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Decision 89 04 042 APR 12 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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| In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for (i) authority to transfer recovery of Devers-Valley-Serrano 500 kV Transmission Line Project investment-related costs to base rates pursuant to previously adopted procedures, and (ii) related substantive and procedural relief. | Application 88-05-007 (Filed May 6, 1988) |

James M. Lehrer, Richard K. Durant, Carol B. Henningson, and Gloria M. Wong, Attorneys at Law, for Southern California Edison Company, applicant.
Edward Duncan, for himself, interested party.
Lionel B. Wilson, Attorney at Law, and Joseph Fowler, for the Division of Ratepayer Advocates.

## OPINION

### I. Summary

By this application filed on May 6, 1988, Southern California Edison Company (SCE) seeks from the Commission a finding of reasonableness of construction costs for the Devers-Valley-Serrano 500 kilovolt (kV) transmission line project (DVS), and authority to recover the associated revenue requirement in base rates. The Commission finds that the construction costs of $136,783,000.00 recorded through April 30, 1988, reduced by approximately $429,000.00 as recommended by the Division of Ratepayer Advocates (DRA), are reasonable. SCE is authorized to file tariffs for rates effective June 1, 1989. Revenue recovery will be removed from the Annual Ownership Rate (AOR) of the Major Additions Adjustment Clause (MAAC), the undercollections in the

MAAC balancing account will be amortized, and base rates will be increased.

DVS construction costs recorded after April 30, 1988 will be reviewed for reasonableness in the next SCE general rate case.

## II. Background

### A. Need for the Project

In 1979 SCE began to see a need for additional electrical power for the fast-growing communities in the Perris Valley area of San Bernardino County. This area, approximately 100 miles east of downtown Los Angeles, was experiencing rapid development of commercial and residential tracts in the communities of Perris, Hemet, and Moreno Valley.

### B. Description of Project

As a result of studying various methods of serving the additional load to the area, SCE developed the DVS project, which it believed would serve the area reliably and economically, and would also increase the flexibility and transfer capability of the existing transmission network.

The project spans 82 miles between the cities of Palm Springs and Orange. It consists of the Devers-Valley 500 kV and the Valley-Serrano 500 kV transmission lines, a new Valley Substation, and one additional line position at each of the existing Devers and Serrano substations.

The project crosses the environmentally sensitive San Bernardino and Cleveland National Forests. Helicopter construction was used in the Cleveland National Forest to minimize the need for construction roads and associated impacts. The line height was kept below 200 feet to aid visual shielding and to avoid the need for tower lighting in this air traffic corridor. Route alignment was chosen to minimize visual impact, and tower galvanizing was chemically dulled to minimize reflections.

Several technologies used were new to SCE, such as gas insulated switchgear at the Valley Substation, selected for its greater resistance to the environment and to earthquake effects.

Portions of the project were energized in May, 1987, while commercial operation was achieved on July 22, 1987.

C. Regulatory Background

On October 1, 1980, SCE filed Application (A.) 59982 requesting a certificate of public convenience and necessity to construct and operate DVS. The Commission in Decision (D.) 84-10-034 granted SCE the certificate and adopted a cost estimate of $121,834,000.00 for the project. SCE was also ordered to file:

- the estimated cost of the adopted mitigation measures;
- an amended project description and cost estimate for the project;
- the results of the solicitation of bids for helicopter construction.

SCE's filing resulted in an amended cost estimate of $159,414,000.00 which included items totaling $5,396,000.00 that the Commission deemed to be either unnecessary or inappropriate with respect to D.84-10-034.

In Resolution F-608, the Commission approved the amended cost estimate in the amount of $154,018,000.00 ($159,414,000.00 less $5,396,000.00). The amended cost estimate functions, for ratemaking purposes, as a cost cap for the construction.

D.87-12-066, in the 1988 SCE general rate case A.86-12-047, developed interim procedures for ratemaking associated with DVS construction costs. SCE was allowed to recover 75% of the revenue requirement through the AOR of MAAC rates. The other 25% was to be recorded as an undercollection in the MAAC balancing account, with recovery allowed after a determination of reasonableness by the Commission.

## III. Relief Requested

### A. Reasonableness Determination

SCE requests that the Commission find the $136,783,000.00 in DVS construction costs recorded through April 30, 1988 to be reasonable.

### B. Rate Changes

SCE requests a number of rate changes to recover the revenue requirement associated with the construction costs found reasonable in base rates, to simultaneously cease recovery through the AOR, and to amortize the MAAC balancing account. SCE believes that equal ¢/kWh rate changes are appropriate due to the small magnitudes involved.

Assuming all construction costs are found reasonable, and an effective date of June 1, 1989, the requested rate changes consist of the following:

- an average increase in base rates of 0.036 cents per kilowatt-hour (¢/kWh).
- a decrease in the Major Additions Adjustment Billing Factor (MAABF) of 0.023 ¢/kWh, the net result of:
  - an increase in the MAAC balancing account rate of approximately 0.007 ¢/kWh due to the undercollection in the balancing account. This is intended to amortize the undercollection by the end of the current SCE general rate case cycle on December 31, 1990. SCE proposes that this rate be set after the Commission decision in this matter, and reflect the then current balancing account level. Once the balance is amortized, SCE proposes to terminate this rate by Advice Letter filing, with any residual under- or overcollection to be transferred to

another balancing account for final disposition.

- a decrease in the MAAC AOR attributable to DVS from 0.030 ¢/kWh to zero.

## IV. Regulatory Review

### A. DRA Report

DRA performed a review of the DVS construction and issued a report in November, 1988, consisting of two parts.

Part 1 presents a review of the reasonableness of construction of DVS.

Part 2 presents the auditors' examination of the recorded DVS construction costs.

#### 1. Part 1 - Reasonableness of Construction

The investigation by the Energy Operational Costs Branch of DRA began with a comprehensive pre-filing data request nearly a year before the application was filed. DRA requested SCE to furnish specific and substantial information in the application. As a result, DRA's investigation is substantially based on data furnished in the application.

Although the cost cap is based on SCE's estimated construction costs by individual cost category, the Commission did not set cost caps for the individual categories. The cost cap applies only to the total construction costs of the project. The overall construction costs estimated at $142,958,000.00 are $11,060,000.00 or 7.2% below the Commission adopted cost cap of $154,018,000.00. The $142,958,000.00 amount is based on the costs recorded through April 30, 1988 at $136,783,000.00, plus SCE's ✓

estimated costs to completion of $6,175,000.00. The estimated costs of completion items are:

- $2,360,000.00 for Valley substation
- 245,000.00 for Devers-Valley right-of-way
- 3,570,000.00 for Valley-Serrano right-of-way

$6,175,000.00 total cost of completion items (estimated)

Based on its review of all construction cost categories, Energy Operational Costs Branch concluded that there was no evidence of unreasonableness of construction, and therefore recommended no disallowances.

2. **Part 2 - Audit of Recorded Construction Costs**

a. Audit Report

The investigation by the Energy Auditing Branch (EAB) of DRA resulted in a number of recommended ratemaking adjustments to reduce the total recorded construction costs of the project for ratemaking purposes. The adjustments total approximately $429,225.00, and would apply either to the recorded construction costs, or to the MAAC balance.

The $429,225.00 reduction would apply as follows: the allowable construction cost of $136,783,000.00 (recorded through April 30, 1988) reduces by $391,225.00, while the MAAC balance reduces by $38,000.00. In addition, DRA estimates that approximately $50,000.00 should be removed from the MAAC balance to reflect the effect on the balance of the first five adjustments below. The individual reductions are:

1. $50,543.00 for sales tax paid on training costs. During an internal audit on one of SCE's vendors, DRA discovered that SCE had improperly paid sales tax on labor charges including training.

2. $20,170.00 for Los Angeles County Transit Tax paid on deliveries outside the county. A review of internal audit workpapers revealed the fact that SCE had in some

cases paid 6 1/2% sales tax which includes the 1/2% Los Angeles County transit tax. The applicable sales tax is 6% since the transit tax is not due for deliveries to DVS since it is located outside Los Angeles County. DRA believes it is incumbent on SCE to monitor the taxes paid to avoid such overcharges.

3. $31,468.00 due to improper crediting of Allowance for Funds Used During Construction (AFUDC) on retentions. This involves crediting the accrued AFUDC for the 5% to 10% of payments due vendors that are routinely withheld until the contract terms have been satisfied. Since this 5% to 10% had not yet been paid, AFUDC should not have accrued on it. Although SCE applied a credit for the accrued AFUDC, it did not properly calculate it. The adjustment results from proper recalculation of the credit.

4. $103,690.00 due to misallocation of right of way costs. DRA discovered a discrepancy in allocation of costs to a particular piece of property, with the result that $103,690.00 was incorrectly allocated to DVS and should be removed from the recorded costs.

5. $185,354.00 for repair costs borne by SCE that are the responsibility of the suppliers. During construction, malfunctioning equipment required repair in the amount of $185,354.00. After negotiations, the vendor agreed to pay for the repairs. Therefore, this repair amount should be removed form the project costs.

6. $50,000.00 is an approximation of the effect of the above adjustments on the MAAC balance. The actual amount will need to be determined if the adjustment is adopted.

7. $38,000.00 due to an adjustment on taxes. This results from not allowing interest to be accrued on the income tax portion of the undercollection in the MAAC balancing

account. The $38,000.00 amount is the estimated adjustment through June 30, 1989.

b. SCE Response to EAB Report

SCE, in considering the DRA recommendations for adjustments, agreed that the adjustments proposed were appropriate, with the exception of the last item.

In that instance, SCE noted that the $38,000.00 adjustment was not a reduction to plant, but rather a methodological change to the balancing account interest calculation. Since the change was a part of the ratemaking stipulation between SCE and DRA in the SCE San Onofre Nuclear Generating Station A.87-05-031, which was consolidated with San Diego Gas and Electric Company A.87-07-044, SCE agreed with the adjustment pending the Commission decision on the issue. Since the Commission adopted the change in D.88-12-033, in A.87-05-031, and A.87-07-044, it is no longer an issue in this proceeding, and SCE now agrees with the adjustment.

B. Discussion

1. Reasonableness

The ratemaking adjustments resulting from the DRA audit were adequately explained and justified during the hearing, and are uncontroverted. SCE agrees to them, and no other parties participated in the proceeding. No adjustments or disallowances were recommended as a result of the DRA review.

We are satisfied that the DRA audit adjustments are appropriate, and that they adequately and properly reflect the amounts corresponding to the problems identified in the audit. We commend DRA for its thorough audit that resulted in these recommendations, which we will adopt.

Since total construction costs were not yet available for this application, they have been estimated for purposes of comparison with the cost cap. However, SCE is not requesting that the reasonableness of the costs beyond April 30, 1988 be addressed in this proceeding. The reasonableness of those costs will be reviewed in the next SCE general rate case. While we believe it is unlikely that the final recorded construction costs will exceed the cost cap, such an occurrence, or any significant increase from the SCE estimate of completion costs, will be cause for increased Commission scrutiny.

2. <u>Ratemaking</u>

We will authorize rate changes concurrent with the next rate revision we authorize.

Further rate changes will still be required in the future in order to allow SCE to recover the full revenue requirement associated with the total construction costs found reasonable, since the post-April 30, 1988 costs will be considered later.

a. <u>Authorized Level of Base Rate Revenues</u>

The authorized level of Base Rate Revenues for Electric Revenue Adjustment Mechanism purposes shall be increased on the effective date of SCE's next rate revision by $22,876,785.00 to reflect the increase in base rate revenue requirements adopted herein.

b. <u>Base Rates</u>

Since the authorized increase in Base Rate Revenues is less than 1%, we will allow SCE to increase base rates on an "equal cents per kWh" basis subject to baseline and other constraints. The average increase in base rates is 0.036 ¢/kWh.

c. <u>MAABF</u>

The MAAC balance was recomputed to reflect the effect of the reductions to the construction costs found reasonable here. The MAABF reduces by 0.025 ¢/kWh which is the net of an increase in the MAAC balancing rate of 0.005 ¢/kWh and decrease in the AOR of 0.030 ¢/kWh. (See Appendix A.)

We will order SCE to file tariffs to reflect the MAAC balance adjusted for the DRA adjustments we are adopting, and to reflect elimination of the MAAC AOR rate and increase the MAAC balancing rate, authorized level of Base Rate Revenues and base rates.

C. Comments

Comments were filed by SCE and DRA. No reply comments were filed.

SCE pointed out some typographical errors as well as an incorrect date for the recorded construction costs. Those corrections have been made.

SCE requests that the rate change authorized by this decision take place at the time of SCE's next authorized rate revision rather than June 1, 1989. At the time of filing, SCE did not know if an Energy Cost Adjustment Clause (ECAC) trigger filing would be necessary. That filing has subsequently been made with a July 1, 1989 effective date. SCE is not requesting a July 1, 1989 effective date for this decision since it is possible that the ECAC rate revision may take place later. We have adopted this recommendation.

SCE suggests that construction costs incurred after April 30, 1989 be included in SCE's next general rate case rather than recorded in the MAAC balancing account. We have adopted this recommendation.

SCE further recommends a change in the amortization of the remaining MAAC balance to eliminate additional rate changes. We have adopted this recommendation.

DRA commented that the decision needs to recognize the amount of DVS revenues collected in 1989 in base rates. This correction has been made.

Finally, Appendix A has been revised to reflect SCE's next scheduled rate revision date, July 1, 1989.

Findings of Fact

1. SCE filed this application on May 6, 1988 seeking from the Commission a finding of reasonableness of $136,783,000.00 in construction costs recorded through April 30, 1988. SCE seeks authority to recover the revenue requirement associated with the reasonable construction costs in base rates, to eliminate the AOR rate now in effect, and to amortize the MAAC balancing account undercollection.

2. The Commission granted the certificate of public convenience and necessity for the DVS project by D.84-10-034.

3. The DVS project was developed to serve the fast-growing communities in the Perris Valley area of San Bernardino County.

4. The DVS project spans 82 miles between the cities of Palm Springs and Orange, and consists of the Devers-Valley 500 kV and the Valley-Serrano 500 kV transmission lines, a new Valley Substation, and one additional line position at each of the existing Devers and Serrano substations.

5. The Commission by Resolution F-608 approved an amended cost estimate of $154,018,000.00, to function as a construction cost cap for ratemaking purposes.

6. D.87-12-066 approved procedures for reflecting 75% of the DVS revenue requirement in MAAC AOR rates, with the remainder to be recorded in the MAAC balancing account and collected after a determination of reasonableness by the Commission.

7. SCE estimates the overall construction costs to completion at $142,958,000.00, which is $11,060,000.00, or $7.2% below the construction cost cap.

8. The DVS project achieved commercial operation on July 22, 1987.

9. DRA's Energy Operational Costs Branch reviewed the construction and concluded that there was no evidence of unreasonableness.

10. DRA recommended reducing, for ratemaking purposes, the total recorded construction costs through April 30, 1988 by the amount of $391,225.00, due to improper taxes paid, improper crediting of AFUDC, misallocation of right of way costs, and improper charging of repair costs.

11. DRA recommended that the MAAC balance be reduced by approximately $88,000.00, consisting of approximately $50,000.00 due to the effects of the above recommendations, and $38,000.00 due to a tax expense adjustment.

12. SCE agrees with DRA's recommendations to reduce the total recorded construction costs and to reduce the MAAC balance.

13. SCE's requested increase in Base Rate Revenues would result in an increase of less than 1%.

14. An increase in the MAAC balancing rate of 0.005¢/kWh should amortize the MAAC balancing account during the period of June 1, 1989 through December 31, 1990.

Conclusions of Law

1. The DVS construction costs recorded through April 30, 1988, reduced by the adjustments recommended by DRA, are reasonable for ratemaking purposes.

2. It is reasonable to adjust the MAAC balancing account to reflect the effect of the adjustments recommended by DRA.

3. It is reasonable to adjust the MAAC balancing account to reflect removing the accrual of interest on the income tax portion of the MAAC balancing account undercollections.

4. The rate changes authorized herein are just and reasonable.

5. DVS investment-related costs recorded after April 30, 1988 should be considered for reasonableness and ratemaking in the next SCE general rate case.

**ORDER**

IT IS ORDERED that:

1. Southern California Edison Company (SCE) shall adjust the recorded Devers-Valley-Serrano transmission line project (DVS) construction costs for ratemaking purposes by $391,225.00 to reflect the adjustments we are adopting herein.

2. SCE shall cease future accrual of interest on the income tax portion of the Major Additions Adjustment Clause (MAAC) balancing account undercollections.

3. SCE is authorized to file tariffs within 10 days of the effective date of this order to reduce the MAAC Annual Ownership Rate for DVS from 0.030 cents per kilowatt-hour (¢/kWh) to zero, effective June 1, 1989.

4. SCE is authorized to file tariffs in accordance with General Order (GO) 96A within 10 days of the effective date of this order to increase the MAAC balancing rate by 0.005 ¢/kWh to amortize the undercollection in the MAAC balancing account for DVS during the period from June 1, 1989 through December 31, 1990.

5. SCE is authorized to file tariffs in accordance with GO-96-A within 10 days of the effective date of this order to increase base rates on an "equal cents per kWh" basis subject to baseline and other constraints. The average increase in base rates shall be 0.036 ¢/kWh.

6. Prior to November 1, 1990, SCE shall file an Advice Letter to reduce the MAAC balancing rate to zero on January 1, 1991 and terminate the MAAC balancing account. Any residual balance shall then be transferred to Electric Revenue Adjustment Mechanism for final disposition.

7. The reasonableness of DVS construction costs recorded after April 30, 1988, and resulting ratemaking, will be addressed in the next SCE general rate case. ✓

This order is effective today.

Dated APR 1 2 1989, at San Francisco, California.

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

Commissioner Frederick R. Duda being necessarily absent, did not participate.

Commissioner Patricia M. Eckert present but not participating.

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

Victor Weisser, Executive Director

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED RATE BASE AND REVENUE REQUIREMENT FOR 1988
(in thousands of dollars)

| Item | Jan 88 | Feb 88 | Mar 88 | Apr 88 | May 88 | Jun 88 | Jul 88 | Aug 88 | Sep 88 | Oct 88 | Nov 88 | Dec 88 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Plant-in-service | 136,199 | 136,237 | 136,237 | 136,326 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | |
| Less; Depr. reserve | 4,667 | 5,019 | 5,371 | 5,723 | 6,074 | 6,426 | 6,778 | 7,130 | 7,482 | 7,834 | 8,186 | 8,538 | |
| Less; Taxes deferred (ACRS) | 3,347 | 3,500 | 3,652 | 3,805 | 3,958 | 4,110 | 4,263 | 4,415 | 4,568 | 4,721 | 4,873 | 5,026 | |
| Rate Base | 128,185 | 127,718 | 127,214 | 126,798 | 126,359 | 125,855 | 125,350 | 124,847 | 124,342 | 123,837 | 123,333 | 122,828 | |
| Net revenue requirement 1/ | 1,148 | 1,144 | 1,140 | 1,136 | 1,132 | 1,127 | 1,123 | 1,118 | 1,114 | 1,109 | 1,105 | 1,100 | 13,497 |
| Depreciation | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 4,223 |
| Ad Valorem taxes | 93 | 93 | 93 | 93 | 93 | 93 | 132 | 132 | 132 | 132 | 132 | 132 | 1,350 |
| Income taxes | 419 | 418 | 416 | 414 | 413 | 411 | 435 | 434 | 432 | 430 | 428 | 426 | 5,076 |
| Gross revenue requirement excluding Franchise Fees and Uncollectibles | 2,012 | 2,007 | 2,001 | 1,995 | 1,990 | 1,983 | 2,042 | 2,036 | 2,030 | 2,023 | 2,017 | 2,010 | 24,146 |
| Jurisdictionalized gross revenue requirement excluding Franchise Fees and Uncollectibles 2/ | 1,974 | 1,969 | 1,963 | 1,957 | 1,952 | 1,946 | 2,003 | 1,998 | 1,991 | 1,985 | 1,978 | 1,972 | 23,687 |

1/ Computed at the authorized return on rate base of 10.75% for 1988.

2/ California jurisdictional factor of 98.100% for 1988.

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SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED RATE BASE AND REVENUE REQUIREMENT FOR 1989
(in thousands of dollars)

| Item | Jan 89 | Feb 89 | Mar 89 | Apr 89 | May 89 | Jun 89 | Jul 89 | Aug 89 | Sep 89 | Oct 89 | Nov 89 | Dec 89 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Plant-in-service | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | |
| Less; Depr. reserve | 8,890 | 9,242 | 9,593 | 9,945 | 10,297 | 10,649 | 11,001 | 11,353 | 11,705 | 12,057 | 12,409 | 12,761 | |
| Less; Taxes deferred (ACRS) | 5,165 | 5,291 | 5,417 | 5,543 | 5,669 | 5,795 | 5,921 | 6,047 | 6,173 | 6,299 | 6,425 | 6,551 | |
| Rate Base | 122,337 | 121,859 | 121,381 | 120,903 | 120,425 | 119,948 | 119,470 | 118,992 | 118,514 | 118,036 | 117,558 | 117,080 | |
| Net revenue requirement 1/ | 1,112 | 1,108 | 1,104 | 1,099 | 1,095 | 1,091 | 1,086 | 1,082 | 1,077 | 1,073 | 1,069 | 1,064 | 13,060 |
| Depreciation | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 4,223 |
| Ad Valorem taxes | 133 | 133 | 133 | 133 | 133 | 133 | 128 | 128 | 128 | 128 | 128 | 128 | 1,566 |
| Income taxes | 433 | 431 | 430 | 428 | 426 | 425 | 420 | 418 | 417 | 415 | 413 | 411 | 5,067 |
| Gross revenue requirement excluding Franchise Fees and Uncollectibles | 2,030 | 2,024 | 2,018 | 2,012 | 2,006 | 2,000 | 1,986 | 1,980 | 1,974 | 1,968 | 1,962 | 1,955 | 23,916 |
| Jurisdictionalized gross revenue requirement excluding Franchise Fees and Uncollectibles 2/ | 2,002 | 1,995 | 1,990 | 1,984 | 1,978 | 1,972 | 1,958 | 1,952 | 1,947 | 1,940 | 1,934 | 1,928 | 23,581 |

1/ Computed at the authorized return on rate base of 10.91% for 1989.

2/ California jurisdictional factor of 98.600% for 1989.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED MAAC ACCOUNT OPERATION FOR 1988
(in thousands of dollars)

| Item | Jan 88 | Feb 88 | Mar 88 | Apr 88 | May 88 | Jun 88 | Jul 88 | Aug 88 | Sep 88 | Oct 88 | Nov 88 | Dec 88 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BEGINNING ACCOUNT BALANCE | 0 | 898 | 1,322 | 1,721 | 2,115 | 2,532 | 2,796 | 3,032 | 3,152 | 3,257 | 3,499 | 3,791 |
| Jurisdictionalized gross revenue requirement | 1,974 | 1,969 | 1,963 | 1,957 | 1,952 | 1,946 | 2,003 | 1,998 | 1,991 | 1,985 | 1,978 | 1,972 |
| Recorded gross revenue | 1,010 | 1,486 | 1,505 | 1,506 | 1,480 | 1,629 | 1,716 | 1,828 | 1,839 | 1,694 | 1,638 | 1,626 |
| Less: Franchise fees and uncollectibles 1/ | 10 | 14 | 14 | 14 | 14 | 15 | 16 | 17 | 17 | 16 | 15 | 15 |
| Adjusted gross revenue | 1,000 | 1,472 | 1,491 | 1,492 | 1,466 | 1,614 | 1,700 | 1,811 | 1,822 | 1,678 | 1,623 | 1,611 |
| Undercollection | 974 | 497 | 472 | 465 | 486 | 332 | 303 | 187 | 170 | 307 | 356 | 361 |
| Ending balance excluding interest adjustment | 974 | 1,395 | 1,794 | 2,186 | 2,601 | 2,864 | 3,099 | 3,219 | 3,322 | 3,564 | 3,855 | 4,152 |
| Add: Monthly interest | 2 | 4 | 5 | 6 | 8 | 9 | 10 | 11 | 12 | 12 | 13 | 15 |
| Add: Miscellaneous adj. 2/ | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) |
| ENDING ACCOUNT BALANCE | 898 | 1,322 | 1,721 | 2,115 | 2,532 | 2,796 | 3,032 | 3,152 | 3,257 | 3,499 | 3,791 | 4,090 |

1/ Computed at a combined rate of 0.944%.

2/ Downward adjustment of $927,000 amortized over 1988 to offset revenues being collected in base rates as a consequence of including certain expenses in Edison's 1988 general rate case.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ESTIMATED MAAC ACCOUNT OPERATION FOR 1989
(in thousands of dollars)

| Item | Jan 89 | Feb 89 | Mar 89 | Apr 89 | May 89 | Jun 89 | Jul 89 | Aug 89 | Sep 89 | Oct 89 | Nov 89 | Dec 89 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BEGINNING ACCOUNT BALANCE | 4,090 | 4,364 | 4,766 | 5,178 | 5,609 | 6,013 | 6,279 | 5,113 | 4,831 | 4,536 | 4,263 | 4,008 |
| Jurisdictionalized gross revenue requirement | 2,002 | 1,995 | 1,990 | 1,984 | 1,978 | 1,972 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forecasted sales | | 5,173 | 5,128 | 5,052 | 5,127 | 5,582 | 6,017 | 6,132 | 6,387 | 5,888 | 5,508 | 5,478 |
| AOR/MAAC balancing account rate | | 0.030 | 0.030 | 0.030 | 0.030 | 0.030 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 |
| Proj./Rec. gross revenue | 1,687 | 1,552 | 1,538 | 1,516 | 1,538 | 1,675 | 1,203 | 307 | 319 | 294 | 275 | 274 |
| Less: Franchise fees and uncollectibles 1/ | 16 | 15 | 15 | 14 | 15 | 16 | 11 | 3 | 3 | 3 | 3 | 3 |
| Adjusted gross revenue | 1,671 | 1,537 | 1,524 | 1,501 | 1,524 | 1,659 | 1,192 | 304 | 316 | 292 | 273 | 271 |
| Undercollection | 331 | 458 | 466 | 483 | 454 | 314 | (1,192) | (304) | (316) | (292) | (273) | (271) |
| Ending balance excluding interest adjustment | 4,421 | 4,822 | 5,232 | 5,661 | 6,063 | 6,327 | 5,086 | 4,809 | 4,515 | 4,244 | 3,990 | 3,737 |
| Add: Monthly interest | 20 | 21 | 23 | 25 | 27 | 29 | 26 | 22 | 21 | 19 | 18 | 17 |
| Add: Miscellaneous adj. 2/ | (77) | (77) | (77) | (77) | (77) | (77) | 0 | 0 | 0 | 0 | 0 | 0 |
| ENDING ACCOUNT BALANCE | 4,364 | 4,766 | 5,178 | 5,609 | 6,013 | 6,279 | 5,113 | 4,831 | 4,536 | 4,263 | 4,008 | 3,754 |

1/ Computed at a combined rate of 0.964%.

2/ Downward adjustment of $463,500 amortized over the first half of 1989 to offset revenues being collected in base rates as a consequence of including certain expenses in Edison's 1988 general rate case.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ESTIMATED MAAC ACCOUNT OPERATION FOR 1990
(In thousands of dollars)

| Item | Jan 90 | Feb 90 | Mar 90 | Apr 90 | May 90 | Jun 90 | Jul 90 | Aug 90 | Sep 90 | Oct 90 | Nov 90 | Dec 90 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BEGINNING ACCOUNT BALANCE | 3,754 | 3,502 | 3,258 | 3,015 | 2,775 | 2,530 | 2,261 | 1,969 | 1,669 | 1,355 | 1,065 | 791 |
| Jurisdictionalized gross revenue requirement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forecasted sales | 5,408 | 5,213 | 5,173 | 5,087 | 5,167 | 5,627 | 6,067 | 6,182 | 6,432 | 5,928 | 5,553 | 5,523 |
| MAAC balancing account rate | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 |
| Proj./Rec. gross revenue | 270 | 261 | 259 | 254 | 258 | 281 | 303 | 309 | 322 | 296 | 278 | 276 |
| Less: Franchise fees and uncollectibles 1/ | 3 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Adjusted gross revenue | 268 | 258 | 256 | 252 | 256 | 279 | 300 | 306 | 319 | 294 | 275 | 274 |
| Undercollection | (268) | (258) | (256) | (252) | (256) | (279) | (300) | (306) | (319) | (294) | (275) | (274) |
| Ending balance excluding interest adjustment | 3,486 | 3,244 | 3,002 | 2,763 | 2,519 | 2,252 | 1,961 | 1,662 | 1,350 | 1,061 | 790 | 518 |
| Add: Monthly interest | 16 | 15 | 13 | 12 | 11 | 9 | 8 | 6 | 5 | 3 | 2 | 0 |
| Add: Miscellaneous adj. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ENDING ACCOUNT BALANCE | 3,502 | 3,258 | 3,015 | 2,775 | 2,530 | 2,261 | 1,969 | 1,669 | 1,355 | 1,065 | 791 | 518 |

1/ Computed at a combined rate of 0.944%.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED MAAC BALANCING RATE
EFFECTIVE DATE: JULY 1, 1989

| | | |
|---|---|---|
| | | (000's of $) |
| MAAC Balancing Account Undercollection attributable to Devers-Valley-Serrano (Forecast date: June 30, 1989) 1/ | | $6,279 |
| Less: Revenues Attributable to June 1989 but collected in July 1989 (excl. franchise fees and uncollectibles) | | 1,073 |
| Add: Forecast Interest Expense During Amortization Period | | 223 |
| SUBTOTAL | | $5,429 |
| Add: Franchise Fees (0.73%) and Uncollectibles (0.214%) | | 51 |
| MAAC UNDERCOLLECTION TO BE AMORTIZED | | $5,480 |
| Forecasted sales during amortization period 2/ 3/ | 102,770.0 GWh | |
| Adopted increase in MAAC balancing rate for Devers-Valley-Serrano | | 0.005 cents/Kwh |
| Presently authorized MAAC balancing rate for Devers-Valley-Serrano | | 0.000 cents/Kwh |
| ADOPTED MAAC BALANCING RATE FOR DEVERS-VALLEY-SERRANO | | 0.005 cents/Kwh |

1/ Includes downward adjustments of $927,000 amortized over 1988 and $463,500 amortized over the first half of 1989 to offset revenues being collected in base rates as a consequence of including certain expenses in Edison's 1988 general rate case.

2/ Excludes employee discount (Rate Schedule DE) adjustment of 43.8 GWh.

3/ Amortization period extends for 18 months from July 1, 1989 to the end of Edison's general rate case cycle on December 31, 1990.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED AVERAGE OWNERSHIP RATE
EFFECTIVE DATE: JULY 1, 1989

| | |
|---|---|
| Presently authorized Average Ownership Rate | 0.030 cents/Kwh |
| Adopted decrease | 0.030 cents/Kwh |
| ADOPTED AVERAGE OWNERSHIP RATE (AOR) | 0.000 cents/Kwh |

AUTHORIZED LEVEL OF BASE RATE REVENUE
EFFECTIVE DATE: JULY 1, 1989

| | |
|---|---|
| Presently authorized Base Rate Revenue | $3,519,174,400 |
| Add: Adopted increase in Base Rate Revenue including franchise fees and uncollectibles | 23,803,785 |
| Less: Amount related to DVS presently included in Base Rate Revenue | 927,000 |
| Add: Adopted increase in Base Rate Revenue for Balsam Meadows Hydroelectric Project (to be adopted in A.88-05-012) | (Not available) |
| AUTHORIZED LEVEL OF BASE RATE REVENUE | $3,542,051,185 |
| % increase in Base Rate Revenue | 0.65% |

ADOPTED AVERAGE INCREASE IN BASE RATES
EFFECTIVE DATE: JULY 1, 1989

| | |
|---|---|
| Adopted net increase in Base Rate Revenue including franchise fees and uncollectibles | $22,876,785 |
| Annual sales (to be adopted in A.89-03-023) | 67,084 Gwh |
| ADOPTED AVERAGE INCREASE IN BASE RATES | 0.034 cents/Kwh |

ADOPTED OVERALL INCREASE IN RATES
EFFECTIVE DATE: JULY 1, 1989

| | |
|---|---|
| Adopted increase in MAAC balancing rate | 0.005 cents/Kwh |
| Adopted decrease in MAAC AOR rate | 0.030 cents/Kwh |
| Adopted decrease in MAABF | 0.025 cents/Kwh |
| Adopted average increase in base rates | 0.034 cents/Kwh |
| ADOPTED OVERALL INCREASE IN RATES | 0.009 cents/Kwh |

ALJ/BRS/pc

Decision ___________

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 Devers-Valley-Serrano 500 kV Transmission Line Project investment-related costs to base rates pursuant to previously adopted procedures, and (ii) related substantive and procedural relief. | Application 88-05-007 (Filed May 6, 1988) |

James M. Lehrer, Richard K. Durant, Carol B. Henningson, and Gloria M. Wong, Attorneys at Law, for Southern California Edison Company, applicant.
Edward Duncan, for himself, interested party.
Lionel B. Wilson, Attorney at Law, and Joseph Fowler, for the Division of Ratepayer Advocates.

# OPINION

## I. Summary

By this application filed on May 6, 1988, Southern California Edison Company (SCE) seeks from the Commission a finding of reasonableness of construction costs for the Devers-Valley-Serrano 500 kilovolt (kV) transmission line project (DVS), and authority to recover the associated revenue requirement in base rates. The Commission finds that the construction costs of $136,783,000.00 recorded through January 31, 1988, reduced by approximately $429,000.00 as recommended by the Division of Ratepayer Advocates (DRA), are reasonable. SCE is authorized to file tariffs for rates effective June 1, 1989. Revenue recovery will be removed from the Annual Ownership Rate (AOR) of the Major Additions Adjustment Clause (MAAC), the undercollections in the

MAAC balancing account will be amortized, and base rates will be increased.

DVS construction costs recorded after January 31, 1988 will be reviewed for reasonableness in the next SCE general rate case.

## II. Background

### A. Need for the Project

In 1979 SCE began to see a need for additional electrical power for the fast-growing communities in the Perris Valley area of San Bernardino County. This area, approximately 100 miles east of downtown Los Angeles, was experiencing rapid development of commercial and residential tracts in the communities of Perris, Hemet, and Moreno Valley.

### B. Description of Project

As a result of studying various methods of serving the additional load to the area, SCE developed the DVS project, which it believed would serve the area reliably and economically, and would also increase the flexibility and transfer capability of the existing transmission network.

The project spans 82 miles between the cities of Palm Springs and Orange. It consists of the Devers-Valley 500 kV and the Valley-Serrano 500 kV transmission lines, a new Valley Substation, and one additional line position at each of the existing Devers and Serrano substations.

The project crosses the environmentally sensitive San Bernardino and Cleveland National Forests. Helicopter construction was used in the Cleveland National Forest to minimize the need for construction roads and associated impacts. The line height was kept below 200 feet to aid visual shielding and to avoid the need for tower lighting in this air traffic corridor. Route alignment was chosen to minimize visual impact, and tower galvanizing was chemically dulled to minimize reflections.

Several technologies used were new to SCE, such as gas insulated switchgear at the Valley Substation, selected for its greater resistance to the environment and to earthquake effects.

Portions of the project were energized in May, 1987, while commercial operation was achieved on July 22, 1987.

C. <u>Regulatory Background</u>

On October 1, 1980, SCE filed Application (A.) 59982 requesting a certificate of public convenience and necessity to construct and operate DVS. The Commission in Decision (D.) 84-10-034 granted SCE the certificate and adopted a cost estimate of $121,834,000.00 for the project. SCE was also ordered to file:

- the estimated cost of the adopted mitigation measures;
- an amended project description and cost estimate for the project;
- the results of the solicitation of bids for helicopter construction.

SCE's filing resulted in an amended cost estimate of $159,414,000.00 which included items totaling $5,396,000.00 that the Commission deemed to be either unnecessary or inappropriate with respect to D.84-10-034.

In Resolution F-608, the Commission approved the amended cost estimate in the amount of $154,018,000.00 ($159,414,000.00 less $5,396,000.00). The amended cost estimate functions, for ratemaking purposes, as a cost cap for the construction.

D.87-12-066, in the 1988 SCE general rate case A.86-12-047, developed interim procedures for ratemaking associated with DVS construction costs. SCE was allowed to recover 75% of the revenue requirement through the AOR of MAAC rates. The other 25% was to be recorded as an undercollection in the MAAC balancing account, with recovery allowed after a determination of reasonableness by the Commission.

## III. Relief Requested

### A. Reasonableness Determination

SCE requests that the Commission find the $136,783,000.00 in DVS construction costs recorded through January 31, 1988 to be reasonable.

### B. Rate Changes

SCE requests a number of rate changes to recover the revenue requirement associated with the construction costs found reasonable in base rates, to simultaneously cease recovery through the AOR, and to amortize the MAAC balancing account. SCE believes that equal ¢/kWh rate changes are appropriate due to the small magnitudes involved.

Assuming all construction costs are found reasonable, and an effective date of June 1, 1989, the requested rate changes consist of the following:

- an average increase in base rates of 0.036 cents per kilowatt-hour (¢/kWh).
- a decrease in the Major Additions Adjustment Billing Factor (MAABF) of 0.023 ¢/kWh, the net result of:
    - an increase in the MAAC balancing account rate of approximately 0.007 ¢/kWh due to the undercollection in the balancing account. This is intended to amortize the undercollection by the end of the current SCE general rate case cycle on December 31, 1990. SCE proposes that this rate be set after the Commission decision in this matter, and reflect the then current balancing account level. Once the balance is amortized, SCE proposes to terminate this rate by Advice Letter filing, with any residual under- or overcollection to be transferred to

another balancing account for final disposition.

- a decrease in the MAAC AOR attributable to DVS from 0.030 ¢/kWh to zero.

## IV. Regulatory Review

### A. DRA Report

DRA performed a review of the DVS construction and issued a report in November, 1988, consisting of two parts.

Part 1 presents a review of the reasonableness of construction of DVS.

Part 2 presents the auditors' examination of the recorded DVS construction costs.

#### 1. Part 1 - Reasonableness of Construction

The investigation by the Energy Operational Costs Branch of DRA began with a comprehensive pre-filing data request nearly a year before the application was filed. DRA requested SCE to furnish specific and substantial information in the application. As a result, DRA's investigation is substantially based on data furnished in the application.

Although the cost cap is based on SCE's estimated construction costs by individual cost category, the Commission did not set cost caps for the individual categories. The cost cap applies only to the total construction costs of the project. The overall construction costs estimated at $142,958,000.00 are $11,060,000.00 or 7.2% below the Commission adopted cost cap of $154,018,000.00. The $142,958,000.00 amount is based on the costs recorded through January 31, 1988 at $136,783,000.00, plus SCE's estimated costs to completion of $6,175,000.00. The estimated costs of completion items are:

- $2,360,000.00 for Valley substation
- 245,000.00 for Devers-Valley right-of-way
- 3,570,000.00 for Valley-Serrano right-of-way

$6,175,000.00 total cost of completion items (estimated)

Based on its review of all construction cost categories, Energy Operational Costs Branch concluded that there was no evidence of unreasonableness of construction, and therefore recommended no disallowances.

2. **Part 2 - Audit of Recorded Construction Costs**

a. Audit Report

The investigation by the Energy Auditing Branch (EAB) of DRA resulted in a number of recommended ratemaking adjustments to reduce the total recorded construction costs of the project for ratemaking purposes. The adjustments total approximately $429,225.00, and would apply either to the recorded construction costs, or to the MAAC balance.

The $429,225.00 reduction would apply as follows: the allowable construction cost of $136,783,000.00 (recorded through January 31, 1988) reduces by $391,225.00, while the MAAC balance reduces by $38,000.00. In addition, DRA estimates that approximately $50,000.00 should be removed from the MAAC balance to reflect the effect on the balance of the first five adjustments below. The individual reductions are:

1. $50,543.00 for sales tax paid on training costs. During an internal audit on one of SCE's vendors, DRA discovered that SCE had improperly paid sales tax on labor charges including training.

2. $20,170.00 for Los Angeles County Transit Tax paid on deliveries outside the county. A review of internal audit workpapers revealed the fact that SCE had in some

cases paid 6 1/2% sales tax which includes the 1/2% Los Angeles County transit tax. The applicable sales tax is 6% since the transit tax is not due for deliveries to DVS since it is located outside Los Angeles County. DRA believes it is incumbent on SCE to monitor the taxes paid to avoid such overcharges.

3. $31,468.00 due to improper crediting of Allowance for Funds Used During Construction (AFUDC) on retentions. This involves crediting the accrued AFUDC for the 5% to 10% of payments due vendors that are routinely withheld until the contract terms have been satisfied. Since this 5% to 10% had not yet been paid, AFUDC should not have accrued on it. Although SCE applied a credit for the accrued AFUDC, it did not properly calculate it. The adjustment results from proper recalculation of the credit.

4. $103,690.00 due to misallocation of right of way costs. DRA discovered a discrepancy in allocation of costs to a particular piece of property, with the result that $103,690.00 was incorrectly allocated to DVS and should be removed from the recorded costs.

5. $185,354.00 for repair costs borne by SCE that are the responsibility of the suppliers. During construction, malfunctioning equipment required repair in the amount of $185,354.00. After negotiations, the vendor agreed to pay for the repairs. Therefore, this repair amount should be removed form the project costs.

6. $50,000.00 is an approximation of the effect of the above adjustments on the MAAC balance. The actual amount will need to be determined if the adjustment is adopted.

7. $38,000.00 due to an adjustment on taxes. This results from not allowing interest to be accrued on the income tax portion of the undercollection in the MAAC balancing

account. The $38,000.00 amount is the estimated adjustment through June 30, 1989.

b. SCE Response to EAB Report

SCE, in considering the DRA recommendations for adjustments, agreed that the adjustments proposed were appropriate, with the exception of the last item.

In that instance, SCE noted that the $38,000.00 adjustment was not a reduction to plant, but rather a methodological change to the balancing account interest calculation. Since the change was a part of the ratemaking stipulation between SCE and DRA in the SCE San Onofre Nuclear Generating Station A.87-05-031, which was consolidated with San Diego Gas and Electric Company A.87-07-044, SCE agreed with the adjustment pending the Commission decision on the issue. Since the Commission adopted the change in D.88-12-033, in A.87-05-031, and A.87-07-044, it is no longer an issue in this proceeding, and SCE now agrees with the adjustment.

## B. Discussion

### 1. Reasonableness

The ratemaking adjustments resulting from the DRA audit were adequately explained and justified during the hearing, and are uncontroverted. SCE agrees to them, and no other parties participated in the proceeding. No adjustments or disallowances were recommended as a result of the DRA review.

We are satisfied that the DRA audit adjustments are appropriate, and that they adequately and properly reflect the amounts corresponding to the problems identified in the audit. We commend DRA for its thorough audit that resulted in these recommendations, which we will adopt.

Since total construction costs were not yet available for this application, they have been estimated for purposes of comparison with the cost cap. However, SCE is not requesting that the reasonableness of the costs beyond January 31, 1988 be addressed in this proceeding. We will order SCE to record the actual construction costs after January 31, 1988 as undercollections in the MAAC balancing account. The reasonableness of those costs will be reviewed in the next SCE general rate case. While we believe it is unlikely that the final recorded construction costs will exceed the cost cap, such an occurrence, or any significant increase from the SCE estimate of completion costs, will be cause for increased Commission scrutiny.

2. Ratemaking

We will authorize rate changes effective June 1, 1989, as SCE requested. The June 1 date should allow adequate time for SCE to file tariffs in compliance with this order.

Further rate changes will still be required in the future in order to allow SCE to recover the full revenue requirement associated with the total construction costs found reasonable, since the post-January 31, 1988 costs will be considered later.

a. Authorized Level of Base Rate Revenues

The new Authorized Level of Base Rate Revenues is $3,542,978,185.00. This represents an increase of 0.67% over the previously Authorized Level of Base Rate Revenues. (See Appendix A.)

b. Base Rates

Since the authorized increase in Base Rate Revenues is less than 1%, we will allow SCE to increase base rates on an "equal cents per kWh" basis subject to baseline and other constraints. The average increase in base rates is 0.036 ¢/kWh.

c. MAABF

The MAAC balance was recomputed to reflect the effect of the reductions to the construction costs found reasonable here. The MAABF reduces by 0.025 ¢/kWh which is the net of an increase in the MAAC balancing rate of 0.005 ¢/kWh and decrease in the AOR of 0.030 ¢/kWh. (See Appendix A.)

We will order SCE to file tariffs to reflect the MAAC balance adjusted for the DRA adjustments we are adopting, and to reflect elimination of the MAAC AOR rate and increase the MAAC balancing rate, authorized level of Base Rate Revenues and base rates.

__Findings of Fact__

1. SCE filed this application on May 6, 1988 seeking from the Commission a finding of reasonableness of $136,783,000.00 in construction costs recorded through January 31, 1988. SCE seeks authority to recover the revenue requirement associated with the reasonable construction costs in base rates, to eliminate the AOR rate now in effect, and to amortize the MAAC balancing account undercollection.

2. The Commission granted the certificate of public convenience and necessity for the DVS project by D.84-10-034.

3. The DVS project was developed to serve the fast-growing communities in the Perris Valley area of San Bernardino County.

4. The DVS project spans 82 miles between the cities of Palm Springs and Orange, and consists of the Devers-Valley 500 kV and the Valley-Serrano 500 kV transmission lines, a new Valley Substation, and one additional line position at each of the existing Devers and Serrano substations.

5. The Commission by Resolution F-608 approved an amended cost estimate of $154,018,000.00, to function as a construction cost cap for ratemaking purposes.

6. D.87-12-066 approved procedures for reflecting 75% of the DVS revenue requirement in MAAC AOR rates, with the remainder to be recorded in the MAAC balancing account and collected after a determination of reasonableness by the Commission.

7. SCE estimates the overall construction costs to completion at $142,958,000.00, which is $11,060,000.00, or $7.2% below the construction cost cap.

8. The DVS project achieved commercial operation on July 22, 1987.

9. DRA's Energy Operational Costs Branch reviewed the construction and concluded that there was no evidence of unreasonableness.

10. DRA recommended reducing, for ratemaking purposes, the total recorded construction costs through January 31, 1988 by the amount of $391,225.00, due to improper taxes paid, improper crediting of AFUDC, misallocation of right of way costs, and improper charging of repair costs.

11. DRA recommended that the MAAC balance be reduced by approximately $88,000.00, consisting of approximately $50,000.00 due to the effects of the above recommendations, and $38,000.00 due to a tax expense adjustment.

12. SCE agrees with DRA's recommendations to reduce the total recorded construction costs and to reduce the MAAC balance.

13. SCE's requested increase in Base Rate Revenues would result in an increase of less than 1%.

14. An increase in the MAAC balancing rate of 0.005¢/kWh should amortize the MAAC balancing account during the period of June 1, 1989 through December 31, 1990.

<u>Conclusions of Law</u>

1. The DVS construction costs recorded through January 31, 1988, reduced by the adjustments recommended by DRA, are reasonable for ratemaking purposes.

2. It is reasonable to adjust the MAAC balancing account to reflect the effect of the adjustments recommended by DRA.

3. It is reasonable to adjust the MAAC balancing account to reflect removing the accrual of interest on the income tax portion of the MAAC balancing account undercollections.

4. The rate changes authorized herein are just and reasonable.

5. DVS investment-related costs recorded after January 31, 1988 should be considered for reasonableness and ratemaking in the next SCE general rate case.

## O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) shall adjust the recorded Devers-Valley-Serrano transmission line project (DVS) construction costs for ratemaking purposes by $391,225.00 to reflect the adjustments we are adopting herein.

2. SCE shall cease future accrual of interest on the income tax portion of the Major Additions Adjustment Clause (MAAC) balancing account undercollections.

3. SCE is authorized to file tariffs within 10 days of the effective date of this order to reduce the MAAC Annual Ownership Rate for DVS from 0.030 cents per kilowatt-hour (¢/kWh) to zero, effective June 1, 1989.

4. SCE is authorized to file tariffs in accordance with General Order (GO) 96A within 10 days of the effective date of this order to increase the MAAC balancing rate by 0.005 ¢/kWh to amortize the undercollection in the MAAC balancing account for DVS during the period from June 1, 1989 through December 31, 1990.

5. SCE is authorized to file tariffs in accordance with GO-96-A within 10 days of the effective date of this order to increase base rates on an "equal cents per kWh" basis subject to baseline and other constraints. The average increase in base rates shall be 0.036 ¢/kWh.

6. SCE shall file an Advice Letter to terminate the amortization of the MAAC balancing account for DVS when the balance is $10,000.00 or less. Any residual balance shall then be

transferred to Electric Revenue Adjustment Mechanism for final disposition.

7. The reasonableness of DVS construction costs recorded after January 31, 1988, and resulting ratemaking, will be addressed in the next SCE general rate case.

This order is effective today.

Dated ____________________, at San Francisco, California.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED RATE BASE AND REVENUE REQUIREMENT FOR 1988
(in thousands of dollars)

| Item | Jan 88 | Feb 88 | Mar 88 | Apr 88 | May 88 | Jun 88 | Jul 88 | Aug 88 | Sep 88 | Oct 88 | Nov 88 | Dec 88 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Plant-in-service | 136,199 | 136,237 | 136,237 | 136,326 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | |
| Less: Depr. reserve | 4,667 | 5,019 | 5,371 | 5,723 | 6,074 | 6,426 | 6,778 | 7,130 | 7,482 | 7,834 | 8,186 | 8,538 | |
| Less: Taxes deferred (ACRS) | 3,347 | 3,500 | 3,652 | 3,805 | 3,958 | 4,110 | 4,263 | 4,415 | 4,568 | 4,721 | 4,873 | 5,026 | |
| Rate Base | 128,185 | 127,718 | 127,214 | 126,798 | 126,359 | 125,855 | 125,350 | 124,847 | 124,342 | 123,837 | 123,333 | 122,828 | |
| Net revenue requirement 1/ | 1,148 | 1,144 | 1,140 | 1,136 | 1,132 | 1,127 | 1,123 | 1,118 | 1,114 | 1,109 | 1,105 | 1,100 | 13,497 |
| Depreciation | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 4,223 |
| Ad Valorem taxes | 93 | 93 | 93 | 93 | 93 | 93 | 132 | 132 | 132 | 132 | 132 | 132 | 1,350 |
| Income taxes | 419 | 418 | 416 | 414 | 413 | 411 | 435 | 434 | 432 | 430 | 428 | 426 | 5,076 |
| Gross revenue requirement excluding Franchise Fees and Uncollectibles | 2,012 | 2,007 | 2,001 | 1,995 | 1,990 | 1,983 | 2,042 | 2,036 | 2,030 | 2,023 | 2,017 | 2,010 | 24,146 |
| Jurisdictionalized gross revenue requirement excluding Franchise Fees and Uncollectibles 2/ | 1,974 | 1,969 | 1,963 | 1,957 | 1,952 | 1,946 | 2,003 | 1,998 | 1,991 | 1,985 | 1,978 | 1,972 | 23,687 |

1/ Computed at the authorized return on rate base of 10.75% for 1988.

2/ California Jurisdictional factor of 98.100% for 1988.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED RATE BASE AND REVENUE REQUIREMENT FOR 1989
(In thousands of dollars)

| Item | Jan 89 | Feb 89 | Mar 89 | Apr 89 | May 89 | Jun 89 | Jul 89 | Aug 89 | Sep 89 | Oct 89 | Nov 89 | Dec 89 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Plant-in-service | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | 136,392 | |
| Less: Depr. reserve | 8,890 | 9,242 | 9,593 | 9,945 | 10,297 | 10,649 | 11,001 | 11,353 | 11,705 | 12,057 | 12,409 | 12,761 | |
| Less: Taxes deferred (ACRS) | 5,165 | 5,291 | 5,417 | 5,543 | 5,669 | 5,795 | 5,921 | 6,047 | 6,173 | 6,299 | 6,425 | 6,551 | |
| Rate Base | 122,337 | 121,859 | 121,381 | 120,903 | 120,425 | 119,948 | 119,470 | 118,992 | 118,514 | 118,036 | 117,558 | 117,080 | |
| Net revenue requirement 1/ | 1,112 | 1,108 | 1,104 | 1,099 | 1,095 | 1,091 | 1,086 | 1,082 | 1,077 | 1,073 | 1,069 | 1,064 | 13,060 |
| Depreciation | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 352 | 4,223 |
| Ad Valorem taxes | 133 | 133 | 133 | 133 | 133 | 133 | 128 | 128 | 128 | 128 | 128 | 128 | 1,566 |
| Income taxes | 433 | 431 | 430 | 428 | 426 | 425 | 420 | 418 | 417 | 415 | 413 | 411 | 5,067 |
| Gross revenue requirement excluding Franchise Fees and Uncollectibles | 2,030 | 2,024 | 2,018 | 2,012 | 2,006 | 2,000 | 1,986 | 1,980 | 1,974 | 1,968 | 1,962 | 1,955 | 23,916 |
| Jurisdictionalized gross revenue requirement excluding Franchise Fees and Uncollectibles 2/ | 2,002 | 1,995 | 1,990 | 1,984 | 1,978 | 1,972 | 1,958 | 1,952 | 1,947 | 1,940 | 1,934 | 1,928 | 23,581 |

1/ Computed at the authorized return on rate base of 10.91% for 1989.

2/ California jurisdictional factor of 98.600% for 1989.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED MAAC ACCOUNT OPERATION FOR 1988
(in thousands of dollars)

| Item | Jan 88 | Feb 88 | Mar 88 | Apr 88 | May 88 | Jun 88 | Jul 88 | Aug 88 | Sep 88 | Oct 88 | Nov 88 | Dec 88 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BEGINNING ACCOUNT BALANCE | 0 | 898 | 1,322 | 1,721 | 2,115 | 2,532 | 2,796 | 3,032 | 3,152 | 3,257 | 3,499 | 3,791 |
| Jurisdictionalized gross revenue requirement | 1,974 | 1,969 | 1,963 | 1,957 | 1,952 | 1,946 | 2,003 | 1,998 | 1,991 | 1,985 | 1,978 | 1,972 |
| Recorded gross revenue | 1,010 | 1,486 | 1,505 | 1,506 | 1,480 | 1,629 | 1,716 | 1,828 | 1,839 | 1,694 | 1,638 | 1,626 |
| Less; franchise fees and uncollectibles 1/ | 10 | 14 | 14 | 14 | 14 | 15 | 16 | 17 | 17 | 16 | 15 | 15 |
| Adjusted gross revenue | 1,000 | 1,472 | 1,491 | 1,492 | 1,466 | 1,614 | 1,700 | 1,811 | 1,822 | 1,678 | 1,623 | 1,611 |
| Undercollection | 974 | 497 | 472 | 465 | 486 | 332 | 303 | 187 | 170 | 307 | 356 | 361 |
| Ending balance excluding interest adjustment | 974 | 1,395 | 1,794 | 2,186 | 2,601 | 2,864 | 3,099 | 3,219 | 3,322 | 3,564 | 3,855 | 4,152 |
| Add; Monthly interest | 2 | 4 | 5 | 6 | 8 | 9 | 10 | 11 | 12 | 12 | 13 | 15 |
| Add; Miscellaneous adj. 2/ | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) | (77) |
| ENDING ACCOUNT BALANCE | 898 | 1,322 | 1,721 | 2,115 | 2,532 | 2,796 | 3,032 | 3,152 | 3,257 | 3,499 | 3,791 | 4,090 |

1/ Computed at a combined rate of 0.944%.

2/ Downward adjustment of $927,000 amortized over 1988 to offset revenues being collected in base rates as a consequence of including certain expenses in Edison's 1988 general rate case.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED MAAC ACCOUNT OPERATION FOR 1989
(in thousands of dollars)

| Item | Jan 89 | Feb 89 | Mar 89 | Apr 89 | May 89 | Jun 89 | Jul 89 | Aug 89 | Sep 89 | Oct 89 | Nov 89 | Dec 89 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BEGINNING ACCOUNT BALANCE | 4,090 | 4,441 | 4,921 | 5,411 | 5,921 | 6,405 | 5,327 | 5,054 | 4,774 | 4,480 | 4,209 | 3,955 |
| Jurisdictionalized gross revenue requirement | 2,002 | 1,995 | 1,990 | 1,984 | 1,978 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forecasted sales | | 5,173 | 5,128 | 5,052 | 5,127 | 5,582 | 6,017 | 6,132 | 6,387 | 5,888 | 5,508 | 5,478 |
| AOR/MAAC balancing account rate | | 0.030 | 0.030 | 0.030 | 0.030 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 |
| Proj./Rec. gross revenue | 1,687 | 1,552 | 1,538 | 1,516 | 1,538 | 1,116 | 301 | 307 | 319 | 296 | 275 | 274 |
| Less; Franchise fees and uncollectibles 1/ | 16 | 15 | 15 | 14 | 15 | 11 | 3 | 3 | 3 | 3 | 3 | 3 |
| Adjusted gross revenue | 1,671 | 1,537 | 1,524 | 1,501 | 1,524 | 1,106 | 298 | 304 | 316 | 292 | 273 | 271 |
| Undercollection | 331 | 458 | 466 | 483 | 454 | (1,106) | (298) | (304) | (316) | (292) | (273) | (271) |
| Ending balance excluding interest adjustment | 4,421 | 4,899 | 5,387 | 5,894 | 6,375 | 5,299 | 5,029 | 4,751 | 4,458 | 4,188 | 3,936 | 3,684 |
| Add; Monthly interest | 20 | 22 | 24 | 27 | 30 | 28 | 25 | 23 | 22 | 21 | 19 | 18 |
| Add; Miscellaneous adj. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ENDING ACCOUNT BALANCE | 4,441 | 4,921 | 5,411 | 5,921 | 6,405 | 5,327 | 5,054 | 4,774 | 4,480 | 4,209 | 3,955 | 3,702 |

1/ Computed at a combined rate of 0.944%.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED MAAC ACCOUNT OPERATION FOR 1990
(In thousands of dollars)

| Item | Jan 90 | Feb 90 | Mar 90 | Apr 90 | May 90 | Jun 90 | Jul 90 | Aug 90 | Sep 90 | Oct 90 | Nov 90 | Dec 90 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BEGINNING ACCOUNT BALANCE | 3,702 | 3,452 | 3,209 | 2,968 | 2,730 | 2,486 | 2,218 | 1,927 | 1,629 | 1,317 | 1,028 | 756 |
| Jurisdictionalized gross revenue requirement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forecasted sales | 5,408 | 5,213 | 5,173 | 5,087 | 5,167 | 5,627 | 6,067 | 6,182 | 6,432 | 5,928 | 5,553 | 5,523 |
| MAAC balancing account rate | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 |
| Proj./Rec. gross revenue | 270 | 261 | 259 | 254 | 258 | 281 | 303 | 309 | 322 | 296 | 278 | 276 |
| Less: Franchise fees and uncollectibles 1/ | 3 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Adjusted gross revenue | 268 | 258 | 256 | 252 | 256 | 279 | 300 | 306 | 319 | 294 | 275 | 274 |
| Undercollection | (268) | (258) | (256) | (252) | (256) | (279) | (300) | (306) | (319) | (294) | (275) | (274) |
| Ending balance excluding interest adjustment | 3,434 | 3,193 | 2,953 | 2,716 | 2,474 | 2,207 | 1,918 | 1,621 | 1,310 | 1,023 | 753 | 483 |
| Add: Monthly interest | 17 | 16 | 15 | 14 | 12 | 11 | 9 | 8 | 6 | 5 | 3 | 2 |
| Add: Miscellaneous adj. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ENDING ACCOUNT BALANCE | 3,452 | 3,209 | 2,968 | 2,730 | 2,486 | 2,218 | 1,927 | 1,629 | 1,317 | 1,028 | 756 | 485 |

1/ Computed at a combined rate of 0.944%.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED MAAC BALANCING ACCOUNT RATE
EFFECTIVE DATE: JUNE 1, 1989

| | | (000's of $) |
|---|---|---|
| MAAC Balancing Account Undercollection attributable to Devers-Valley-Serrano (Forecast date: May 31, 1989) 1/ | | $6,405 |
| Less: Revenues Attributable to May 1989 but collected in June 1989 | | 1,005 |
| Add: Forecast Interest Expense During Amortization Period | | 275 |
| SUBTOTAL | | $5,675 |
| Add: Franchise Fees (0.73%) and Uncollectibles (0.214%) | | 54 |
| MAAC UNDERCOLLECTION TO BE AMORTIZED | | $5,729 |
| Forecasted sales during amortization period 2/ 3/ | 106,747.2 Gwh | |
| Adopted increase in MAAC balancing account rate | | 0.005 cents/Kwh |
| Presently authorized MAAC balancing account rate | | 0.000 cents/Kwh |
| ADOPTED MAAC BALANCING ACCOUNT RATE | | 0.005 cents/Kwh |

1/ Includes a downward adjustment of $927,000 amortized over 1988 to offset revenues being collected in base rates as a consequence of including certain expenses in Edison's 1988 general rate case.

2/ Includes employee discount (Rate Schedule DE) adjustment of 43.8 GWh.

3/ Amortization period extends for 19 months from June 1, 1989 to the end of Edison's general rate case cycle on December 31, 1990.

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
DEVERS-VALLEY-SERRANO TRANSMISSION LINE PROJECT

ADOPTED AVERAGE OWNERSHIP RATE
EFFECTIVE DATE: JUNE 1, 1989

| | |
|---|---|
| Presently authorized Average Ownership Rate | 0.030 cents/Kwh |
| Adopted decrease | 0.030 cents/Kwh |
| ADOPTED AVERAGE OWNERSHIP RATE (AOR) | 0.000 cents/Kwh |

AUTHORIZED LEVEL OF BASE RATE REVENUE
EFFECTIVE DATE: JUNE 1, 1989

| | |
|---|---|
| Presently authorized Base Rate Revenue | $3,519,174,400 |
| Adopted increase in Base Rate Revenue including franchise fees and uncollectibles | 23,803,785 |
| AUTHORIZED LEVEL OF BASE RATE REVENUE | $3,542,978,185 |
| % increase in Base Rate Revenue | 0.68% |

ADOPTED AVERAGE INCREASE IN BASE RATES
EFFECTIVE DATE: JUNE 1, 1989

| | |
|---|---|
| Adopted increase in Base Rate Revenue including franchise fees and uncollectibles | $23,803,785 |
| Adopted annual sales from D.88-09-031 | 65312 Gwh |
| ADOPTED AVERAGE INCREASE IN BASE RATES | 0.036 cents/Kwh |

ADOPTED OVERALL INCREASE IN RATES
EFFECTIVE DATE: JUNE 1, 1989

| | |
|---|---|
| Adopted incr. in Maac balancing account rate | 0.005 cents/Kwh |
| Adopted decrease in MAAC AOR rate | 0.030 cents/Kwh |
| Adopted decrease in MAABF | 0.025 cents/Kwh |
| Adopted average increase in base rates | 0.036 cents/Kwh |
| ADOPTED OVERALL INCREASE IN RATES | 0.011 cents/Kwh |

(END OF APPENDIX A)