to be collected in setting the MAAC revenue requirement.

SDG&E believes that if the MAAC tariff is defective for the reason claimed by DRA, then it is also defective because SDG&E compensates ratepayers, through reduced rate base and return, for deferred taxes ratepayers have not yet paid to SDG&E.

c. City of San Diego

City agrees with DRA that the interest accrued on the unpaid income tax portion of the MAAC balancing account should be refunded to the ratepayers.

2. Discussion

We find, as a matter of equity, that ratepayers should not pay interest on the income tax portion of the undercollected MAAC balancing account, since SDG&E has no obligation to the IRS for income tax on the undercollected amount until it is billed to the ratepayers. At that time, SDG&E is not assessed any additional taxes due to carrying costs or penalties.

The rate base adjustment due to deferred taxes is a result of selection of depreciation method and does not warrant consideration here. SDG&E uses accelerated depreciation for federal tax purposes and straight-line depreciation for ratemaking purposes in California, which results in a lower-than-straight-line tax liability to the IRS. Flow-through of this tax benefit to the ratepayer is not allowed in the tax code. The ratepayer is compensated for the extra tax payment, which is in effect an advance payment on SDG&E's deferred taxes, by the rate base adjustment which reduces rate base by the amount of the deferred taxes.

However, the question of the equity of allowing interest to accumulate on the overcollected MAAC balancing account is somewhat different. Once the ratepayer is billed, SDG&E incurs the obligation to pay the associated income tax to the IRS, and should be compensated properly. The ratepayer in this instance is not loaning income tax funds to SDG&E, rather SDG&E is paying that income tax amount promptly to the IRS. Since SDG&E has paid the money to IRS and does not have the use of it, there is no time value of this money to SDG&E and we see no reason to require SDG&E to compensate the ratepayer with interest on it.

Regarding the issue of retroactivity, we believe that adjusting the MAAC balancing account for this purpose is fully permissible within the bounds of proper ratemaking and does not represent impermissible retroactivity. This is not associated with a general rate case. The MAAC balancing account was established by

D.83-09-007 and relates only to SONGS 2&3. In Findings 50 and 51 we stated:

"50. Balancing account treatment of investment-related costs will provide adequate protection to ratepayers by enabling adjustments to be made for any disallowance on plant costs and investment-related costs which may be made in Phase 2.

"51. Balancing account treatment of investor-related costs will provide adequate protection to investors as it constitutes a mechanism through which they can be made whole on investment-related costs determined by this Commission to be prudent expenditures."

Although the findings seem clear, we further point out that regarding the issue of possible retroactivity, decisions by the California Supreme Court have upheld our right to operate balancing accounts of this type in the manner we are considering. In Southern California Edison Company v Public Utilities Commission (1978) 20 Cal. 3d 813, the Court held that the rule against retroactive ratemaking did not apply to "extraordinary rates not set by or in a general rate proceeding." (20 Cal. 3d at 816, 828-830 and n.25.) The Court stated "In Pacific Tel. & Tel. Co. v Public Utilities Commission, 62 Cal. 2d 634 (44 Cal. Rptr. 1, 401 P. 2d 353)..., the first decision of this Court on the question, we construed Public Utilities Code Section 728 to vest the commission with powers to fix rates prospectively only. But we did not require that each and every act of the commission operate solely in futuro; our decision was limited to the act of promulgating 'general rates.'" (20 Cal. 31 at 816.) Moreover, the California Supreme Court has recently confirmed that the prohibition against retroactive ratemaking does not bar disallowances of MAAC balancing account debits. (TURN v P.U.C., 44 Cal. 31 at 870, 874, footnote 1, March 21, 1988.)

The MAAC account was set up as an accounting mechanism to allow utilities to record certain items each month, subject to a

later determination of reasonableness. The act of recording such items in MAAC does not constitute a determination of reasonableness, and any subsequent disallowance merely carries out the intent and function of MAAC. SDG&E should have no expectation of keeping this money through the MAAC.

We will order SDG&E to refund by a credit adjustment to the MAAC balancing account the actual amount of interest accumulated on the income tax portion of the MAAC balancing account, estimated by SDG&E to be about \$6 million. In addition, we will order both SCE and SDG&E to revise their MAAC tariffs to eliminate future accrual of interest on the income tax portion of both under- and overcollected MAAC balancing accounts.

E. Rate Design

1. SCE

a. Post-COD Issues

SCE proposes rates based on both the reasonableness and the ratemaking stipulations. The resulting rates are caused by changes to the following rate components:

- Increase base rates 0.075¢/kilowatt-hour (kWh) to reflect post-COD investment
- Decrease MAABF by a net 0.017¢/kWh due to the following:
 - Reduce post-COD Average Ownership Rate⁴ (AOR) from 0.081¢/kWh to zero.
 - Increase post-COD balancing rate from zero to 0.064¢/kWh. (This is based on a three-year amortization of the \$109.375 million forecast balance beginning June 1, 1988.)

⁴ The AOR is the California jurisdictional rate resulting from allocating to MAAC sales the authorized annual revenue which reflects the costs of owning specified major additions.

- Continue the pre-COD balancing rate unchanged at 0.013¢/kWh. (See Table 4 below for derivation.)

Table 4 summarizes these rate changes.

TABLE 4

Southern California Edison Company
Major Additions Adjustment Account
Pre-Cod Investment

| <u>Description</u> | <u>(\$M)</u> | <u>Forecast Sales (gWh)</u> | <u>MAAC Balancing Rate (¢/kWh)</u> |
|---|--------------|-----------------------------|------------------------------------|
| Forecast May 31, 1988 Major Additions Adjustment Account Balance Plus Billing Lag | \$22,146 | | |
| Forecast Interest Expense During 3-Year Amortization Period of Stipulation | <u>2,768</u> | | |
| Forecast Total Amount to be Recovered | 24,914 | | |
| Increased for Franchise Fees and Uncollectible Accounts | 25,152 | | |
| Forecast Amortization Period Sales* | | 193,502 | |
| Major Additions Adjustment Account Balancing Rate** | | | 0.013 |

* For ease of presentation, the forecast 1988 annual sales level adopted in SCE's T.Y. 1988 GRC was assumed for 1989 and 1990. The sales shown include a reduction of 86.1 gigawatt-hour (gWh) (28.7 x 3 years) to reflect the impact of Rate Schedule No. DE - Discount.

** Per D.87-12-066 (SCE's T.Y. 1988 GRC), the rate adjustment was allocated on an equal cents-per-kWh basis since the overall rate change is less than 1%.

b. Phase 2 Issues

The rates above are based on the ratemaking stipulation, allocating pre-COD indirects disallowances totally to AFUDC, and removing interest on undercollected income tax. They are based on a three-year amortization period from June 1, 1988.

Table 5 summarizes these rate changes. We will authorize SCE to make the changes effective January 1, 1989 subject to the revisions discussed in Section V below.

TABLE 5

Changes to Rate Levels

| <u>Description</u> | <u>Present (\$/kWh)</u> | <u>Proposed (\$/kWh)</u> | <u>Change (\$/kWh)</u> |
|---|-----------------------------|------------------------------|----------------------------|
| Increase to Average Base Rate Levels to Reflect Post-COD Investment | 0.000 | 0.075 | 0.075 |
| Decrease to the Major Additions Adjustment Billing Factor: | | | |
| Post-COD Average Ownership Rate | 0.081 | 0.000 | (0.081) |
| Pre-COD Balancing Rate | 0.013 | 0.013 | 0.000 |
| Post-COD Balancing Rate | <u>0.000</u> | <u>0.064</u> | <u>0.064</u> |
| Total MAABF Change | 0.094 | 0.077 | (0.017) |

2. SDG&E

a. Post-COD Issues

SDG&E proposes the following rate changes for post-COD plant additions:

- Increase base rates by 0.029¢/kWh.
- Decrease MAABF by 0.029¢/kWh, the net effect of:
 - Increase in post-COD balancing rate of 0.084¢/kWh (to amortize the balance over three years), and

- Decrease AOR by 0.113¢/kWh.

The result is no net rate change for SDG&E's ratepayers. As with SCE, SDG&E's rates are calculated for the period beginning June 1, 1988, rather than the likely rate change date of January 1, 1989, so both utilities' rates will have to be redetermined.

SDG&E's proposed rates are designed to avoid a net rate increase that would result through normal rate design. In order to avoid such an increase the proposal reduces the base rate increase, setting it at the level of 0.029¢/kWh which exactly balances the net MAABF decrease. The base rate would otherwise be 0.108¢/kWh. SDG&E expects to eventually recover the shortfall in base rate revenues through the normal operation of Electric Revenue Adjustment Mechanism (ERAM). SDG&E also requests that if any portion of ERAM is eliminated in the 3-Rs proceeding that it be allowed to recover the base rate shortfall in the remaining ERAM account. No party opposed SDG&E's request for a no net rate increase.

We will not set rates differently for SCE and SDG&E in this case. We are particularly concerned that we will be setting rates knowing that a revenue shortfall would result which would have to be collected later. Were we to adopt SDG&E's approach, we would be accepting the reality of this revenue shortfall at the same time we will be issuing decisions in SDG&E's general rate case and ECAC proceedings, each of which calls for a revenue reduction. We think it much better to set the base rate correctly at 0.108¢/kWh now to recover the entire base rate increase since the increase will be offset by decreases from other proceedings.

In addition, because actual rate changes will be deferred to January 1, 1989, there is no need for offsetting rate changes. SONGS 2&3 rate changes will be consolidated into changes ordered in other proceedings, as discussed in Section V below.

Table 6 summarizes these rate changes.

TABLE 6

SAN DIEGO GAS & ELECTRIC COMPANY
SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3
POST-COD PLANT ADDITIONS

Summary of Proposed Uniform Rate Changes

| Line No. | Item | Present (c/kwhr) (A) | Proposed (c/kwhr) (B) | Change (c/kwhr) (C) | Adopted (c/kwhr) (D) |
|--------------------|--|----------------------------|-----------------------------|---------------------------|----------------------------|
| <u>MAAC RATES</u> | | | | | |
| 1. | Pre-COD Average Ownership Rate | 0.000 | 0.000 | 0.000 | 0.000 |
| 2. | Post-COD Average Ownership Rate | 0.113 | 0.000 | (0.113) | 0.000 |
| 3. | Pre-COD Balancing Rate | (0.152) | (0.152) | 0.000 | (0.152) |
| 4. | Post-COD Balancing Rate | 0.000 | 0.084 | 0.084 | 0.084 |
| 5. | Total-Major Additions Adjustment Billing Factor (MAABF) | (0.039) | (0.068) | (0.029) | (0.068) |
| <u>BASE RATES</u> | | | | | |
| 6. | Proposed Equal Offsetting Uniform Change to Base Rates (1) | | | 0.029 | 0.108 (2) |
| <u>TOTAL RATES</u> | | | | | |
| 7. | Proposed Uniform Change to Total Rates [Line 5. + Line 6. - Col.(C)] | | | 0.000 | 0.079 |

(1) SDG&E proposes that the uniform change to base rates offset the uniform change to the MAABF in order to effect no change to total rate levels of its customers.

(2) This authorized base rate is not an equal uniform offsetting change to base rates

b. Phase 2 Issues

Since SDG&E opposed the ratemaking stipulation, no rate effects were presented for allocation of indirects disallowances to AFUDC and for crediting the accumulation of interest for taxes on the undercollected MAAC balance. We will order SDG&E to effect rates that handle these issues in the manner we have discussed, subject to the revisions discussed in Section V below.

V. Coordination With Other Proceedings

It was originally anticipated that this proceeding would be completed in mid-1988. However, the decision is now being adopted near the end of 1988. It is reasonable to minimize the number of rate changes confronting customers by coordinating the revenue and rate impacts authorized herein with other cases pending for SCE and SDG&E. We will authorize all revenue and rate changes to become effective January 1, 1989.

For SCE, the SONGS 2&3 changes will be consolidated with revenues and rates authorized in SCE's financial attrition application, A.88-07-023, and its anticipated operational attrition advice filing. In addition, it is likely that an ECAC revenue reduction will be requested, ending the amortization period for the uranium subaccount.

For SDG&E, the SONGS 2&3 changes will be consolidated with revenues and rates authorized in SDG&E's general rate case, A.87-12-003, and its current ECAC case, A.88-07-003. The base rate revenue requirement in A.87-12-003 is calculated without consideration of the reasonableness stipulation herein.

Deferral of the adopted revenue and rate changes to January 1, 1989 requires recalculation of revenue requirements to include the ratemaking factors adopted by the Commission for 1989. These factors include franchise fees and uncollectibles rates, rate of return, and the jurisdictional factor. Adjustments for these

factors will not change the substance of the SONGS 2&3 stipulations. In addition, we will update the balancing account amortization rates to reflect recorded September, 1988 account balances.

VI. Eligibility for Compensation

A. Request

On March 7, 1988, CCC requested a finding of eligibility for compensation for its participation in this proceeding. The request is made under Rule 76.54 of the Commission's Rules of Practice and Procedure.

Rule 76.54(a) requires that a customer seeking an award shall file a request for a finding of eligibility for compensation within 30 days of the first prehearing conference or within 45 days after the close of the evidentiary record. There was only one prehearing conference in this proceeding, held on February 11, 1988. CCC's "Rule 76.54 Request For Finding of Eligibility for Compensation," filed on March 7, 1988 is timely since it is within 30 days of the first prehearing conference.

Rule 76.54(a)(1) requires a party requesting compensation to show that participation in the hearing or proceeding would pose a significant financial hardship.

B. Issues

1. Significant Financial Hardship

Rule 76.52(f) defines "significant financial hardship" as meaning both:

"(1) That, in the judgment of the Commission, the customer has or represents an interest not otherwise adequately represented, representation of which is necessary for a fair determination of the proceeding; and

"(2) Either that the customer cannot afford to pay the costs of effective participation, including advocate's fees, expert witness fees, and other

reasonable costs of participation and the cost of obtaining judicial review, or that, in the case of a group or organization, the economic interest of the individual members of the group or organization is small in comparison to the costs of effective participation in the proceeding."

Rule 76.52(f)(1) weighs the economic interests of the organization's individual members against the costs of effective participation. CCC states that a large number of its members are customers who reside in Southern California, subscribing to SCE's utility service. CCC does not indicate the size of its membership. CCC alleges that it is the only entity actively seeking to enforce the terms of Assembly Bill 3648, Public Utilities Code Sections 8281 through 8285, which deals with Women and Minority Business Enterprises, although it presented no evidence in these proceedings dealing with Women and Minority Business Enterprises.

No other party specifically represents this interest and we conclude that CCC represents an interest that, although it overlaps with parts of other parties' interests, is not otherwise adequately represented. We also conclude that representation of this interest is necessary for a fair determination of this proceeding. Thus CCC has met the first prong of the test of the Rule 76.52(f) standard regarding significant financial hardship.

CCC states that it is impractical and not economically feasible for individual ratepayers to adequately represent their interests before the Commission, and that the majority of these individuals would be unrepresented due to the time and expense involved, were it not for the CCC. CCC further states that any benefit to the organization or individual ratepayers would not be significant compared to the cost of CCC representing the ratepayers at these hearings.

We agree that the individual economic benefit to CCC's members is small in comparison to the costs of participating in

this proceeding, and thus CCC meets the requirements of Rule 76.52(f)(2), the second prong of the test.

CCC states that it is presently working out of a home, with all work done by volunteers, except for secretarial and consultant fees. CCC's total resources consist of \$2,700 in cash and \$36,000 in fees from participation in A.87-01-002, having been found to be eligible for intervenor funding by the Commission in that proceeding. CCC indicates no grant funds.

We conclude that CCC has met the requirements of Rule 76.54(a)(1) and has shown that participation in this proceeding would pose a significant financial hardship.

2. Statement of Issues

Rule 76.54(a)(2) requires a statement of issues that the customer intends to raise in a hearing or proceeding. CCC indicates an intent to pursue general reasonableness issues dealing with construction and nuclear power plant operation issue. CCC therefore satisfies this requirement.

3. Estimate of Compensation

Rule 76.54(a)(3) requires an estimate of the compensation that will be sought. CCC estimates that it will seek compensation of \$15,875.

4. Budget

Rule 76.54(a)(4) requires a budget for the customer's presentation. CCC presents the following budget:

Intervenor Fees

| | | |
|------------------|----------------|----------|
| Virginia Jarrow | (@ \$100/hour) | \$ 1,250 |
| Kevin J. O'Brien | (@ \$100/hour) | 1,250 |

Research on Technical Data/Historical Perspective

| | | |
|------------------|---------------|--------|
| Kevin J. O'Brien | (@ \$65/hour) | 11,375 |
|------------------|---------------|--------|

Administrative/Secretarial

Essie Morrow (@ \$25/hour) 300

Expert Witness

Kevin J. O'Brien (3 days @ \$400/day) 1,200

Costs

Telephone, travel, postage, copying, etc. 500

Total \$15,875

C. Common Legal Representative

Rule 76.54(b) allows other parties to comment on the request, including a discussion of whether a common legal representative is appropriate. Under Rule 76.55 our decision on the request for eligibility may designate a common legal representative. No party commented on the appropriateness of a common legal representative, and we find no current need to designate such a representative in this proceeding.

D. Conclusion

We have determined that CCC has shown that its participation in this proceeding would pose a significant financial hardship, as defined in Rule 76.52, and has submitted the summary of finances required by Rule 76.54(a)(1). CCC has met the other three requirements of Rule 76.54(a), (2), (3), and (4). No party has raised the appropriateness of a common legal representative. Therefore, we will find that CCC is eligible to claim compensation for its participation in this proceeding.

Findings of Fact

1. On May 18, 1987 SCE filed A.87-05-031 seeking Commission determination that its post-COD investment in SONGS 2&3 is reasonable, and requesting authority to recovery through base rates the California jurisdictional portion of the associated revenue requirements.

2. On July 23, 1987 SDG&E filed A.87-07-044 seeking Commission determination that its 20% ownership share of the post-COD investments is reasonable, and requesting authority to transfer recovery of the investment to base rates.

3. Phase 1 D.83-09-007 authorized SCE and SDG&E to establish a MAAC, to implement a MAABF and AMAR.

4. D.86-08-060 adopted procedures for transferring the revenue requirements associated with SONGS 2&3 from MAAC to base rates, including a reasonableness review of post-COD investment.

5. D.86-08-060 provides that investments in plant additions placed in service after December 31, 1987 are to be handled in SCE's 1988 T.Y. GRC application.

6. D.86-08-060 provides that SDG&E's investments in plant additions placed in service after December 31, 1987 and before January 1, 1989 are to be included in SDG&E's ARA filing, while estimates of plant additions to be placed in service January 1, 1989 or later are to be in its 1989 T.Y. GRC application.

7. The total pre-COD cost for SONGS 2&3 was \$4,509 million.

8. In D.87-11-018, the Commission determined that \$265.0 million, including \$17.0 million in indirect costs, of the total SONGS 2&3 pre-COD costs was imprudently incurred. This imprudence level is 5.9% of the total plant costs.

9. Post-COD investment refers to investment in SONGS 2&3 in excess of the \$4,509 million pre-COD cost, and placed in service after COD and before January 1, 1988.

10. D.87-12-065 set post-COD interim rates using the same 5.9% ratio of imprudence as Phase 2, subject to a determination of reasonableness by the Commission.

11. The total post-COD investment requested by the applicants is \$447.5 million including litigation costs and Commission consultant costs.

12. On January 25, 1988 a stipulation between SCE, SDG&E, and DRA on the reasonableness of post-COD plant costs was filed,

agreeing to a disallowance of \$41.2 million. The reasonableness stipulation provides that the reasonable level of post-COD investment for California jurisdictional ratemaking purposes is \$294.8 million for SCE and \$80.4 million for SDG&E.

13. The reasonableness stipulation includes a 2.86% disallowance of costs based on the non-delay portion of the Phase 2 disallowance, resulting in disallowances of \$8.7 million for SCE and \$2.4 million for SDG&E.

14. The reasonableness stipulation provides an additional disallowance of indirect costs for ratemaking purposes of \$0.377 million for SCE and \$0.103 million for SDG&E.

15. The reasonableness stipulation provides that SCE and SDG&E will not recover their costs of litigation for post-COD investment.

16. The reasonableness stipulation provides that the costs of the Commission's consultants are to be paid by SCE and SDG&E by reclassifying them from post-COD investment to an expense item, including accrued interest, in the MAAC balancing account.

17. Before executing the settlement, DRA hired a consultant, OKA, to perform a preliminary review of post-COD expenses and identify questionable activities, along with potential disallowance recommendations, in order to gauge the reasonableness of the settlement.

18. Based on OKA's analysis, DRA concluded that if the reasonableness of costs was litigated, the probable range of DRA recommended disallowances in this proceeding would be \$50.0 to \$97.5 million.

19. Substantial time and effort would be required to carry out a complete review of post-COD costs. As a result of such review, the amount of post-COD costs which the Commission finds to be reasonable could be more or less than the amount specified in the proposed stipulation. The \$41.2 million disallowance

been changed from \$37.6 million to \$38.8 million to reflect the update furnished by SCE in compliance with Ordering Paragraph 19.

SDG&E's comments reargue positions taken at hearing and briefed subsequently. We have considered them and believe that the proposed decision need not be changed.

We have added Appendices C and D which include the responses to Ordering Paragraph 19 of the proposed decision by SCE and SDG&E, respectively. Included are tables reflecting the 12.75% return on common equity adopted in the proposed decision in the consolidated financial attrition proceeding, A.88-07-023 and A.87-12-003, for SCE and SDG&E, respectively.

Findings of Fact

1. On May 18, 1987 SCE filed A.87-05-031 seeking Commission determination that its post-COD investment in SONGS 2&3 is reasonable, and requesting authority to recover through base rates the California jurisdictional portion of the associated revenue requirements. ✓
2. On July 23, 1987 SDG&E filed A.87-07-044 seeking Commission determination that its 20% ownership share of the post-COD investments is reasonable, and requesting authority to transfer recovery of the investment to base rates.
3. D.83-09-007 authorized SCE and SDG&E to establish a MAAC, and to implement a MAABF and AMAR.
4. D.86-08-060 adopted procedures for transferring the revenue requirements associated with SONGS 2&3 from MAAC to base rates, including a reasonableness review of post-COD investment.
5. D.86-08-060 provides that investments in plant additions placed in service after December 31, 1987 are to be handled in SCE's 1988 T.Y. GRC application.
6. D.86-08-060 provides that SDG&E's investments in plant additions placed in service after December 31, 1987 and before January 1, 1989 are to be included in SDG&E's ARA filing, while

represents 42.3% to 82.4% of the maximum amount DRA would propose for disallowance, if the proceeding was fully litigated.

20. D.87-12-065 requires SCE and SDG&E to address two ratemaking issues that apply to both pre- and post-COD, (1) the allocation of delay-related disallowances adopted in Phase 2 between AFUDC and non-AFUDC, and (2) whether interest for utility expenses not yet paid should be applied to account debits in the MAAC balancing account.

21. On January 25, 1988 a ratemaking stipulation between SCE and DRA was filed dealing with the two ratemaking issues from D.87-12-065 as they apply to SCE.

22. The ratemaking stipulation provides that all pre-COD delay-related disallowances be allocated to AFUDC.

23. The ratemaking stipulation provides that no interest accrue on the portion of the undercollected MAAC balance due to income tax.

24. The ratemaking stipulation provides that the interest rate applicable to SCE's balancing accounts be its then current after tax gross AFUDC rate.

25. AFUDC/non-AFUDC allocation of disallowances has income tax and ratemaking consequences.

26. SDG&E proposed a different recommendation on these ratemaking issues.

27. SDG&E proposes a 32% AFUDC, 68% non-AFUDC allocation for pre-COD indirects cost disallowances.

28. SCE, SDG&E, and DRA agree that delay-related post-COD unreasonable investments should be allocated based on the overall allocation ratio for post-COD investments.

29. Litigation and consultant costs do not contain AFUDC elements.

30. SDG&E believes that DRA's proposal to refund the accrued interest on the undercollected MAAC balance is prohibited since it would involve retroactive ratemaking.

31. SDG&E made a motion to strike certain portions of the prepared testimony of O'Donnell relating to reconsidering the issue of pre-COD indirects disallowance decided in D.87-11-018.

Conclusions of Law

1. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is just and reasonable and should be adopted.

2. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is just and reasonable and should be adopted.

3. SDG&E's proposal for allocating the disallowance of pre-COD indirect costs between AFUDC and non-AFUDC is not consistent with prior Commission policy as stated in D.87-11-018 and would result in unjust rates.

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

5. Pre-COD disallowances of delay-related investments should be allocated to AFUDC.

6. Post-COD disallowances of delay-related investments should be allocated to AFUDC/non-AFUDC based on the overall post-COD allocation ratio.

7. It is not reasonable for SCE and SDG&E to accrue interest on the MAAC balance associated with income tax, whether the balance is under- or overcollected. SCE and SDG&E should be ordered to revise their tariffs to reflect this change.

8. Refunding the accumulated interest on the income tax portion of the undercollected MAAC balance does not constitute retroactive ratemaking.

9. SCE and SDG&E should be ordered to refund the accrued interest on the income tax portion of the undercollected MAAC balancing accounts.

10. The disallowances and rates authorized should be subject to verification audit by the Commission Advisory and Compliance Division, and adjustment for ratemaking factors effective January 1, 1989.

11. SDG&E should be authorized to revise its Base Revenue Amount and base rates to reflect SONGS 2&3 post-COD costs, by incorporation of revenue and rate revisions into A.87-12-003, SDG&E's Test Year 1989 general rate case.

12. CCC is eligible to file for compensation in this proceeding.

POST-COD ORDER

IT IS ORDERED that:

1. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is adopted.

2. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is adopted.

3. Southern California Edison Company (SCE) is authorized to increase its Authorized Level of Base Rate Revenue by \$48,597,000, adjusted for Attrition Year 1989 ratemaking factors, to reflect SONGS 2&3 post-commercial operation date (COD) costs.

4. SCE is authorized to increase its base rates under the Electric Revenue Adjustment Mechanism (ERAM) by 0.075¢/kWh for a revenue increase of \$48.597 million to transfer recovery of post-COD investment from the Major Additions Adjustment Clause (MAAC) to base rates, adjusted for 1989 ratemaking factors.

5. SCE is authorized to reduce its MAAC Average Ownership Rate (AOR) from 0.081¢/kWh to zero for a revenue decrease of approximately \$52.3 million to reflect removal of revenue requirement recovery of post-COD investment from MAAC.

6. SCE is authorized to increase its MAAC post-COD balancing rate from zero to 0.064¢/kWh for a revenue increase of \$41.3 million to reflect amortization of the balance over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

7. SCE is authorized to continue its MAAC pre-COD balancing rate of 0.013¢/kWh to reflect amortization of the balance, after removing interest on undercollected income tax, over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

8. San Diego Gas & Electric Company (SDG&E) is authorized to revise its Authorized Base Rate Revenue and base rates to reflect SONGS 2&3 post-COD costs, by incorporation of revenue and rates revisions into A.87-12-003, SDG&E's Test Year 1989 general rate case.

9. SDG&E is authorized to reduce its MAAC AOR from 0.113¢/kWh to zero for a revenue decrease of \$14.5 million to reflect removal of revenue requirement recovery of post-COD investment from MAAC.

10. SDG&E is authorized to increase its MAAC post-COD balancing rate from zero to 0.084¢/kWh for a revenue increase of

\$10.8 million to reflect amortization of the balance over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

11. SDG&E is authorized to continue its MAAC pre-COD balancing rate of 0.152¢/kWh to reflect amortization of the balance, after removing interest on undercollected income tax, over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

12. SDG&E shall adjust its rates to reflect allocation of pre-COD delay-related disallowances to AFUDC.

13. SDG&E shall adjust its rates to reflect removal of the accumulated interest on the income tax portion of its undercollected MAAC balance.

14. SCE and SDG&E are ordered to revise their MAAC tariffs to remove accrual of interest on the income tax portion of the MAAC balance and to adjust the December 31, 1988 MAAC account balances to remove those charges retroactively from the plant units COD.

15. SCE is authorized to revise its MAAC tariffs such that the interest rate applicable to SCE's MAAC account balances shall be SCE's after tax gross Allowance for Funds Used During Construction (AFUDC) rate.

16. The rates authorized herein are subject to verification audit by the Commission Advisory and Compliance Division, which shall be performed by June 30, 1989.

17. If the post-COD investments recorded through December 31, 1987 exceed the \$414.2 million (not including litigation and Commission consultant costs) considered in this opinion, SCE and SDG&E may request recovery in future base rate proceedings.

18. The Consumers Coalition of California is eligible to claim compensation for its participation in this proceeding.

19. In their comments to the ALJ's Proposed Decision, SCE and SDG&E shall provide the following:

- a. Recorded MAAC account balances through the end of September, 1988, for both pre-COD and post-COD subaccounts, adjusted to

11. SDG&E should be authorized to revise its Base Revenue Amount and base rates to reflect SONGS 2&3 post-COD costs, by incorporation of revenue and rate revisions into A.87-12-003, SDG&E's Test Year 1989 general rate case.

12. CCC is eligible to file for compensation in this proceeding.

POST-COD ORDER

IT IS ORDERED that:

1. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission, Southern California Edison Company, and San Diego Gas & Electric Company Regarding the Reasonableness of Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is adopted.

2. The Stipulation between the Division of Ratepayer Advocates of the California Public Utilities Commission and Southern California Edison Company for a Commission Order Regarding the Ratemaking Treatment for Edison's Share of the Post-COD Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3 dated January 25, 1988, is adopted.

3. Southern California Edison Company (SCE) is authorized to increase its Authorized Level of Base Rate Revenue by \$49,949,000, which reflects Attrition Year 1989 ratemaking factors, to reflect SONGS 2&3 post-commercial operation date (COD) costs. ✓✓

4. SCE is authorized to increase its base rates under the Electric Revenue Adjustment Mechanism (ERAM) by 0.075¢/kWh for a revenue increase of \$49,949 million to transfer recovery of post-COD investment from the Major Additions Adjustment Clause (MAAC) to base rates. These amounts have been adjusted for 1989 ratemaking factors. ✓✓

reflect the ordering paragraphs above on allocation of delay-related disallowances and interest on income taxes.

- b. Ratemaking factors for Attrition Year or Test Year 1989, as currently requested by SCE and SDG&E: franchise fees and uncollectibles factor, capital structure and rates of return (from financial attrition proceeding for SCE, general rate case for SDG&E), net-to-gross multiplier, jurisdictional factor applicable to MAAC rates, jurisdictional sales (unadjusted and adjusted for employee discounts, from most recent ECAC cases), and MAAC account interest rate for purposes of calculating amortization rates.
- c. Modified calculations of revenue requirements and rates for: base revenue amount and base rates; present rate revenues for post-COD MAAC Average Ownership Rates; amortization of pre-COD MAAC balance; and amortization of post-COD MAAC balance. These calculations should reflect the 1989 ratemaking factors above, including adjustments for rate of return, depreciation charges, and rate base.

20. If the Commission adopts 1989 ratemaking factors other than those used to make the above adjustments, SCE and SDG&E shall update their calculations in their advice filings at the end of 1988 which implement rates authorized in the now pending general rate, ECAC, and attrition proceedings.

5. SCE is authorized to reduce its MAAC Average Ownership Rate (AOR) from 0.081¢/kWh to zero for a revenue decrease of approximately \$52.3 million to reflect removal of revenue requirement recovery of post-COD investment from MAAC.

6. SCE is authorized to increase its MAAC post-COD balancing rate from zero to 0.065¢/kWh for a revenue increase of \$42.5 million to reflect amortization of the balance over three years from January 1, 1989, adjusted for 1989 ratemaking factors. ✓

7. SCE is authorized to reduce its MAAC pre-COD balancing rate of 0.013¢/kWh to 0.012¢/kWh to reflect amortization of the balance, after removing interest on undercollected income tax, over three years from January 1, 1989, for an annualized revenue decrease of approximately \$0.7 million. ✓

8. San Diego Gas & Electric Company (SDG&E) is authorized to revise its Authorized Base Rate Revenue and base rates to reflect SONGS 2&3 post-COD costs, by incorporation of revenue and rates revisions into A.87-12-003, SDG&E's Test Year 1989 general rate case.

9. SDG&E is authorized to reduce its MAAC AOR from 0.113¢/kWh to zero for a revenue decrease of \$14.5 million to reflect removal of revenue requirement recovery of post-COD investment from MAAC.

10. SDG&E is authorized to increase its MAAC post-COD balancing rate from zero to 0.084¢/kWh for a revenue increase of \$10.8 million to reflect amortization of the balance over three years from January 1, 1989, adjusted for 1989 ratemaking factors.

11. SDG&E is authorized to continue its MAAC pre-COD balancing rate of 0.152¢/kWh to reflect amortization of the balance, after removing interest on undercollected income tax, over three years from January 1, 1988, adjusted for 1989 ratemaking factors. ✓

12. SDG&E shall adjust its rates to reflect allocation of pre-COD delay-related disallowances to AFUDC.

21. The tariff revisions authorized by this decision shall conform to General Order 96-A, shall be marked to show that they were authorized by this decision, and become effective five (5) days after the date filed, but no sooner than January 1, 1989.

This order becomes effective 30 days from today.

Dated _____, at San Francisco, California.

13. SDG&E shall adjust its rates to reflect removal of the accumulated interest on the income tax portion of its undercollected MAAC balance.

14. SCE and SDG&E are ordered to revise their MAAC tariffs to remove accrual of interest on the income tax portion of the MAAC balance and to adjust the December 31, 1988 MAAC account balances to remove those charges retroactively from the plant units COD.

15. SCE is authorized to revise its MAAC tariffs such that the interest rate applicable to SCE's MAAC account balances shall be SCE's after tax gross Allowance for Funds Used During Construction (AFUDC) rate.

16. The rates authorized herein are subject to verification audit by the Commission Advisory and Compliance Division, which shall be performed before June 30, 1989. ✓

17. If the post-COD investments recorded through December 31, 1987 exceed the \$414.2 million (not including litigation and Commission consultant costs) considered in this opinion, SCE and SDG&E may request recovery in their next base rate proceedings filed after January 1, 1989. ✓

18. The Consumers Coalition of California is eligible to claim compensation for its participation in this proceeding. ✓

19. If the Commission adopts 1989 ratemaking factors other than those used to make the above adjustments, SCE and SDG&E shall update their calculations in their advice filings at the end of 1988 which implement rates authorized in the now pending general rate, ECAC, and attrition proceedings.

20. The tariff revisions authorized by this decision shall conform to General Order 96-A, shall be marked to show that they were authorized by this decision, and become effective five (5) days after the date filed, but no sooner than January 1, 1989. ✓

This order becomes effective 30 days from today.

Dated _____, at San Francisco, California.

20. The tariff revisions authorized by this decision shall conform to General Order 96-A, shall be marked to show that they were authorized by this decision, and become effective four (4) days after the date filed, but no sooner than January 1, 1989.

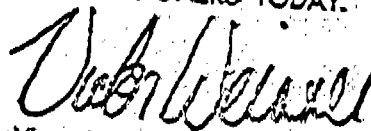
This order becomes effective 30 days from today.

Dated DEC 9 1988, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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



Victor Weissert, Executive Director

APPENDIX A
Page 1

ATTACHMENT 1

STIPULATION BETWEEN THE DIVISION OF RATEPAKER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION,
SOUTHERN CALIFORNIA EDISON COMPANY, AND
SAN DIEGO GAS AND ELECTRIC COMPANY
REGARDING THE REASONABLENESS OF POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 post-COD investment-)
related costs to base rates pursuant)
to previously adopted procedures,)
and (ii) related substantive and)
procedural relief.)

Application No. 87-05-031

Related Matter)

Application No. 87-07-044

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION,
SOUTHERN CALIFORNIA EDISON COMPANY, AND
SAN DIEGO GAS AND ELECTRIC COMPANY
REGARDING THE REASONABLENESS OF POST-COD INVESTMENT IN
SAN ONOERE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

Dated: January 25, 1988

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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 (i) authority to)
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STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION,
SOUTHERN CALIFORNIA EDISON COMPANY, AND
SAN DIEGO GAS AND ELECTRIC COMPANY
REGARDING THE REASONABLENESS OF POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission"), Southern California Edison Company ("Edison"), and San Diego Gas and Electric Company ("SDG&E") hereby stipulate to and recommend that the Commission

✓ The DRA, Edison and SDG&E are collectively referred to herein as the "Parties." Edison and SDG&E are collectively referred to herein as the "Utilities."

adopt for California jurisdictional ratemaking purposes the proposed level of San Onofre Nuclear Generating Station Unit Nos. 2 and 3 ("SONGS 2 and 3") Post-COD Investment^{2/} of \$401.8 million which reflects:

- An investment disallowance of \$41.3 million (on a total plant basis) proposed herein; and
- The reclassification of \$4.4 million of Commission Consultant Costs as an expense item in the Utilities' Major Additions Adjustment Accounts.

In addition, the Parties recommend that the Commission adopt the proposed recovery of all amounts paid by Edison and SDG&E to the Commission for the Commission Consultant Costs, plus accrued interest. Approximately \$4.4 million of Commission Consultant Costs have been recorded as of November, 1987.

^{2/} The term "Post-COD Investment" refers to the SONGS 2 and 3 investment in excess of the \$4,509 million reviewed in Phase 2 of Application Nos. 82-02-40 and related matters, and expected to be recorded by Edison prior to January 1, 1988. SDG&E's share of Post-COD Investment is recorded approximately two months after it is recorded by Edison due to a lag in billing between Edison and SDG&E. In Phase 2 of Application Nos. 82-02-40, et al., the Commission conducted an extensive review of \$4,509 million of SONGS 2 and 3 investment. In Application Nos. 87-05-031 and 87-07-044 the DRA conducted an extensive review of the Post-COD Investment. These reviews are referred to herein as the "Phase 2 Reasonableness Review" and "Post-COD Reasonableness Review," respectively. The term "COD" refers to Commercial Operation Date. Post-COD Investment includes plant expenditures; legal fees, consultant and expert witness fees, and other costs associated with the Utilities' participation in the Phase 2 and Post-COD Reasonableness Reviews ("Litigation Costs"); and the amounts paid by Edison and SDG&E to the Commission for the purpose of funding the DRA's consultants in the Phase 2 and Post-COD Reasonableness Reviews ("Commission Consultant Costs"). Unless otherwise noted, all investment and disallowance amounts set forth herein are on a total plant and unjurisdictionalized basis.

INTRODUCTIONA. Procedural Background

On February 18, 1982, Edison filed Application No. 82-02-40 requesting authority to reflect Edison's share of SONGS 2 in rates through a Major Additions Adjustment Clause ("MAAC") procedure. On October 21, 1983, Edison filed Application No. 83-10-36 requesting authority to reflect Edison's share of SONGS 3 in rates through the MAAC procedure. SDG&E filed similar applications to reflect their 20 percent share of SONGS 2 and 3 in rates through the MAAC procedure.^{2/} Proceedings initiated by the various MAAC applications filed by Edison and SDG&E were consolidated for hearing and decision.^{4/} The Commission adopted balancing account treatment for SONGS 2 and 3 investment-related costs,^{5/} and conducted an extensive reasonableness review of the underlying investment. In Decision Nos. 86-10-069, 87-07-097, and 87-11-018 ("Phase 2 Decisions"), the Commission disallowed \$265.0 million of the \$4,509 million of SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review.

In Decision No. 86-08-060 the Commission adopted transition procedures that, among other things, provide for a reasonableness review of the Post-COD Investment (Post-COD Reasonableness

2/ Application Nos. 82-03-63 and 83-10-12 (SONGS 2), and 83-11-19 (SONGS 3).

4/ Decision No. 84-01-038, January 5, 1984.

5/ Decision No. 83-09-007, September 7, 1983.

Review). On May 18, 1987, Edison filed Application No. 87-05-031, and on July 23, 1987, SDG&E filed Application No. 87-07-044, wherein Edison and SDG&E requested authority to transfer recovery of Post-COD Investment from the MAAC to base rates. These applications (collectively, the "Post-COD Applications") were filed in contemplation of the Post-COD Reasonableness Review established by the transition procedures.

In July, 1986 DRA commenced its initial review of the Post-COD Investment. The initial review spanned approximately six months and encompassed a review of approximately 7,000 pages of data and analysis supplied by Edison in response to the initial data requests. Shortly after the DRA commenced its review, Edison approached DRA and proposed discussions for the purpose of determining whether the Parties could reach a stipulated settlement of issues related to the Post-COD Investment. These discussions ultimately resulted in a tentative settlement. However, the DRA made final acceptance of the tentative settlement dependent upon the outcome of a more detailed and complete review of the Post-COD Investment.

On March 24, 1987 DRA authorized O'Brien, Krietzberg & Associates and Technical Analysis Corporation to conduct such a review. The more detailed review was conducted over nine months and reviewed in excess of 44,000 pages of data and analysis supplied by Edison. In the DRA's opinion, the result of this extensive review supports the tentative settlement reached by the

Parties.^{2/} Thereafter, in December, 1987 and January, 1988 the Parties engaged in further negotiations to finalize this Stipulation.

B. Summary Of The Stipulation

This Stipulation proposes the following settlement of reasonableness issues related to the Post-COD Investment for California jurisdictional ratemaking purposes:

- A disallowance based, in part, on the results of the Phase 2 Reasonableness Review of \$11.9 million^{7/} of Post-COD Investment, or 2.86 percent of the \$414.2 million of the Post-COD Investment excluding Litigation Costs and Commission Consultant Costs;
- A disallowance related to indirect costs of an additional \$0.5 million of Post-COD Investment;
- Disallowance of all of the Utilities' Litigation Costs of \$28.9 million recorded through November, 1987,^{8/} and no rate recovery of Litigation Costs recorded after that date; and
- Recovery through the Utilities' Major Additions Adjustment Accounts ("MAAC Balancing Accounts") of all

^{6/} The DRA has not disclosed the results of its review to Edison or SDG&E prior to the filing of this Stipulation.

^{7/} Disallowance amounts set forth in this Stipulation are on a total plant and unjurisdictionalized basis unless otherwise noted. Calculation of the disallowances for each utility are set forth in Appendix A.

^{8/} Amounts referred to herein as "recorded through November, 1987" are recorded by Edison as of that date. SDG&E's share of such amounts are recorded approximately two months later due to a lag in billing between Edison and SDG&E.

of the Commission Consultant Costs (\$4.4 million recorded through November, 1987) plus interest and full recovery of Commission Consultant Costs, plus interest, recorded after that date.

II.

STIPULATION

The DRA, Edison, and SDG&E have entered this Stipulation on the basis that the elements of the agreement are not severable, and that all elements of the agreement be adopted in their entirety without modification. In addition, since the agreement reached by the Parties represents a compromise, the Parties entered into this Stipulation on the basis that the Commission's adoption of this Stipulation not be construed as a precedent or policy statement of any kind for or against the Parties in any current or future proceeding.

The Parties have stipulated to an investment disallowance based on the Phase 2 Reasonableness Review that is applicable to the \$414.2 million of Post-COD Investment excluding Litigation Costs and Commission Consultant Costs. In addition, the Parties have agreed and stipulated to a disallowance of the Utilities' Litigation Costs of \$28.9 million recorded through November, 1987, and no rate recovery of Litigation Costs recorded on and after December 1, 1987. The Parties have also agreed and stipulated that the total amount of Commission Consultant Costs (\$4.4 million has been recorded through November, 1987) plus interest shall be fully recoverable in rates through the Utilities' respective MAAC Balancing Accounts.

A. Determination Of The Reasonable Level Of Post-COD Investment
Based On The Results Of The Phase 2 Reasonableness Review

When the Parties entered the tentative settlement agreement in February 1987, the proposed reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes was based in part on an application of the results of the Commission's initial decision in the Phase 2 Reasonableness Review, issued on October 29, 1986. The Parties note that the Phase 2 Reasonableness Review was extensive and thorough. The Parties recognize that litigation following such reviews is difficult, costly and time consuming. Edison and SDG&E believe that all of the Post-COD Investment was prudently incurred. The DRA believes that a disallowance is warranted.^{2/}

In order to avoid difficult, costly and time-consuming litigation of the reasonableness of the Post-COD Investment, the Parties have agreed and stipulated that the reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes should be determined, in part, by reference to the results of the Phase 2 Reasonableness Review. The DRA has determined that the results of its extensive analysis of the Post-COD Investment supports the agreement. Therefore, the Parties propose that the stipulated reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes be determined by reducing the \$414.2 million of Post-COD Investment

^{2/} The DRA's conclusions regarding the Post-COD Investment are set forth in its testimony. The results of DRA's analysis have not been disclosed to the Utilities prior to the filing of this Stipulation.

excluding Litigation Costs and Commission Consultant Costs by 2.86 percent, and by an additional disallowance related to indirect costs. The formulas to which the Parties initially agreed are specifically set forth in the following sections, and the Parties agreed and stipulated that the formulas should remain unchanged regardless of subsequent events.

1. Disallowance of 2.86 Percent Of Post-COD Investment

The disallowance of 2.86 percent was initially derived in the following manner. In the initial Phase 2 Decision,^{10/} the Commission disallowed \$344.6 million of the \$4,509 million SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review. The disallowance was composed of the following elements:^{11/}

| <u>Issue</u> | <u>Disallowance</u> (<u>\$-millions</u>) |
|--|---|
| Issues related to delays in achieving commercial operation | \$215.7 |
| Quality Assurance/Quality Control ("QA/QC") | 20.3 |
| Productivity | 10.0 |
| Indirect Costs | <u>98.6</u> |
| TOTAL | <u>\$344.6</u> |

This disallowance represents 7.64 percent of the \$4,509 million reviewed in the Phase 2 Reasonableness Review.

^{10/} Decision No. 86-10-069, prior to modification by Decision Nos. 87-07-097 and 87-11-018.

^{11/} Decision No. 86-10-069, Appendix B.

With respect to the Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs), the Parties note that since the investment was incurred for plant additions placed in service after commercial operation, the Utilities' activities with respect to these plant additions did not contribute to delay in achieving commercial operation. Therefore, for purposes of settlement, the Parties have agreed that it is reasonable to calculate a disallowance based upon the relationship of the non-delay disallowance to the \$4,509 million of investment reviewed in the Phase 2 Reasonableness Review. The agreed-upon disallowance percentage of 2.86 was derived as follows:

| <u>Issue</u> | <u>Disallowance</u> <u>(\$-millions)</u> |
|--------------|---|
| QA/QC | \$20.3 |
| Productivity | 10.0 |
| Indirects | <u>98.6</u> |
| TOTAL | 128.9/4509 = .0286 or 2.86% |

The percentage disallowance derived above is utilized in the following manner for each utility. For California jurisdictional ratemaking purposes, the Post-COD Investment shall be reduced by the SONGS Disallowance ("SONGSD") and shall be calculated for each utility by using the following formula:

///
///
///

SONGSD = PCODI X OS X .0286 X JAF

Where:

- PCODI = \$414.2 million of Post-COD Investment on a total plant basis (excluding the Litigation Costs and the Commission Consultant Costs);
- OS = Ownership share in San Onofre Nuclear Generating Station Unit Nos. 2 and 3; and
- JAF = The retail jurisdictional demand allocation factors for Edison or SDG&E adopted by the Commission as of January 1986.

The calculation of the SONGS Disallowance for each utility is set forth in Appendix A.

Should the Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs) recorded through December 31, 1987 exceed \$414.2 million, the Utilities may apply for rate relief reflecting any investment in excess of that amount in their respective next base rate proceeding filed after January 1, 1988.^{12/} Edison and SDG&E acknowledge that in order to recover through rates the costs associated with any Post-COD Investment in excess of \$414.2 million (excluding Litigation Costs and Commission Consultant Costs) they will have the burden of showing such investment was reasonable. The Parties agree that this Stipulation should not be construed as having any precedential effect as

^{12/} The earliest these filings could be made would be the Attrition Rate Adjustment ("ARA") filing for attrition year 1989 for Edison and for attrition year 1990 for SDG&E. In OIR No. 86-10-001 (the 3-R's proceeding), the Commission is considering modifications to the ARA mechanism. Should the Commission modify the ARA mechanism or the times for filing for attrition adjustments, such modifications would be applicable to the filings discussed above.

to either the ratemaking treatment to be afforded any Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs) in excess of \$414.2 million or the reasonableness of such amounts for California jurisdictional ratemaking purposes.

2. Additional Disallowance Related To Indirect Costs

The additional disallowance related to indirect costs was initially derived in the following manner. In the initial Phase 2 Decision,^{13/} the Commission disallowed \$98.6 million of indirect costs.^{14/} Edison and SDG&E filed applications for rehearing of the Phase 2 Decision asserting legal error and contesting the basis for the Commission's decision on this issue. The DRA filed a response to the Utilities' applications for rehearing supporting the Commission's decision and arguing that, if anything, the indirect costs disallowance should be increased.

With respect to the Post-COD Investment, the DRA believes that an additional disallowance beyond the SONGS Disallowance discussed in the preceding section is necessary to reflect an additional indirect costs disallowance. Edison and SDG&E disagree. However, as a compromise, the Parties agreed and stipulated to an additional disallowance amount of \$3 million assuming that Decision No. 86-10-069 remained unchanged with respect to the indirect cost issue (i.e., the

^{13/} Decision No. 86-10-069, prior to modification by Decision Nos. 87-07-097 and 87-11-018.

^{14/} D. 86-10-069, pp. 268-276.

indirect costs disallowance remained \$98.6 million).

However, the additional disallowance was made subject to adjustment as set forth below to reflect the final decision on rehearing of the indirect costs issue.

The Additional Disallowance ("AD") shall be calculated for each utility by using the following formula:

$$AD = \frac{(\$3 \text{ million})}{(\$98.6 \text{ million})} \times ID \times OS \times JAF$$

Where:

ID = The ultimately adopted Indirect Costs Disallowance for SONGS 2 and 3 on rehearing of Decision No. 86-10-059;

OS = Ownership share in San Onofre Nuclear Generating Station Units Nos. 2 and 3; and

JAF = The retail jurisdictional demand allocation factors for Edison or SDG&E adopted by the Commission as of January 1986.

Under the foregoing formula, it was intended that if rehearing of the indirect costs issues was denied, or if it was granted and no change from the \$98.6 million indirect cost disallowance was made on rehearing, the Additional Disallowance (on a total plant basis) would be \$3 million. If the \$98.6 million indirect cost disallowance was changed on rehearing, the Additional Disallowance (on a total plant basis) would be increased or decreased from the \$3 million level by the ratio of the ultimately adopted indirect cost disallowance to \$98.6 million. However, the Parties agreed that the Additional Disallowance calculated by the foregoing formula should not exceed \$6 million on a total plant basis.

Decision Nos. 87-07-097 and 87-11-018 reduced the disallowance of indirect costs from \$98.6 million to \$17 million. As a result of these decisions and the application of the agreed upon formula, the Additional Disallowance is \$0.5 million on a total plant basis. The calculation of the Additional Disallowance for each utility is set forth in Appendix A.

B. Disallowance Of The Utilities' Legal Fees, Consultant And Expert Witness Fees, And Other Costs Associated With Their Participation In The Phase 2 And Post-COD Reasonableness Reviews

Edison and SDG&E have incurred various costs in presenting and defending their showings in the Phase 2 and Post-COD Reasonableness Reviews. These costs include legal fees, consultant and expert witness fees, and other costs associated with their participation in the Phase 2^{15/} and Post-COD Reasonableness Reviews^{16/} (Litigation Costs). In order to compromise and arrive at a settlement, Edison and SDG&E have agreed to a disallowance of the Litigation Costs. Edison and SDG&E have agreed to this disallowance expressly and solely for the purpose of compromising and arriving at the agreement reflected in this Stipulation.

^{15/} The Litigation Costs for the Phase 2 Reasonableness Review are those recorded in Edison's Work Order No. 1809-0313 in the 184.xxx series of accounts (excluding 184.110).

^{16/} The Litigation Costs for the Post-COD Reasonableness Review are those recorded in Edison's Work Order No. 1809-0313, Account 184.110.

Because the Parties have agreed and stipulated to a disallowance of the Litigation Costs, such costs should be removed from the Post-COD Investment. The Utilities have recorded \$28.9 million of Litigation Costs through November, 1987.^{17/} The Parties have also agreed and stipulated that any additional Litigation Costs recorded on and after December 1, 1987 should not be reflected in future rates.

C. Recovery Of The Amounts Paid By Edison and SDG&E To Fund The DRA's Consultants For The Phase 2 And Post-COD Reasonableness Reviews

Prior to the initiation of the Phase 2 and Post-COD Reasonableness Reviews, Edison and SDG&E agreed to pay for the consultants hired by the Commission to assist the DRA in these reviews (Commission Consultant Costs). Edison and SDG&E have paid \$4.4 million through November, 1987. The Parties have agreed that it is reasonable to allow Edison and SDG&E to recover all Commission Consultant Costs plus accrued interest in rates through their respective MAAC Balancing Accounts. Therefore, the Parties have agreed and stipulated that the Commission Consultant Costs should be removed from the Post-COD Investment and recorded as an expense in the Utilities' respective MAAC Balancing Accounts in the months in which they were paid to the Commission. In addition, Edison and SDG&E should be authorized to recover the full amount of their respective shares of the Commission Consultant Costs through the conclusion of the Phase 2

^{17/} The Utilities' respective shares of the Litigation Costs and Commission Consultant Costs are: Edison = 80 percent
SDG&E = 20 percent.

and Post-COD Reasonableness Reviews in the MAAC Balancing Account with interest and subsequently recover them in rates.

D. The Overall Disallowance Of Post-COD Investment And The Reasonable Level Of Post-COD Investment For California Jurisdictional Ratemaking Purposes

The Parties have agreed and stipulated that the total disallowance of Post-COD Investment for each utility for California jurisdictional ratemaking purposes should be the sum of the SONGS Disallowance, the Additional Disallowance, and each utility's respective share of the Litigation Costs. In addition, the Commission Consultant Costs should be removed from the Post-COD Investment and recorded as an expense in the Utilities' respective MAAC Balancing Accounts. For California jurisdictional ratemaking purposes, the reasonable level of Post-COD Investment for each utility shall be its respective share of the Post-COD Investment reduced by their respective share of the total disallowance of that investment. The stipulated reasonable level of Post-COD Investment for California jurisdictional ratemaking purposes is \$294.8 million for Edison and \$80.4 million for SDG&E. The development of these amounts is set forth in Appendix A.

The preceding sections presented the derivation of the formulas the Parties used in arriving at this Stipulation. While the Parties have presented the formulas by which the stipulated disallowance was derived for purposes of explaining the derivation of the stipulated disallowance, the Parties agreed that subsequent events which may impact the formulas or the derivation of the disallowances should not change the stipulated

disallowance amounts. The Parties agree that the stipulated reasonable level of Post-COD Investment for each utility, as set forth in Appendix A, reflecting the stipulated disallowance amounts is reasonable for California jurisdictional ratemaking purposes.

The Parties agree and stipulate that the reasonable level of Post-COD Investment as set forth above should be reflected in the Utilities' base rates. At the same time as the reasonable level of Post-COD Investment is reflected in base rates, the Utilities' respective MAAC Average Ownership Rates attributable to the Post-COD Investment should be reduced to 0.000¢/kWh to remove current recovery of the Post-COD Investment from the MAAC. In addition, the balance in the Utilities' MAAC Balancing Accounts attributable to the reasonable level of Post-COD Investment set forth above and the Commission Consultant Costs, together with interest accrued through the amortization period, should be reflected in the Utilities' respective MAAC Balancing Rates.

III.

CONCLUSION

The foregoing Stipulation, together with Appendix A, which is attached hereto and incorporated herein by this reference, is the complete agreement between the Parties as to the reasonableness of the Post-COD Investment. The specific disallowances of investment set forth herein shall be subject to a verification audit to be performed by the Commission, and completed prior to December 31, 1988. The Parties believe the Stipulation produces

a result which is in the interests of ratepayers, shareholders,
and the public, and urge that it be adopted by the Commission.

Respectfully submitted,

Division of Ratepayer Advocates
California Public Utilities Commission

s/William R. Ahern
by: William R. Ahern
Director

Southern California Edison Company

s/Michael R. Peevey
by: Michael R. Peevey
Executive Vice President

San Diego Gas and Electric Company

s/Stephen L. Baum
by: Stephen L. Baum
Senior Vice President and
General Counsel

Dated: January 25, 1988

APPENDIX A
Page 21

APPENDIX A

STIPULATED REASONABLE LEVEL OF SONGS 2 AND 3:

POST-COD INVESTMENT

STIPULATED REASONABLE LEVEL OF
SONGS 2 AND 3 POST-COD INVESTMENTSONGS DISALLOWANCE

(Thousands of Dollars)

Formula:

$$\text{SONGSD} = \text{PCODI} * \text{OS} * .0286 * \text{JAF}$$

Where:

$$\text{SONGSD} = \text{SONGS Disallowance}$$

$$\text{PCODI} = \$414.2 \text{ million of Post-COD Investment (excluding the Litigation Costs and the Commission Consultant Costs).}$$

$$\text{OS} = \text{Ownership share in SONGS Unit Nos. 2 and 3. For the derivation on a total plant basis, the ownership share has been set at 100 percent.}$$

$$= 75.569 \text{ percent for Edison } \underline{1/}$$

$$= 20.014 \text{ percent for SDG\&E } \underline{2/}$$

$$\text{JAF} = \text{The retail jurisdictional demand allocation factors for Edison and SDG\&E adopted by the Commission as of January 1986. For the derivation on a total plant basis, the JAF has been set at 100 percent.}$$

$$= 97.05 \text{ percent for Edison}$$

$$= 100.00 \text{ percent for SDG\&E}$$

Result:

$$\text{SONGSD (Total Plant)} = 11,846 = 414,206 * 100\% * .0286 * 100\%$$

$$\text{SONGSD (Edison)} = 8,688 = 414,206 * 75.569\% * 0.0286 * 97.05\%$$

$$\text{SONGSD (SDG\&E)} = 2,371 = 414,206 * 20.014\% * 0.0286 * 100.00\%$$

1/ For this calculation, an ownership share of 75.569 percent was utilized to reflect Edison's actual share of the recorded Post-COD Investment. Edison's share of the Post-COD Investment is slightly higher than its 75.05 percent ownership share, since there are some recorded administrative and general costs capitalized to the work orders which are not shared by the other partners.

2/ For this calculation, an ownership share of 20.014 percent was utilized to reflect SDG&E's actual share of the recorded Post-COD Investment. SDG&E's share of the Post-COD Investment varies slightly due to a lag in Edison's billing to SDG&E, Edison non-billables, Edison and SDG&E administrative and general costs, and different AFUDC rates.

STIPULATED REASONABLE LEVEL OF
SONGS 2 AND 3 POST-COO INVESTMENTADDITIONAL DISALLOWANCE

(Thousands of Dollars)

Formula:

$$AD = \frac{(\$3,000)}{(\$98,600)} * ID * OS * JAF$$

Where:

AD = Additional Disallowance

ID = The ultimately adopted Indirect Cost Disallowance of \$17 million in Decision Nos. 87-07-087 and 87-11-018.

OS = Ownership share in SONGS Units Nos. 2 and 3. For the derivation on a total plant basis, the ownership share has been set at 100 percent.

= 75.05 percent for Edison

= 20.00 percent for SDG&E

JAF = The retail jurisdiction demand allocation factors for Edison and SDG&E adopted by the Commission as of January 1986. For the derivation on a total plant basis, the JAF has been set at 100 percent.

= 97.05 percent for Edison

= 100.00 percent for SDG&E

Result:

$$SONGSD \text{ (Total Plant)} = \$517 = \frac{(\$3,000)}{(\$98,600)} * \$17,000 * 100\% * 100\%$$

$$SONGSD \text{ (Edison)} = \$377 = \frac{(\$3,000)}{(\$98,600)} * \$17,000 * 75.05\% * 97.05\%$$

$$SONGSD \text{ (SDG\&E)} = \$103 = \frac{(\$3,000)}{(\$98,600)} * \$17,000 * 20.00\% * 100.00\%$$

APPENDIX A

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TABLE A-3

(Revised)

STIPULATED REASONABLE LEVEL OF
SONGS 2 AND 3 POST-COD INVESTMENT

OVERALL DISALLOWANCE OF POST-COD INVESTMENT

(Thousands of Dollars)

| : Line : | : Total : | Edison Share : | SDG&E : | |
|----------|-----------------------------|----------------|-------------------------------|------------|
| : No. : | Description : | Plant : | CPUC Jurisdictional : Share : | |
| | (1) | (2) | (3) | |
| 1. | Total Post-COD Investment | 447,454 | 329,490 | 89,472 |
| 2. | Less: | | | |
| 3. | SONGS Disallowance | 11,846 | 8,688 | 2,371 |
| 4. | Additional Disallowance | 517 | 377 | 103 |
| 5. | Litigation Costs | 28,874 | 22,425 | 5,695 |
| 6. | Commission Consultant Costs | <u>4,375</u> | <u>3,187</u> | <u>876</u> |
| 7. | Stipulated Reasonable | | | |
| 8. | Level of Post-COD | | | |
| 9. | Investment | 401,842 | 294,813 | 80,427 |

(END OF APPENDIX A)

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APPENDIX B
Page 1

ATTACHMENT 1

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
SOUTHERN CALIFORNIA EDISON COMPANY
FOR A COMMISSION ORDER REGARDING THE RATEMAKING TREATMENT
FOR EDISON'S SHARE OF THE POST-COD INVESTMENT IN
SAN ONOERE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 post-COD investment-)
related costs to base rates pursuant)
to previously adopted procedures,)
and (ii) related substantive and)
procedural relief.)

Application No. 87-05-031

STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
SOUTHERN CALIFORNIA EDISON COMPANY
FOR A COMMISSION ORDER REGARDING THE RATEMAKING TREATMENT
FOR EDISON'S SHARE OF THE POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

Dated: January 25, 1988

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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 (i) authority to)
transfer recovery of San Onofre)
Nuclear Generating Station Unit)
Nos. 2 and 3 post-COD investment-)
related costs to base rates pursuant)
to previously adopted procedures,)
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STIPULATION BETWEEN THE DIVISION OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
SOUTHERN CALIFORNIA EDISON COMPANY
FOR A COMMISSION ORDER REGARDING THE RATEMAKING TREATMENT
FOR EDISON'S SHARE OF THE POST-COD INVESTMENT IN
SAN ONOFRE NUCLEAR GENERATING STATION
UNIT NOS. 2 AND 3

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") and Southern California Edison Company ("Edison") hereby stipulate to and recommend that the Commission adopt for California jurisdictional ratemaking purposes the ratemaking treatment set forth herein for Edison's share of the reasonable level of San Onofre Nuclear

Generating Station Unit Nos. 2 and 3 ("SONGS 2 and 3") Post-COD Investment, and related matters.^{1/}

I.

INTRODUCTION

On February 18, 1982, Edison filed Application No. 82-02-40 requesting authority to reflect Edison's share of SONGS 2 in rates through a Major Additions Adjustment Clause ("MAAC") procedure. On October 21, 1983, Edison filed Application No. 83-10-36 requesting authority to reflect Edison's share of SONGS 3 in rates through the MAAC procedure. San Diego Gas and Electric Company ("SDG&E") filed similar applications to reflect their share of SONGS 2 and 3 in rates through the MAAC

^{1/} The term "Post-COD Investment" refers to the SONGS 2 and 3 investment in excess of the \$4,509 million reviewed in Phase 2 of Application Nos. 82-02-40 and related matters, and expected to be recorded prior to January 1, 1988. In Phase 2 of Application Nos. 82-02-40, et al., the Commission conducted an extensive review of \$4,509 million of SONGS 2 and 3 investment. In Application Nos. 87-05-031 and 87-07-044 the DRA conducted an extensive review of the Post-COD Investment. These reviews are referred to herein as the "Phase 2 Reasonableness Review" and "Post-COD Reasonableness Review," respectively. The term "COD" refers to Commercial Operation Date. The \$4,509 million of SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review is referred to herein as the "Pre-COD Investment". Post-COD Investment includes plant expenditures; legal fees, consultant and expert witness fees, and other costs associated with the participation of Edison and SDG&E in the Phase 2 and Post-COD Reasonableness Reviews ("Litigation Costs"); and the amounts paid by Edison and SDG&E to the Commission for the purpose of funding the DRA's consultants in the Phase 2 and Post-COD Reasonableness Reviews ("Commission Consultant Costs"). The reasonable level of Post COD-Investment has been proposed to be determined pursuant to the Stipulation and Joint Motion For A Commission Order Regarding The Reasonableness Of Post COD-Investment in San Onofre Nuclear Generating Station Unit Nos. 2 and 3, January 25, 1987 (Reasonableness Stipulation).

procedure.^{2/} Proceedings initiated by the various MAAC applications filed by Edison and SDG&E were consolidated for hearing and decision.^{3/} The Commission adopted balancing account treatment for SONGS 2 and 3 investment-related costs,^{4/} and conducted an extensive reasonableness review of the underlying investment. In Decision Nos. 86-10-069, 87-07-097, and 87-11-018 ("Phase 2 Decisions"), the Commission disallowed \$265.0 million of the \$4,509 million of SONGS 2 and 3 investment reviewed in the Phase 2 Reasonableness Review.

On October 3, 1985, Edison filed a motion in Application No. 82-02-40, et al., requesting that procedures be established to transfer recovery of its share of SONGS 2 and 3 investment-related costs from the MAAC to base rates. The Commission adopted transition procedures in Decision No. 86-08-060, and the Phase 2 Decisions ordered that those transition procedures be implemented with respect to the Pre-COD Investment.^{5/}

The transition procedures adopted in Decision No. 86-08-060 provided, among other things, that upon completion of the Phase 2 Reasonableness Review recovery of the revenue requirement associated with that portion of the Pre-COD Investment found reasonable be transferred to base rates, and that MAAC rates be established to reflect a percentage of the revenue requirement

^{2/} Application Nos. 82-03-63 and 83-10-12 (SONGS 2), and 83-11-19 (SONGS 3).

^{3/} Decision No. 84-01-038, January 5, 1984.

^{4/} Decision No. 83-09-007, September 7, 1983.

^{5/} Decision No. 86-10-069, Ordering Paragraphs 1 and 2, p. 305.

associated with the Post-COD Investment based upon the Phase 2 Decisions.^{6/}

Accordingly, on September 17, 1987 Edison filed a motion requesting authorization to establish rates in compliance with the Phase 2 Decisions. On October 1, 1987, SDG&E filed a similar motion. (The motion of Edison is referred to herein as the "Phase 2 Compliance Filing".) On December 22, 1987, the Commission granted the requested authority, providing, however, that the rates be set subject to adjustment pending later resolution of two issues.^{7/}

The transition procedures adopted in Decision No. 86-08-060 also provided for a reasonableness review of the Post-COD Investment. On May 18, 1987, Edison filed Application No. 87-05-031, and on July 23, 1987, SDG&E filed Application No. 87-07-044, wherein Edison and SDG&E requested authority to transfer recovery of Post-COD Investment from the MAAC to base rates. Edison's application (the "Post-COD Application") was

^{6/} Decision No. 86-08-060, Ordering Paragraph 2d, p. 20.

^{7/} Decision No. 87-12-065, December 22, 1987. The remaining issues to be resolved are (1) allocating the delay-related disallowances adopted in the Phase 2 Decisions between plant expenditures and AFUDC, and (2) the appropriate ratemaking treatment of interest on undercollected or overcollected income tax expense recorded in the MAAC Balancing Account. The Commission indicated that these issues were to be resolved after further testimony and consideration in proceedings on the Post-COD Applications. Decision No. 87-12-065, p. 7, Conclusions of Law Nos. 2 and 3, p. 18, Ordering Paragraph Nos. 10 and 11, p. 20. The resolution of the first issue applies only to the Pre-COD Investment. Resolution of the second issue applies to all of Edison's MAAC Balancing Accounts including those for both the Pre-COD and Post-COD Investments.

filed in contemplation of the Post-COD Reasonableness Review established by the transition procedures.

The DRA, Edison and SDG&E have stipulated to a proposed settlement of reasonableness issues regarding the Post-COD Investment ("Reasonableness Stipulation").^{8/} The Reasonableness Stipulation proposes:

- A disallowance of Post-COD Investment based upon the results of the Phase 2 Reasonableness Review;
- A disallowance of the Litigation Costs; and
- Reclassification of the Commission Consultant Costs reflected in the MAAC Post-COD Balancing Account as an expense item and recovery of such expenses plus interest through the MAAC Post-COD Balancing Account.

For Edison, the stipulated reasonable level of Post-COD Investment on a CPUC jurisdictional basis is \$294.8 million for California jurisdictional ratemaking purposes.^{9/}

In light of the Reasonableness Stipulation, and in order to avoid further litigation of the ratemaking issues with respect to the Post-COD Investment, the DRA and Edison engaged in discussions regarding the ratemaking issues. The DRA and Edison also discussed the two issues the Commission transferred to this proceeding in Decision No. 87-12-065.^{10/} Those discussions led to the settlement of ratemaking issues proposed herein.

^{8/} Stipulation and Joint Motion For A Commission Order Regarding Post-COD Investment In San Onofre Nuclear Generating Station Unit Nos. 2 and 3, January 25, 1987.

^{9/} Reasonableness Stipulation, Attachment 1, p. 15.

^{10/} See footnote 7, *supra*, p. 4.

II.

STIPULATION

The DRA and Edison have entered this Stipulation on the basis that the elements of the agreement are not severable, and that all elements of the agreement be adopted in their entirety without modification. In addition, since the agreement represents a compromise, the DRA and Edison entered into this Stipulation on the basis that the Commission's adoption of this Stipulation not be construed as a precedent or policy statement of any kind for or against the DRA and Edison in any current or future proceeding.

In the Reasonableness Stipulation, the DRA, Edison and SDG&E agreed and stipulated that the reasonable level of Post-COD Investment should be reflected in the utilities' base rates. At the same time as the reasonable level of Post-COD Investment is reflected in base rates, the utilities' respective MAAC Average Ownership Rates attributable to the Post-COD Investment should be reduced to 0.000 ¢/kWh to remove current recovery of the Post-COD Investment from the MAAC. In addition, the balance in the utilities' MAAC Balancing Accounts attributable to the reasonable level of Post-COD Investment and the Commission Consultant Costs, together with interest through the amortization period, should be reflected in the utilities' respective MAAC Balancing Rates.

This Ratemaking Stipulation implements the foregoing ratemaking treatment for Edison. In addition to the foregoing, this Ratemaking Stipulation proposes a settlement of the two

ratemaking issues transferred to these proceedings by Decision No. 87-12-065.

The DRA and Edison have agreed and stipulated to the following ratemaking treatment for Edison's share of the reasonable level of Post-COD Investment, and related matters:

- The balances in all of Edison's MAAC Balancing Accounts should be adjusted to reflect non-recovery of all interest on undercollected or overcollected income tax expense accrued from the inception of all of the MAAC Balancing Accounts through the effective date of a Commission decision adopting this Ratemaking Stipulation. The MAAC Pre-COD and Post-COD Balancing Account balances should be reduced by \$2.5 million and \$12.4 million, respectively, to reflect such amounts recorded through December 31, 1987, and estimated to be recorded from January 1, 1988 through May 31, 1988;
- Edison's MAAC tariff should be modified to exclude the accrual of interest on undercollected or overcollected income tax expenses;
- The balance in Edison's MAAC Post-COD Balancing Account should be reduced to reflect the accumulated revenue requirement plus accrued interest associated with the SONGS Disallowance and Additional Disallowance, as set forth in the Reasonableness Stipulation, from January 1986 through the effective date of the tariffs authorized by the Commission's decision on this Ratemaking Stipulation;

- The balance in Edison's MAAC Post-COD Balancing Account should be reduced to reflect exclusion of the revenue requirement plus accrued interest associated with Edison's share of the Litigation Costs, commencing on the date the revenue requirement associated with the Litigation Costs was recorded, and continuing through the effective date of the Commission's decision on this Ratemaking Stipulation, as provided in the Reasonableness Stipulation;
- The balance in Edison's MAAC Post-COD Balancing Account should be adjusted to reflect the reclassification of Edison's share of the Commission Consultant Costs as an expense item, effective as of the dates the payments were recorded, including interest, as provided in the Reasonableness Stipulation;
- The adjusted balance in Edison's MAAC Post-COD Balancing Account associated with the revenue requirement attributable to Edison's share of the stipulated reasonable level of Post-COD Investment and Commission Consultant Costs, plus accrued interest through the amortization period should be amortized over a three-year period commencing on the date Edison's tariffs implementing the stipulated ratemaking treatment are made effective as provided in a Commission decision adopting this Ratemaking Stipulation. The DRA and Edison propose a MAAC Post-COD Balancing Rate of 0.064¢/kWh for such amortization, and that such rate remain unchanged for the amortization period;

- The adjusted balance in the MAAC Pre-COD Balancing Account reflecting the removal of the interest expense associated with undercollected or overcollected income tax expense should be amortized over a three-year period. This results in no change to the Pre-COD Balancing Rate of 0.013¢/kWh which should remain unchanged for the amortization period;
- The recovery of the revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment should be transferred from the MAAC to base rates effective for service rendered on and after the date Edison's tariffs implementing the stipulated ratemaking treatment are made effective as provided in a Commission decision adopting this ratemaking Stipulation. This ratemaking treatment involves:
 - An increase in Edison's average base rate levels of 0.075¢/kWh and an increase in its Authorized Level of Base Rate Revenue under the Electric Revenue Adjustment Mechanism ("ERAM") of \$48.6 million to transfer recovery of the stipulated reasonable level of Post-COD Investment from the MAAC to base rates; and
 - A reduction of Edison's MAAC Average Ownership Rate associated with the Post-COD Investment to 0.000¢/kWh to reflect removal of the current recovery of the revenue requirement associated with post-COD Investment from the MAAC;

- Appropriate modifications to Edison's ERAM and MAAC tariffs should be made to reflect the stipulated ratemaking treatment;
- The revenue requirements and associated rate levels adopted pursuant to this Stipulation should be made subject to adjustment to reflect the final decisions in OII No. 86-11-019 and OIR No. 86-10-001; 11/ and
- Implementation of the above-described ratemaking treatment should be made subject to adjustment pending a verification audit by the Commission to be completed by December 31, 1988.

The following table summarizes the rate level changes stipulated to herein:

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///
///
///
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11/ In OII No. 86-11-019 ("the Tax OII"), the Commission is considering the ratemaking impacts of recent changes in state and federal tax law. In OIR No. 86-10-001 ("the 3-R's proceeding"), the Commission is considering modification of various ratemaking mechanisms.

CHANGES TO RATE LEVELS

| Line No. | Description | Present (¢/kwh) (1) | Proposed (¢/kwh) (2) | Change (¢/kwh) (3) |
|----------|---------------------------------|------------------------|-------------------------|-----------------------|
| 1. | INCREASE TO AVERAGE BASE RATE | | | |
| 2. | LEVELS TO REFLECT POST-COD | | | |
| 3. | INVESTMENT | 0.000 | 0.075 | 0.075 |
| 4. | DECREASE TO THE MAJOR ADDITIONS | | | |
| 5. | ADJUSTMENT BILLING FACTOR: | | | |
| 6. | Post-COD Average Ownership Rate | 0.081 | 0.000 | (0.081) |
| 7. | Pre-COD Balancing Rate | 0.013 | 0.013 | 0.000 |
| 8. | Post-COD Balancing Rate | <u>0.000</u> | <u>0.064</u> | <u>0.064</u> |
| 9. | Total MAABF Change | 0.094 | 0.077 | (0.017) |

The foregoing ratemaking treatment results in the following changes in forecasted annualized revenue:

ANNUALIZED REVENUE CHANGES

(Twelve-Month Period Commencing June 1, 1988)

| Line No. | Customer Group | Sales (Gwh) (1) | Change From Present Rates | | | |
|----------|------------------|--------------------|---------------------------|--------------------|--------------------|------------|
| | | | Base Rates (SM2) (2) | MAABF (SM2) (3) | Total (SM2) (4) | (%) (5) |
| 1. | Domestic | 19,832.0 | 14.8 | (3.4) | 11.4 | 0.7 |
| 2. | Lighting - Small | | | | | |
| 3. | & Med. Power | 21,798.2 | 16.3 | (3.7) | 12.6 | 0.6 |
| 4. | Large Power | 20,351.0 | 15.3 | (3.5) | 11.8 | 0.8 |
| 5. | Agricultural & | | | | | |
| 6. | Pumping | 2,077.0 | 1.6 | (0.3) | 1.3 | 0.8 |
| 7. | Street & Area | | | | | |
| 8. | Lighting | <u>471.0</u> | <u>0.3</u> | <u>(0.1)</u> | <u>0.2</u> | 0.3 |
| 9. | Total 5 Major | | | | | |
| 10. | Customer Groups | 64,529.2 | 48.3 | (11.0) | 37.3 | 0.7 |

A. Resolution Of Issues Held Over From The Phase 2 Compliance Filings

In its decision on the Phase 2 Compliance Filings, the Commission transferred further consideration of two issues to this proceeding regarding Post-COD Investment.^{12/} The two issues are:

- The allocation of delay-related disallowances adopted in the Phase 2 Decisions between plant expenditures and AFUDC;^{13/} and
- The ratemaking treatment of interest accrued on undercollected or overcollected income tax expense recorded in the MAAC Balancing Account.^{14/}

As noted in the Reasonableness Stipulation, Edison's and SDG&E's activities in incurring the Post-COD Investment did not contribute to delay in achieving commercial operation. Therefore, resolution of the first issue impacts the ratemaking treatment for the Pre-COD Investment only. Resolution of the second issue impacts the ratemaking treatment for both the Pre-COD and Post-COD Investment.

1. The Allocation Of Delay-Related Disallowances Between Plant Expenditures And AFUDC

In its Phase 2 Compliance Filing Edison allocated all of the delay-related disallowance adopted in the Phase 2 Decisions to AFUDC in accordance with Decision Nos. 87-07-097

^{12/} Decision No. 87-12-065, p. 7, and Ordering Paragraphs 10 and 11, p. 20.

^{13/} Decision No. 87-12-065, p.7.

^{14/} Decision No. 87-12-065, pp. 8-9.

and 87-11-018.^{15/} In its response to the Phase 2 Compliance Filings, the DRA noted that there is an apparent inconsistency between the Commission's initial Phase 2 decision, and its decisions on rehearing.^{16/} The DRA urged the Commission to resolve the apparent inconsistency, but also noted that "[t]he Edison approach does appear to reflect the most recent Commission discussion on the topic."^{17/}

In discussions between the DRA and Edison on this issue, the DRA noted that resolving the apparent inconsistency in the Commission's findings on this issue could involve a very complex reanalysis of the entire methodology used to calculate the disallowances adopted in the Phase 2 Decisions. Edison noted that its method of allocating all delay-related disallowances to AFUDC provided the maximum benefit of these disallowances to ratepayers. In order to avoid further litigation of this complex issue, the DRA and Edison have agreed and stipulated to the use of Edison's method for purposes of the ratemaking treatment applicable to Edison's share of the Pre-COD Investment.

^{15/} These decisions were issued on rehearing of Decision No. 86-10-069 (the initial Phase 2 decision), modifying that decision, in part, as to the calculation of the disallowances adopted in Phase 2.

^{16/} DRA's "Response To Motions For Commission Orders Authorizing Rates In Compliance With The Commission's Phase 2 Decision," December 10, 1987, pp. 3-4.

^{17/} Id., p.4.

2. Ratemaking Treatment Of Interest On The Overcollected Or Undercollected Income Tax Expense Recorded In The MAAC Balancing Account

Since the inception of the MAAC Balancing Account, Edison has been authorized to reflect therein the investment-related costs attributable to specified major additions authorized for inclusion in the MAAC.^{18/} Investment-related costs are defined to be depreciation, ad valorem taxes, income taxes, and return.^{19/} In addition, Edison has been authorized to record interest on amounts under- or overcollected in the MAAC Balancing Account.^{20/} The interest rate currently applicable to the MAAC Balancing Account is the three month prime commercial paper rate as defined in the MAAC tariff.^{21/}

In their response to the Phase 2 Compliance Filing, the DRA stated that it believed Edison's calculation of interest on the undercollections in its MAAC Balancing Accounts is in error because it included interest on the income tax component. The DRA noted that Edison will not pay income taxes on the amount of undercollected income tax expense until it is recovered through rates, and therefore

18/ Decision No. 83-09-007, September 7, 1983, p.3.

19/ Id., Appendix D, p.4.

20/ Id., Appendix D, pp.2 and 4.

21/ See Edison's currently effective MAAC tariff (Part K.3.e. to the Preliminary Statement of Edison's Tariffs).

it will not have an interest-compensable shortfall in revenue until that time.^{22/}

In order to compromise and arrive at a settlement of this issue, the DRA and Edison have agreed and stipulated that the interest accrued on undercollected or overcollected income tax expense recorded in the MAAC Balancing Account should not be recovered. Specifically, the DRA and Edison propose that:

- The balance in all of Edison's MAAC Balancing Accounts should be adjusted to reflect non-recovery of all interest on undercollected or overcollected income tax expense accrued from the inception of each of the MAAC Balancing Accounts through the effective date of the tariffs made effective by the Commission decision adopting this Ratemaking Stipulation. The MAAC Pre-COD and Post-COD Balancing Account balances should be reduced by \$2.5 million and \$12.4 million, respectively, to reflect such amounts recorded through December 31, 1987, and estimated from January 1, 1988 through May 31, 1988, and all additional amounts should not be recovered; and
- The MAAC Balancing Account procedure should be modified to exclude the accrual of any carrying

^{22/} DRA's "Response To Motions For Commission Orders Authorizing Rates In Compliance With The Commission's Phase 2 Decision," December 10, 1987, p.3, and Attachment p.3.

cost on undercollected or overcollected income tax expenses.

To properly compensate the Company for future undercollections or overcollections in the MAAC Balancing Accounts, the DRA and Edison have agreed and stipulated that the interest rate applicable to Edison's MAAC Balancing Accounts should be the Company's then-current after tax gross AFUDC rate, and that the MAAC procedure should be revised to reflect this change effective as of the date Edison's tariffs implementing the Commission's decision on this Stipulation become effective.^{23/}

However, the interest rate (defined as the "Carrying Cost Rate" in the MAAC tariff) set forth in the MAAC tariff shall not be applied to undercollected or overcollected income tax expense reflected in all of Edison's MAAC Balancing Accounts.

B. Adjustments To The Balances In The MAAC Balancing Accounts

The DRA and Edison have agreed and stipulated that the balances in Edison's MAAC Pre-COD and Post-COD Balancing Accounts should be adjusted to fully reflect the disallowances proposed in the Reasonableness Stipulation in the MAAC Post-COD Balancing Account, including the associated interest. The Adjustments also reflect the removal of interest on all undercollected or overcollected income tax expense in the MAAC Pre-COD and Post-COD Balancing Accounts.

^{23/} The proposed change to the interest rate is included in the MAAC tariff set forth in Appendix D.

The DRA and Edison have agreed that the balance in Edison's Post-COD Balancing Account should be reduced to reflect the accumulated revenue requirement plus interest associated with the SONGS Disallowance and Additional Disallowance from January 1986 through the effective date of the tariffs made effective by a Commission decision on this Ratemaking Stipulation. January, 1986 is the approximate date when one-half of the Post-COD Investment (excluding Litigation Costs and Commission Consultant Costs) had been recorded. The mid-point was selected because it will have the effect of spreading the disallowances proposed in the Reasonableness Stipulation uniformly over the period the Post-COD Investment was incurred.

The adjustments to the balances in the MAAC Post-COD Balancing Account set forth in Appendix A also reflect removal of the revenue requirement plus accrued interest associated with Edison's share of the Litigation Costs. These adjustments were made in the month such costs were originally reflected in the MAAC Post-COD Balancing Account as provided in the Reasonableness Stipulation.

The adjustments to the balance in the MAAC Balancing Account set forth in Appendix A also reflect Edison's share of the Commission Consultant Costs recorded through November 30, 1987. The DRA and Edison recognize that the DRA's consultants have not yet submitted their final billings, and that the DRA may require further support from its consultants in any hearings that may be held on the Reasonableness Stipulation. Therefore, the DRA and Edison have agreed and stipulated that Edison should record any future billings from the Commission for DRA's consultants for the

Phase 2 and Post-COD Reasonableness Reviews in the MAAC Post-COD Balancing Account, and that such amounts, plus accrued interest, should be recoverable through application of the MAAC Post-COD Balancing Rate.

C. Amortization Of The Balances In The MAAC Balancing Accounts

The DRA and Edison have agreed and stipulated that Edison should be authorized to set its MAAC Post-COD Balancing Rate at a level which will amortize over a three-year period the adjusted balance in the MAAC Post-COD Balancing Account associated with Edison's share of the stipulated reasonable level of Post-COD Investment and the Commission Consultant Costs, and resolution of the interest on undercollected or overcollected income tax expense issue transferred to this proceeding by Decision No. 87-12-065, plus accrued interest through the amortization period. The proposed MAAC Post-COD Balancing Rate is 0.064¢/kWh. The DRA and Edison have also agreed and stipulated that Edison should be authorized to set its MAAC Pre-COD Balancing Rate at a level which reflects removal of interest on under collected income tax expense and a three-year amortization of the adjusted May 31, 1988 Balance in the MAAC Pre-COD Balancing Account. This results in a MAAC Pre-COD Balancing Rate of 0.013¢/kWh which is unchanged from its present level. The development of the MAAC Pre-COD and Post-COD Balancing Rates is set forth in Appendix B.

D. Transfer Of The Revenue Requirement Associated With Edison's
Share Of The Stipulated Reasonable Level Of Post-COD
Investment From The MAAC To Base Rate Recovery

In order to transfer recovery of the revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment from the MAAC to base rates, the DRA and Edison have agreed and stipulated that:

- The level of base rates should be increased to reflect the revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment;
- The MAAC Average Ownership Rate ("AOR") should be decreased to remove the revenue requirement associated with the Post-COD Investment from the MAAC; and
- The Major Additions Adjustment Billing Factor ("MAABF") should be adjusted to reflect the changes to the MAAC AOR and MAAC Balancing Rates.

1. Proposed Base Rate Increases

The DRA and Edison have agreed and stipulated that Edison should be authorized to increase its average base rate levels by 0.075¢/kWh and to increase its Authorized Level of Base Rate Revenue under the ERAM by \$48,597 thousand, effective for service rendered on and after the date Edison's tariffs implementing the Commission decision adopting this Ratemaking Stipulation are made effective. These changes will reflect the forecast annualized revenue requirement associated with Edison's share of the stipulated reasonable level of Post-COD Investment. Edison's annualized revenue requirement associated with the stipulated reasonable level of Post-COD Investment is set forth in Appendix C, and is based on the revenue requirement factors adopted in its Test Year 1988 General Rate Case, Decision No. 87-12-066.

2. Proposed MAAC Rate Decreases

The DRA and Edison have agreed and stipulated that Edison should be authorized to decrease its MAAC AOR associated with the Post-COD Investment to 0.000¢/kWh effective for service rendered on and after the date Edison's tariffs implementing this Ratemaking Stipulation are made effective pursuant to a Commission decision adopting this Ratemaking Stipulation. This change will transfer current recovery of the revenue requirement attributable to the Post-COD Investment from MAAC to Base Rates.

3. Adjustment To The Major Additions Adjustment Billing Factor

The DRA and Edison have agreed and stipulated that Edison should be authorized to adjust its then-effective MAABF to reflect the stipulated changes to the MAAC AOR and MAAC Balancing Rates set forth herein. (The MAABF is the sum of the MAAC AOR's and MAAC Balancing Rates.) The change to the MAABF as a result of this Ratemaking Stipulation is -0.017¢/kWh.

E. Modification To The ERAM And MAAC Tariffs

The DRA and Edison have agreed and stipulated that Edison's ERAM and MAAC tariffs should be modified to reflect and implement the stipulated ratemaking treatment as set forth herein. The modified ERAM and MAAC tariffs are set forth in Appendix D.

F. Subject-To-Adjustment Provisions

The DRA and Edison have agreed and stipulated that the revenue requirements and rate levels set forth herein and adopted pursuant to this Ratemaking Stipulation should be subject to

adjustment to reflect the final decisions in the Tax OII and the 3-R's proceedings. The Commission has made the utility's base rate revenues subject to refund to reflect the impact of recent changes in federal and state tax laws.^{24/} In the 3-R's proceeding, the Commission is considering changes to various ratemaking mechanisms.^{25/} Edison's rates and revenues are not subject to retroactive adjustment to reflect the Commission's decision in the 3-R's proceeding; however, the matter is currently pending before the Commission. Should the Commission issue a decision in the 3-R's proceeding prior to a decision on this Ratemaking Stipulation, the revenue requirements and/or rate levels set forth herein may require adjustment to reflect the Commission's decision in the 3-R's proceeding.

In its decision on the Phase 2 Compliance Filings, the Commission directed that two issues raised by the DRA in response to those filings be considered further in proceedings on the Post-COD Applications.^{26/} The decision directed Edison and SDG&E to file testimony on the two issues within 60 days, or by February 22, 1987.^{27/} The DRA and Edison, through this Ratemaking Stipulation, have proposed a resolution of the two issues as they impact Edison. Therefore, the DRA (as regards Edison) and Edison will not be filing testimony on these issues.

^{24/} OII No. 86-11-019, November 14, 1986, Ordering Paragraph 3, p. 5.

^{25/} OIR No. 86-10-001, October 1, 1986, pp. 3-4.

^{26/} Decision No. 87-12-065, December 22, 1987, p.7.

^{27/} *Id.*, Ordering Paragraphs 10 and 11, p. 20.

Should the Commission reject the proposed settlement of these issues, the DRA and Edison respectfully request that the Commission allow Edison 30 days from such rejection in which to file its testimony on these issues, and a further 30 days for the DRA to respond before further considering the issues.

III.

CONCLUSION

The foregoing Ratemaking Stipulation, together with Appendices A through D inclusive, which are attached hereto and incorporated herein by this reference, is the complete agreement between the DRA and Edison. The DRA and Edison believe this Ratemaking Stipulation produces a result which is in the interests of ratepayers, shareholders, and the public, and urge that it be adopted by the Commission.

Respectfully submitted,

Division of Ratepayer Advocates
California Public Utilities Commission

s/Kenneth K. Chew
by: Kenneth K. Chew
Principal Financial Examiner

Southern California Edison Company

s/Ronald Daniels
by: Ronald Daniels
Manager of Revenue Requirements

Dated: January 25, 1988

APPENDIX B
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APPENDIX A

STIPULATED ADJUSTMENTS TO THE
MAAC PRE-COD AND POST-COD
BALANCING ACCOUNTS

SOUTHERN CALIFORNIA EDISON COMPANY
 STIPULATED ADJUSTMENTS TO THE MAAC PRE-COD-BALANCING ACCOUNT
 (Thousands of Dollars)

| MONTHS | RECORDED REVENUE REQUIREMENT (total sys.) (excl. FF&U) | RECORDED REVENUE REQUIREMENT (CPUC Juris.) (excl. FF&U) | MAACF REVENUES BILLED LESS FRANCH. FEES & UNCOLLECT. | UNDER- COLLECTION | INTEREST EXPENSE | ADJUSTMENTS | BALANCING ACCOUNT BALANCE |
|-----------|--|---|--|----------------------|---------------------|----------------|---------------------------------|
| | A | B | C | D=A-B | E | F | G |
| DEC. 1987 | | | | | | | 82,633.00 |
| JAN. 1988 | 0.00 | 0.00 | 40,861.00 | (40,861.00) | 348.96 | 0.00 | 42,140.96 |
| FEB. 1988 | 0.00 | 0.00 | 644.00 | (644.00) | 234.53 | (15,125.00) 1) | 26,606.49 |
| MAR. 1988 | 0.00 | 0.00 | 644.00 | (644.00) | 147.41 | 0.00 | 26,109.90 |
| APR. 1988 | 0.00 | 0.00 | 624.00 | (624.00) | 128.34 | 0.00 | 25,614.24 |
| MAY 1988 | 0.00 | 0.00 | 644.00 | (644.00) | 125.83 | (2,540.00) 2) | 22,536.07 |

Adjustment to reflect the flow-through to customers of the estimated level of income tax benefits associated with the election of income tax benefits for SONGS Units 2 and 3 nuclear decommissioning per Decision No. 87-11-023.

2) Adjustment to reflect the accumulated interest associated with the undercollected income tax expense.

TABLE A - 2
SOUTHERN CALIFORNIA Edison COMPANY
STIMULATED ADJUSTMENTS TO THE 1986 POST-CDD BALANCING ACCOUNT
(Thousands of Dollars)

| MONTHS | REVENUE REQUIREMENT OF DISALLOWANCES (including franch. fees & uncollectibles) (total system) | | | | | ADJUSTED REVENUE REQUIREMENT (excluding FFAU) | | 1986 REVENUES BILLED LESS FRANCH. FEES & UNCOLLECT. | UNDER- COLLECTION | INTEREST EXPENSE | ADJUSTMENTS | BALANCING ACCOUNT BALANCE |
|-----------|---|-----------------|---------------------|--------------------------------------|-----------------------------------|--|----------------------|---|----------------------|---------------------|-------------|---------------------------------|
| | RECORDED REVENUE REQUIREMENT (total sys.) (incl. FFAU) | PLANT ADDING | LITIGATION COSTS | CPUC | | TOTAL SYSTEM | CPUC JURISDICTION | | | | | |
| | | | | CPUC CONSULTANTS (Capitalized) | CPUC CONSULTANTS (Expensed) | | | | | | | |
| A | B | C | D | E | F+G+B+C+D+E | G | H | I+J+K | L | | | |
| OCT. 1983 | 1.64 | 0.00 | 0.00 | 1.64 | 129.50 | 129.50 | 119.48 | 0.00 | 119.48 | 0.46 | 0.00 | 119.94 |
| NOV. 1983 | 2.44 | 0.00 | 0.00 | 2.44 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.90 | 0.00 | 120.84 |
| DEC. 1983 | 2.41 | 0.00 | 0.00 | 2.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.92 | 0.00 | 121.76 |
| JAN. 1984 | 2.51 | 0.00 | 0.00 | 2.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.93 | 0.00 | 122.69 |
| FEB. 1984 | 2.50 | 0.00 | 0.00 | 2.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.94 | 0.00 | 123.63 |
| MAR. 1984 | 2.48 | 0.00 | 0.00 | 2.48 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.96 | 0.00 | 124.59 |
| APR. 1984 | 5.07 | 0.00 | 0.00 | 5.07 | 129.50 | 129.50 | 121.41 | 0.00 | 121.41 | 1.52 | 0.00 | 125.52 |
| MAY 1984 | 5.04 | 0.00 | 0.00 | 5.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.10 | 0.00 | 126.62 |
| JUN. 1984 | 11.04 | 0.00 | 0.00 | 11.04 | 300.20 | 300.20 | 282.26 | 0.00 | 282.26 | 3.47 | 0.00 | 127.85 |
| JUL. 1984 | 11.06 | 0.00 | 0.00 | 11.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.90 | 0.00 | 129.25 |
| AUG. 1984 | 10.99 | 0.00 | 0.00 | 10.99 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.04 | 0.00 | 130.29 |
| SEP. 1984 | 10.93 | 0.00 | 0.00 | 10.93 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.08 | 0.00 | 131.37 |
| OCT. 1984 | 10.87 | 0.00 | 2.82 | 10.87 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.06 | 0.00 | 132.43 |
| NOV. 1984 | 10.81 | 0.00 | 8.45 | 10.81 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.68 | 0.00 | 133.75 |
| DEC. 1984 | 10.83 | 0.00 | 17.77 | 10.83 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.21 | 0.00 | 135.29 |
| JAN. 1985 | 10.78 | 0.00 | 24.62 | 10.78 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.97 | 0.00 | 136.99 |
| FEB. 1985 | 10.70 | 0.00 | 31.11 | 10.70 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.80 | 0.00 | 138.39 |
| MAR. 1985 | 10.64 | 0.00 | 37.69 | 10.64 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.07 | 0.00 | 139.96 |
| APR. 1985 | 10.57 | 0.00 | 43.01 | 10.57 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.27 | 0.00 | 141.43 |
| MAY 1985 | 10.51 | 0.00 | 51.21 | 10.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.05 | 0.00 | 143.08 |
| JUN. 1985 | 10.59 | 0.00 | 62.06 | 10.59 | 693.20 | 693.20 | 650.25 | 0.00 | 650.25 | 5.94 | 0.00 | 149.27 |
| JUL. 1985 | 10.46 | 0.00 | 84.17 | 10.46 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 7.60 | 0.00 | 156.87 |
| AUG. 1985 | 10.31 | 0.00 | 130.48 | 10.31 | 0.00 | 379.94 | 355.59 | 0.00 | 355.59 | 8.96 | 0.00 | 165.83 |
| SEP. 1985 | 10.25 | 0.00 | 146.41 | 10.25 | 0.00 | 276.73 | 261.30 | 0.00 | 261.30 | 11.22 | 0.00 | 177.61 |
| OCT. 1985 | 10.18 | 0.00 | 175.68 | 10.18 | 0.00 | 298.81 | 282.78 | 0.00 | 282.78 | 13.22 | 0.00 | 190.83 |
| NOV. 1985 | 10.11 | 0.00 | 191.89 | 10.11 | 0.00 | 289.40 | 274.17 | 0.00 | 274.17 | 15.07 | 0.00 | 205.90 |
| DEC. 1985 | 10.04 | 0.00 | 202.51 | 10.04 | 0.00 | 1,613.95 | 1,530.30 | 0.00 | 1,530.30 | 20.95 | 0.00 | 226.85 |
| JAN. 1986 | 10.07 | 188.07 | 206.94 | 10.07 | 550.70 | 4,603.96 | 4,399.77 | 0.00 | 4,399.77 | 60.18 | 0.00 | 287.03 |
| FEB. 1986 | 10.00 | 187.24 | 219.84 | 10.00 | 0.00 | 3,859.64 | 3,684.29 | 0.00 | 3,684.29 | 64.20 | 0.00 | 351.23 |
| MAR. 1986 | 9.93 | 186.59 | 257.73 | 9.93 | 528.70 | 4,170.39 | 3,951.23 | 0.00 | 3,951.23 | 90.21 | 0.00 | 441.44 |
| APR. 1986 | 9.86 | 185.89 | 280.11 | 9.86 | 120.70 | 4,058.33 | 3,861.97 | 0.00 | 3,861.97 | 109.11 | 0.00 | 550.55 |
| MAY 1986 | 9.79 | 185.19 | 309.60 | 9.79 | 227.70 | 4,156.68 | 3,931.21 | 0.00 | 3,931.21 | 122.05 | 0.00 | 672.60 |
| JUN. 1986 | 9.72 | 184.51 | 342.15 | 9.72 | 0.00 | 3,976.04 | 3,762.69 | 0.00 | 3,762.69 | 144.31 | 0.00 | 816.91 |
| JUL. 1986 | 9.65 | 183.83 | 351.17 | 9.65 | 176.90 | 4,137.47 | 3,931.72 | 0.00 | 3,931.72 | 168.59 | 0.00 | 985.50 |
| AUG. 1986 | 9.58 | 183.14 | 371.14 | 9.58 | 0.00 | 4,232.52 | 4,042.92 | 0.00 | 4,042.92 | 180.97 | 0.00 | 1,166.47 |
| SEP. 1986 | 9.51 | 182.45 | 381.67 | 9.51 | 0.00 | 4,198.53 | 4,080.90 | 0.00 | 4,080.90 | 190.18 | 0.00 | 1,356.65 |
| OCT. 1986 | 9.44 | 181.77 | 386.33 | 9.44 | 0.00 | 4,264.02 | 4,203.75 | 0.00 | 4,203.75 | 202.98 | 0.00 | 1,559.63 |
| NOV. 1986 | 9.37 | 179.88 | 389.47 | 9.37 | 0.00 | 4,423.78 | 4,379.52 | 0.00 | 4,379.52 | 224.25 | 0.00 | 1,783.88 |
| DEC. 1986 | 9.30 | 182.89 | 419.03 | 9.30 | 79.50 | 3,223.04 | 3,159.59 | 0.00 | 3,159.59 | 231.38 | 0.00 | 2,015.26 |

A.87-05-031, A.87-07-044 /AJJ/NRS/jt

APPENDIX B
Page 28

Appendix A -2-

TABLE A -
SOUTHERN CALIFORNIA EDISON COMPANY
STIPULATED ADJUSTMENTS TO THE MOOP POST-COD BALANCING ACCOUNT
(Thousands of Dollars)

| MONTHS | REVENUE REQUIREMENT OF DISALLOWANCES (excluding trans. fees & uncollectibles) (total system) | | | | ADJUSTED REVENUE REQUIREMENT (including PFAU) | | MOOP REVENUES | | INTEREST EXPENSE | ADJUSTMENTS | BALANCING ACCOUNT BALANCE | |
|-----------|--|-----------------|------------------|-----------------------------------|--|--------------|-------------------|---|------------------|-------------|---------------------------|------------------|
| | RECORDED REVENUE REQUIREMENT (total sys.) (incl. PFAU) | PLANT ADDITIONS | LITIGATION COSTS | CPUC CONSULTANTS (Capitalized) | CPUC CONSULTANTS (Expensed) (total system) | TOTAL SYSTEM | CPUC JURISDICTION | BILLED LESS PAYMENT FEES & UNCOLLECT. | | | | UNDER-COLLECTION |
| | A | B | C | D | E | F=A+B+C+D+E | G | H | I=H-G | J | K | L |
| JAN. 1987 | 5,039.65 | 157.45 | 251.81 | 50.89 | 210.30 | 4,689.80 | 4,612.00 | 0.00 | 4,612.00 | 292.33 | 0.00 | 60,107.15 |
| FEB. 1987 | 5,133.06 | 156.64 | 251.46 | 50.62 | 0.00 | 4,574.34 | 4,496.48 | 0.00 | 4,496.48 | 301.46 | 0.00 | 64,907.09 |
| MAR. 1987 | 5,177.57 | 155.85 | 251.38 | 50.35 | 0.00 | 4,619.99 | 4,565.45 | 0.00 | 4,565.45 | 338.75 | 0.00 | 69,811.29 |
| APR. 1987 | 5,327.27 | 153.04 | 252.40 | 50.09 | 0.00 | 4,769.74 | 4,724.41 | 0.00 | 4,724.41 | 370.49 | 0.00 | 74,908.19 |
| MAY 1987 | 5,368.16 | 154.62 | 254.10 | 49.87 | 0.00 | 4,809.57 | 4,767.33 | 0.00 | 4,767.33 | 415.43 | 0.00 | 80,088.95 |
| JUN. 1987 | 5,437.91 | 153.83 | 254.01 | 49.79 | 5.50 | 4,845.78 | 4,849.28 | 0.00 | 4,849.28 | 476.52 | 0.00 | 85,414.75 |
| JUL. 1987 | 5,415.07 | 152.12 | 254.64 | 49.21 | 0.00 | 4,859.10 | 4,833.82 | 0.00 | 4,833.82 | 506.30 | 0.00 | 90,755.07 |
| AUG. 1987 | 5,442.90 | 151.37 | 257.65 | 49.03 | 8.30 | 4,893.15 | 4,862.34 | 0.00 | 4,862.34 | 516.41 | 0.00 | 96,133.82 |
| SEP. 1987 | 5,439.43 | 150.58 | 257.77 | 48.77 | 0.00 | 4,882.31 | 4,859.64 | 0.00 | 4,859.64 | 551.14 | 0.00 | 101,544.60 |
| OCT. 1987 | 5,381.44 | 149.80 | 257.82 | 48.52 | 0.00 | 4,825.30 | 4,798.21 | 0.00 | 4,798.21 | 638.39 | 0.00 | 106,981.20 |
| NOV. 1987 | 5,380.61 | 149.02 | 257.80 | 49.44 | 122.60 | 4,946.95 | 4,918.00 | 0.00 | 4,918.00 | 719.57 | 0.00 | 112,618.77 |
| DEC. 1987 | 5,399.34 | 148.24 | 255.79 | 49.18 | 0.00 | 4,846.17 | 4,805.97 | 0.00 | 4,805.97 | 687.25 | 0.00 | 118,111.99 |
| <hr/> | | | | | | | | | | | | |
| JAN. 1988 | 4,801.46 | 133.46 | 314.97 | 43.77 | 0.00 | 4,309.26 | 4,183.52 | 1,726.00 | 2,457.52 | 669.30 | 0.00 | 121,238.81 |
| FEB. 1988 | 4,780.91 | 132.88 | 313.50 | 43.57 | 0.00 | 4,290.36 | 4,165.75 | 3,986.00 | 179.75 | 680.45 | 0.00 | 122,099.01 |
| MAR. 1988 | 4,760.37 | 132.30 | 312.04 | 43.37 | 0.00 | 4,272.64 | 4,147.98 | 4,055.00 | 112.98 | 685.09 | 0.00 | 122,897.08 |
| APR. 1988 | 4,739.83 | 131.73 | 310.59 | 43.16 | 0.00 | 4,254.25 | 4,130.21 | 3,894.00 | 236.21 | 612.00 | 0.00 | 123,745.29 |
| MAY 1988 | 4,719.74 | 131.15 | 309.08 | 42.97 | 0.00 | 4,236.04 | 4,112.43 | 3,998.00 | 114.43 | 615.92 | (12,544.00)† | 111,931.64 |

†) Adjustment to reflect the accumulated interest associated with the undercollected income tax expense.

01/22/88

APPENDIX B

STIPULATED MAJOR ADDITIONS ADJUSTMENT CLAUSE
REVENUE REQUIREMENTS AND
RESULTANT PROPOSED MAAC BALANCING RATE LEVELS

SOUTHERN CALIFORNIA EDISON COMPANYMAJOR ADDITIONS ADJUSTMENT ACCOUNTPRE-COO INVESTMENT

| Line No. | Description | (SM) (1) | Forecast Sales (Gwh) (2) | MAAC Balancing Rate (c/kwh) (3) |
|----------|----------------------------------|--------------|--------------------------------|---------------------------------------|
| 1. | Forecast May 31, 1988, Major | | | |
| 2. | Additions Adjustment Account | | | |
| 3. | Balance Plus Billing Lag | 22,146 | | |
| 4. | Forecast Interest Expense During | | | |
| 5. | Three-Year Amortization Period | <u>2,768</u> | | |
| 6. | Forecast Total Amount to Be | | | |
| 7. | Recovered | 24,914 | | |
| 8. | Increased for Franchise Fees and | | | |
| 9. | Uncollectible Accounts | 25,152 | | |
| 10. | Forecast Amortization Period | | | |
| 11. | Sales <u>1/</u> | | 193,502 | |
| 12. | Major Additions Adjustment | | | |
| 13. | Account Balancing Rate <u>2/</u> | | | 0.013 |

1/ For purposes of ease of presentation, the forecast 1988 annual sales level adopted in Edison's Test Year 1988 General Rate Case was assumed for 1989 and 1990. The sales shown include a reduction of 86.1 Gwh (28.7 * 3 years) to reflect the impact of Rate Schedule No. DE - Discount.

2/ Per Decision No. 87-12-066 (Edison's Test Year 1988 General Rate Case), the rate adjustment was allocated on an equal cents-per-kilowatt-hour basis since the overall rate change is less than 1 percent.

TABLE B-2

SOUTHERN CALIFORNIA EDISON COMPANY
MAJOR ADDITIONS ADJUSTMENT ACCOUNT
POST-COD INVESTMENT

| Line No. | Description | (SM) (1) | Forecast Sales (GWh) (2) | MAAC Balancing Rate (c/kwh) (3) |
|----------|----------------------------------|---------------|--------------------------------|---------------------------------------|
| 1. | Forecast May 31, 1988, Major | | | |
| 2. | Additions Adjustment Account | | | |
| 3. | Balance Plus Billing Lag | 109,375 | | |
| 4. | Forecast Interest Expense During | | | |
| 5. | Three-Year Amortization Period | <u>13,672</u> | | |
| 6. | Forecast Total Amount to Be | | | |
| 7. | Recovered | 123,047 | | |
| 8. | Increased for Franchise Fees and | | | |
| 9. | Uncollectible Accounts | 124,216 | | |
| 10. | Forecast Amortization Period | | | |
| 11. | Sales <u>1/</u> | | 193,502 | |
| 12. | Major Additions Adjustment | | | |
| 13. | Account Balancing Rate <u>2/</u> | | | 0.064 |

1/ For purposes of ease of presentation, the forecast 1988 annual sales level adopted in Edison's Test Year 1988 General Rate Case was assumed for 1989 and 1990. The sales shown include a reduction of 86.1 GWh (28.7 * 3 years) to reflect the impact of Rate Schedule No. DE - Discount.

2/ Per Decision No. 87-12-066, the rate adjustment was allocated on an equal cents-per-kilowatt-hour basis since the overall rate change is less than 1 percent.

APPENDIX B
Page 33

APPENDIX C

STIPULATED BASE RATE REVENUE REQUIREMENT FOR
SONGS 2 AND 3 POST-COD INVESTMENT AND
ASSOCIATED AVERAGE BASE RATE LEVEL INCREASE

SOUTHERN CALIFORNIA EDISON COMPANY
BASE RATE REVENUE REQUIREMENT FOR STIPULATED
REASONABLE LEVEL OF SONGS 2 AND 3 POST-COD INVESTMENT
EDISON SHARE
 (Thousands of Dollars)

| : Line : | : Total : | : CPUC 1/ : |
|------------------------------|------------|------------------|
| : No. : | : System : | : Jurisdiction : |
| | (1) | (2) |
| 1. TOTAL REVENUE REQUIREMENT | 50,058 | 48,597 2/ |
| 2. EXPENSES | | |
| 3. Income Taxes | 8,967 | 8,705 |
| 4. Ad Valorem Taxes | 3,550 | 3,446 |
| 5. Depreciation Expenses | 10,407 | 10,103 |
| 6. Franchise Fees | 365 | 354 |
| 7. Uncollectibles | <u>107</u> | <u>104</u> |
| 8. TOTAL EXPENSES | 23,396 | 22,712 |
| 9. NET REVENUE | 26,662 | 25,885 |
| 10. RATE BASE | 248,023 | 240,786 |
| 11. RATE OF RETURN (%) | 10.75% | 10.75% |

1/ Based on a CPUC-Jurisdictional Allocation Factor of 97.082% as adopted in Decision No. 87-12-066 (Edison's Test Year 1988 General Rate Case).
 2/ The Total Revenue Requirement on a CPUC-jurisdictional basis is the increase to the Authorized Level of Base Rate Revenue under the ERAM.

SOUTHERN CALIFORNIA EDISON COMPANY

AVERAGE BASE RATE LEVEL INCREASE ASSOCIATED WITH THE STIPULATED
 REASONABLE LEVEL OF SONGS 2 AND 3 POST-COD INVESTMENT

| Line No. | Description | (SM) (1) | Forecast Sales (GWh) (2) | Average Base Rate Increase (c/kwh) (3) |
|----------|-----------------------------------|-------------|--------------------------------|--|
| 1. | Forecast 1988 Revenue Requirement | 48,597 | | |
| 2. | Forecast 1988 Sales <u>1/</u> | | <u>64,500.5</u> | |
| 3. | Forecast Average Base Rate Level | | | |
| 4. | Increase <u>2/</u> | | | .075 |

1/ The CPUC-jurisdictional factor of 97.082% and the forecast 1988 sales are as adopted in Decision No. 87-12-066 (Edison's Test Year 1988 General Rate Case). The sales shown include a reduction of 28.7 kwh to reflect the impact of Rate Schedule No. DE - Discount.

2/ Per Decision No. 87-12-066, the rate adjustment was allocated on an equal cents-per-kilowatthour basis since the overall rate change is less than 1 percent.

APPENDIX B
Page 36

APPENDIX D

PROPOSED ERAM AND MAAC TARIFFS



PRELIMINARY STATEMENT

(Continued)

J. ELECTRIC REVENUE ADJUSTMENT MECHANISM (ERAM) (Continued)

4. Electric Revenue Adjustment Account. Beginning as of January 1, 1983, the Company shall maintain an Electric Revenue Adjustment Account (Balancing Account). Entries to be made to this account at the end of each month will be determined from the following calculations:

a. The currently Authorized Level of Base Rate Revenue of \$_____ pursuant to Commission Decision No. 87-12-066 and Resolution No. E-_____ shall be multiplied by the applicable monthly distribution percentage from the table below:

Factors For Rate Change Effective

| <u>Month</u> | <u>09/11/87</u> | <u>01/01/88</u> | <u>01/20/88</u> | <u>06/01/88</u> |
|---------------|-----------------|-----------------|-----------------|-----------------|
| January, 1988 | 4.79 | 2.00 | 1.26 | |
| February | 0.06 | 2.59 | 6.34 | |
| March | | 0.07 | 6.99 | |
| April | | | 6.81 | |
| May | | | 6.99 | |
| June | | | 4.50 | 3.43 |
| July | | | 0.18 | 10.20 |
| August | | | | 10.69 |
| September | | | | 11.20 |
| October | | | | 9.55 |
| November | | | | 7.56 |
| December | | | | 7.31 |
| January, 1989 | | | | 7.55 |
| February | | | | 6.97 |
| March | | | | 7.06 |
| April | | | | 6.81 |
| May | | | | 6.99 |
| June | | | | 4.50 |
| July | | | | 0.18 |

- b. Plus: The balance in the Interim Major Additions Adjustment Account on January 1, 1988;
- c. Plus: Any adjustment or other entries after January 1, 1988, if any, which would have accrued to the Interim Major Additions Account prior to January 1, 1988;
- d. Plus: Any amount above the Authorized Level of Base Rate Revenue described in 4.a. above for the Monthly Recovered Deferred Debit Revenue Requirement Amount including interest determined pursuant to Part L of the Preliminary Statement, increased to provide for Franchise Fees and Uncollectible Accounts;

(Continued)

(To be marked by Utility)
 Advice Letter No. -E
 Decision No.
 880119C04(2)

Issued by
Michael R. Peevey
 Name
Executive Vice President
 Title

(To be marked by Cal. P.U.C.)
 Date Filed _____
 Effective _____
 Resolution No. _____



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC)

1. Purpose. The purpose of the Major Additions Adjustment Clause (MAAC) is to reflect in rates, through application of the Major Additions Adjustment Billing Factor (MAABF) and the Annual Major Additions Rate (AMAR), certain costs of owning, operating, and maintaining (excluding all costs recovered through the Company's Energy Cost Adjustment Clause of through the currently effective Base Rates) specified major plant additions (Specified Major Additions) authorized for inclusion in the MAAC by the California Public Utilities Commission (Commission). The currently authorized Specified Major Additions are set forth in Section 3.k. The costs applicable for inclusion in the MAAC for each Specified Major Addition will be recovered through the MAAC until base rates become effective which include all such costs. At such time as the MAAC provision is terminated, any accumulated differential in the Major Additions Adjustment Accounts, as described and limited in Section 7, shall be transferred to the Energy Cost Adjustment Account or such other appropriate balancing account.
2. Applicability. The MAAC provision applies to certain rate schedules and certain special contracts subject to the jurisdiction of the Commission.
3. Definitions.
 - a. Authorization Date:
The Authorization Date shall be the date on which the Commission authorizes the inclusion of a Specified Major Addition in the MAAC.
 - b. Commission Consultant Costs:
The Commission Consultant Costs shall be those amounts paid to the California Public Utilities Commission for funding its consultants for the SONGS 2 and 3 Phase 2 and Post-COD Reasonableness Reviews, and authorized for inclusion as an expense in the MAAC Balancing Account pursuant to Decision No. _____.
 - c. Undercollected or Overcollected Income Tax Expense:
Undercollected or Overcollected Income Tax Expense shall be the product of the monthly entry (excluding interest) recorded in each Major Additions Adjustment Account and the Company's current composite income tax rate.
 - d. Effective Date:
The Effective Date for the revised MAAC rates shall be the Revision Date or such other date as the Commission may authorize. The revised MAAC rates shall be applied to sales for service rendered on and after the Effective Date and shall continue thereafter until the next such MAAC rates become effective or until the MAAC is terminated.
 - e. Forecast Period:
The Forecast Period for calculating the MAABF and the AMAR shall be the twelve-calendar-month period commencing with the Revision Date.
 - f. Franchise Fees and Uncollectible Accounts:
Franchise Fees and Uncollectible Accounts shall be the rate derived from the Company's most recent general rate decision to provide for franchise fees and uncollectible accounts expense.
 - g. Carrying Cost Rate:
The Carrying Cost Rate shall be 1/12 of the Company's after tax gross Allowance For Funds Used During Construction (AFUDC) rate calculated in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts.
 - h. Pre-COD Investment:
The Pre-COD Investment shall be the investment in a portion of the Company's Electric Plant In-Service made prior to the Commercial Operating Date.

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. -E

Michael R. Peavey

Date Filed _____

Decision No.

Name

Effective _____

87124007 (1)

Executive Vice President

Resolution No. _____

Title

Appendix D -2-



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

3. Definitions (Continued)

i. Post-COD Investment:

The Post-COD Investment shall be the investment in a portion of the Company's Electric Plant In-Service made on or after the Commercial Operating Date.

j. Revision Date:

The Revision Date for calculating the MAABF and the AMAR shall be January 1 of each year. Applications for MAAC rate revisions calculated in accordance with the provisions described herein shall be filed with the Commission at least 90 days prior to the Revision Date.

k. Specified Major Addition:

A Specified Major Addition is an addition to the Company's Electric Plant In-Service between general rate proceedings which has been authorized for inclusion in the MAAC by the Commission. For purposes of calculating/revisions to the MAAC rates and the entries to the Major Additions Adjustment Account, those Pre-COD Investment and Post-COD Investment-related costs applicable for inclusion in the MAAC associated with the following Specified Major Additions shall be included:

| <u>Specified Major Addition</u> | <u>Authorization Date</u> | <u>Termination Date</u> |
|---|---------------------------|-------------------------|
| San Onofre Nuclear Generating Station Unit 2, Pre-COD Investment | 09/07/83 | 01/01/88 |
| San Onofre Nuclear Generating Station Unit 3, Pre-COD Investment | 04/01/84 | 01/01/88 |
| San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 | 09/07/83 | 06/01/88 |
| San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87 | 04/01/84 | 06/01/88 |
| Balsam Meadow Hydro Electric Generating Plant | 01/01/88 | - |
| Deviers-Valley-Serrano 500 kV Transmission Line | 01/01/88 | - |

l. Termination Date:

The Termination Date shall be the date on which the revenue requirement associated with the investment-related costs incurred thereafter for a Specified Major Addition shall no longer be applicable for inclusion in the MAAC.

4. Calculation of the Average Ownership Rate. Individual rates to reflect certain costs of owning each Specified Major Addition shall be calculated as authorized by the Commission. The Average Ownership Rate for each Specified Major Addition shall be determined from the following calculations:

- a. The Forecast Period depreciation;
- b. Plus: The Forecast Period ad valorem taxes;

(Continued)

CHANGE

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(To be inserted by utility)

Issued By:

(To be inserted by Cal. P.U.C.)

Advice Letter No. -E

Michael R. Peavey

Date Filed _____

Decision No.

Name

Effective _____

Executive Vice President

Resolution No. _____

971214002/ (2)

Title

Appendix D -3-



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

4. Calculation of the Average Ownership Rate (Continued)

- c. Plus: The Forecast Period taxes based on income, including the following tax adjustments:
 - 1. The tax deductions resulting from items "a" and "b" above;
 - 2. Investment tax credits;
 - 3. The tax effect of the excess of liberalized depreciation over booked depreciation;
 - 4. Interest charge deductions;
 - 5. Other appropriate tax adjustments;
- d. Plus: The Forecast Period return which shall be the Forecast Period rate base multiplied by the Company's system rate of return most recently authorized by the Commission.
- e. The sum of "a" through "d" shall be multiplied by the most recently adopted retail jurisdictional allocation factor;
- f. The amounts in "e" above, increased to provide for Franchise Fees and Uncollectible Accounts, shall be divided by the sales subject to the MAAC estimated to be sold during the Forecast Period. The result shall be the Average Ownership Rate, expressed in cents per kilowatt-hour, as set forth below:

| Specified Major Addition | Average Ownership Rate (¢/kwh) |
|---|--------------------------------|
| San Onofre Nuclear Generating Station Unit 2, Pre-COD Investment | 0.000 * |
| San Onofre Nuclear Generating Station Unit 3, Pre-COD Investment | |
| San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 | 0.000 * |
| San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87 | |
| Balsam Meadow Hydro-Electric Generating Plant | 0.056 |
| Devers-Valley-Serrano 500 kV Transmission Line | 0.030 |
| * Combined | |

At such times as the Commission authorizes any adjustments which affect the amounts applicable for inclusion in the Average Ownership Rate, the Average Ownership Rate shall be appropriately revised.

(Continued)

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(To be inserted by utility)

Advice Letter No. -E
Decision No.

871214002/ (3)

Issued by

Michael R. Peevey

Name

Executive Vice President

Title

(To be inserted by Cal. P.U.C.)

Date Filed _____
Effective _____
Resolution No. _____



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

5. Calculation of the Balancing Rate for each Specified Major Addition. The Balancing Rate for each Specified Major Addition shall be calculated by dividing the estimated balance in the Major Additions Adjustment Account (on the Revision Date or such other date as the Commission may authorize and calculated in accordance with the procedure set forth in Paragraph 7), plus the interest forecast to accrue during the amortization period, increased to provide for Franchise Fees and Uncollectible Accounts, by the sales subject to the MAAC estimated to be sold during the amortization period. The result shall be the Balancing Rate, expressed in cents per kilowatt-hour. The Balancing Rate associated with each Specified Major Addition authorized for inclusion in the MAAC is set forth below:

| Specified Major Addition | Balancing Rate (¢/kwh) |
|---|------------------------|
| San Onofre Nuclear Generating Station Unit 2, Pre-COD Investment | 0.073 * |
| San Onofre Nuclear Generating Station Unit 3, Pre-COD Investment | |
| San Onofre Nuclear Generating Station Unit 2, Post-COD Investment Recorded Through 12/31/87 | 0.064 * |
| San Onofre Nuclear Generating Station Unit 3, Post-COD Investment Recorded Through 12/31/87 | |
| Balsam Meadow Hydro Electric Generating Plant | 0.000 |
| Devers-Valley-Serrano 500 kV Transmission Line | 0.000 |
| * Combined | |

6. Major Additions Adjustment Billing Factor (MAABF). The MAABF shall be the sum of the Average Ownership Rates and the Balancing Rates for each Specified Major Addition. Such MAABF, expressed in cents per kilowatt-hour, shall be applied on a uniform cents-per-kilowatt-hour basis to all sales subject to the MAAC. The application of the MAABF to sales shall be as set forth on the applicable rate schedule.

The MAABF listed below have been, or are, in effect for the periods indicated:

| Effective Date | Major Additions Adjustment Billing Factor (¢/kwh) |
|----------------|---|
| 10/09/83 | 0.311 |
| 07/01/84 | 0.492 |
| 04/01/84 | 0.767 |
| 07/01/85 | 1.270 |
| 01/01/88 | 0.190 |
| 06/01/88 | 0.163 |

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(To be inserted by utility)

Issued by

Date Filed

(To be inserted by Cal. P.U.C.)

Advice Letter No. -E

Michael R. Feevey

Effective

Decision No.

name

Resolution No.

971214002/ (4)

Executive Vice President

title



PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

7. Major Additions Adjustment Account for each Specified Major Addition. The Company shall maintain a Major Additions Adjustment Account (Balancing Account) for each Specified Major Addition. Entries to be made to these accounts at the end of each month will be determined from the calculations set forth in "a" through "f" below. In addition to the calculations in "a" through "f" the entries to be made to the Major Additions Adjustment Accounts associated with the San Onofre Nuclear Generating Station Unit 2, Post-CGD Investment Recorded Through 12/31/87 and the San Onofre Nuclear Generating Station Unit 3, Post-CGD Investment Recorded Through 12/31/87, shall include the calculation set forth in "g" below:

- a. Depreciation as recorded during the month;
- b. Plus: Ad valorem taxes as recorded during the month;
- c. Plus: Taxes based on income, including appropriate tax adjustments, all as recorded during the month;
- d. Plus: Return, which shall be one-twelfth of the rate of return authorized by the Commission for each Specified Major Addition multiplied by the average depreciated rate base, as recorded during the month;
- e. Less: The sum of "a" through "d" multiplied by the most recently adopted resale jurisdictional allocation factor;
- f. Less: The amount of revenue attributable to each Specified Major Addition. This amount of revenue shall be calculated by multiplying the sum of the Average Ownership Rate and Balancing Rate for each Specified Major Addition, by the kilowatt-hours sold during the month applicable to the MAAC, reduced to provide for Franchise Fees and Uncollectible Accounts.

(The following calculation is applicable only to the Major Additions Adjustment Accounts associated with the San Onofre Nuclear Generating Station Unit 2, Post-CGD Investment Recorded Through 12/31/87 and the San Onofre Nuclear Generating Station Unit 3, Post-CGD Investment Recorded Through 12/31/87.)

- g. Plus: The Commission Consultant Costs authorized by Decision No. _____ as recorded during the month.

If the above calculation produces a positive amount (undercollection), such amount will be debited to the Balancing Account in conjunction with the Specified Major Addition as approved by the Commission. If the calculation produces a negative amount (overcollection), such amount will be credited to the Balancing Account. Interest will accrue monthly to the Balancing Account by applying the Carrying Cost Rate to the average of the beginning balance less the accumulated retail jurisdictional undercollected or overcollected income tax expense and the ending balance less the accumulated retail jurisdictional undercollected or overcollected income tax expense.

(Continued)

NEW

NEW

CHANGE

(To be inserted by utility)

Advice Letter No. -E
Decision No.

871214002/ (5)

Issued by

Michael R. Peevey

Name

Executive Vice President

Title

(To be inserted by Cal. P.U.C.)

Date Filed _____
Effective _____
Resolution No. _____



Southern California Edison
 2244 Walnut Grove Avenue, Rosemead, California 91770

PRELIMINARY STATEMENT

(Continued)

K. MAJOR ADDITIONS ADJUSTMENT CLAUSE (MAAC) (Continued)

B. Calculation of the Average Noninvestment-Related Expense Rate. Individual rates to reflect certain noninvestment-related costs associated with each Specified Major Addition shall be calculated as authorized by the Commission. The Average Noninvestment-Related Expense Rate for each Specified Major Addition shall be determined from the following calculations:

- a. The Forecast Period operation and maintenance expenses (excluding all costs recovered through the Company's Energy Cost Adjustment Clause or through the currently-effective base rates) appropriate for inclusion in the MAAC;
- b. Plus: The Forecast Period pensions and benefits expense associated with the labor portion of "a" above;
- c. Plus: The Forecast Period payroll tax expense associated with the labor portion of "a" above;
- d. Plus: The Forecast Period property, liability, and replacement generation insurance expenses.
- e. The sum of "a" through "d" shall be multiplied by the most recently adopted retail jurisdictional allocation factor.
- f. The amount in "a" above, increased to provide for Franchise Fees and Uncollectible Accounts, shall be divided by the sales subject to the MAAC estimated to be sold during the Forecast Period. The result shall be the Average Noninvestment-Related Expense Rate, expressed in cents per kilowatt-hour, as set forth below:

| Specified Major Addition | Average Noninvestment Related Expense Rate (¢/kwh) |
|--|--|
| San Onofre Nuclear Generating Station Unit 2 | 0.000 |
| San Onofre Nuclear Generating Station Unit 3 | 0.000 |

9. Annual Major Additions Rate (AMAR). The AMAR shall be the sum of the Average Noninvestment-Related Expense Rates for each Specified Major Addition. Such AMAR, expressed in cents per kilowatt-hour, shall be applied on a uniform cents-per-kilowatt-hour basis to all sales subject to the MAAC. The application of the AMAR to sales shall be as set forth on the applicable rate schedule.

The AMAR listed below have been, or are, in effect for the periods indicated:

| Effective Date | Annual Major Additions Rate (¢/kwh) |
|----------------|-------------------------------------|
| 10/09/83 | 0.071 |
| 03/23/84 | 0.077 |
| 04/01/84 | 0.154 |
| 01/01/85 | 0.000 |

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. -E
 Decision No.

Michael R. Peevey

NAME

Executive Vice President

TITLE

Date Filed: _____
 Effective: _____
 Resolution No. _____