PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Advisory Branch

RESOLUTION E-3120
December 19, 1988

R E S O L U T I O N

RESOLUTION E-3120, AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY (EDISON) TO INCREASE ITS ELECTRIC BASE RATES IN ACCORDANCE WITH THE ATTRITION RATE ADJUSTMENT (ARA) MECHANISM AND FOR OTHER FACTORS, EFFECTIVE JANUARY 1, 1989.

BY ADVICE LETTER 809-E FILED OCTOBER 31, 1988.

SUMMARY

1. By Advice Letter 809-E filed October 31, 1988 and subsequent changes in response to inquiries from the staff of the Commission Advisory and Compliance Division (CACD), Edison requests authorization to increase its Authorized Level of Base Rate Revenue by $173,760,000 and concurrently revise its electric base rates to reflect this increase. Edison requests this increase to compensate for operational and capital-related attrition as provided for in Decision (D.) 87-12-066 and for the impacts of the Tax Reform Act of 1986 (TRA), postage rate increase, State Board of Equalization (SBE) reassessment, the transfer of Palo Verde Nuclear Generating Station (PVNGS) Units 1,2 and 3 investment to base rates, and the transfer of San Onofre Nuclear Generating Station Units 2 and 3 (SONGS 2&3) pre-Commercial Operating Date (pre-COD) expenses to base rates.

2. Ordering Paragraph 2 of D.88-12-094 requires that the adopted 1989 cost of capital be used in conjunction with Edison's advice letter filing. By this Resolution, Edison is authorized an increase in Authorized Level of Base Rate Revenues of $116,367,000.

3. In addition to the above requests, Edison also seeks to eliminate its Uranium Contract Termination Rate (UCTR) of

0.118 cents/Kwh. These termination payments are being recorded in a subaccount of the Energy Cost Adjustment Clause (ECAC) balancing account. This request is granted. Based upon the sales forecast adopted in D.88-09-031, the resulting reduction in ECAC revenues would be $77,066,000.

4. The net of the authorized increase in Authorized Level of Base Rate Revenues and the authorized decrease in ECAC revenues for Edison is $39,301,000.

BACKGROUND

1. D.87-12-066 authorized Edison to revise electric base rates to compensate for 1989 operational and financial attrition.

2. Operational attrition is a decrease in a utility's net operating income due to increases in operation and maintenance expenses attributable to inflation between general rate case test years.

3. Capital-related attrition is a change in a utility's net operating income due to changes in rate base and cost of capital between general rate case test years.

4. Edison's presently authorized capital structure and its requested 1989 capital structure are shown in Attachment A to this Resolution.

5. D.87-11-013 and D.87-10-042 authorized Edison to increase the UCTR to recover the reasonable level of termination payments made by Edison for its contract settlements with the Bear Creek Mining Company and Homestake Mining Company. These termination payments are being recorded in Edison's Uranium Contract Termination Account (UCTA), a subaccount of the ECAC balancing account.

DISCUSSION

1. In Advice Letter 809-E Edison requested a 1989 base rate revenue increase of $186,582,000 for attrition and other factors. Following discussions with the CACD, Edison agreed to reduce its base rate revenue request to $173,760,000, exclusive of any adjustment for the rate of return authorized in Application (A.) 88-07-023.

2. In accordance with the conventional ARA mechanism, Edison now requests an attrition increase of $145,043,000. The CACD recalculated the appropriate increase to be $107,224,000 at the rate of return adopted in D.88-12-094. This is a decrease of $37,819,000 from Edison's request.

This and other revenue changes are shown in Attachment B. The adopted rate of return is shown in Attachment A.

3. D.87-12-066 authorized Edison (a) an increase of $9,800,000 for changes in jurisdictional allocation factors, (b) a decrease of $356,000 for hydro automation, and (c) an increase of $1,013,000 for optional Time-of-Use (TOU) meter charges. Edison now requests these adjustments with the exception that the increase for the changes in jurisdictional factors be $9,400,000. Edison's request for these adjustments is granted.

4. Ordering paragraph 34 of D.87-12-066 required Edison and the Commission's Division of Ratepayer Advocates (DRA) to determine whether reductions in Qualifying Facilities (QF) program funding are warranted and to submit a report to that effect. Edison filed the required report on August 31, 1988. DRA reviewed the report and concurs with Edison that there should be no reduction in the funding level for 1989. Edison's request for no reduction in the QF program funding level is granted.

5. Edison has also requested (a) an increase of $2,003,000 for SBE reassessment, (b) an increase of $1,545,000 for higher postal rates and (c) an increase of $11,964,000 for the impact of TRA 1986 on capitalized overheads. The CACD has reviewed these requests and finds them reasonable and in compliance with past Commission decisions. Edison's requests are granted.

6. D.87-12-065 authorized Edison to recover its costs for SONGS 2&3 pre-COD expenses in base rates. Edison has requested a decrease of $4,524,000 for operational and capital-related attrition relating to these expenses. The CACD recalculated the decrease to be $16,770,000 at the rate of return adopted in D.88-12-094.

7. D.86-10-023 authorized Edison to recover the costs of owning, operating and maintaining PVNGS Units 1 and 2 in base rates. Edison has requested a decrease of $894,000 for operational and capital-related attrition relating to these expenses. The CACD recalculated the decrease to be $5,471,000 at the rate of return adopted in D.88-12-___.

8. D.88-03-022 authorized Edison to recover the costs of owning, operating and maintaining PVNGS Unit 3 in base rates. Edison has requested an increase of $368,000 for operational and capital-related attrition relating to these expenses. The CACD recalculated the adjustment to be a decrease of $2,385,000 at the rate of return adopted in D.88-12-094.

9. Edison also requests an increase of $8,200,000 for changes in the jurisdiction allocation factors for PVNGS Units 1,2 and 3 and SONGS 2&3. The DRA has reviewed this request and finds it reasonable. The CACD concurs and finds the request consistent with the intentions of D.87-12-066 in Edison's test year 1988 general rate case. Edison's request is granted.

10. Edison requests the elimination of its UCTR of 0.118 cents/Kwh. Edison estimates that the balance in the UCTA will be recovered by January 1, 1989 and proposes that any remaining balance in the UCTA be transferred to the ECAC balancing account. Termination of the UCTR will result in a decrease of $77,066,000 in ECAC revenues. Edison's request is granted.

11. Edison requested that the 1989 attrition rate increase be calculated on a System Average Percent Change (SAPC) basis, subject to baseline and other constraints. It now appears that Edison's net revenue change (shown in Attachment C) due to the combined effects of Advice Letter 809-E and Edison's pending A.87-05-031, regarding SONGS 2&3 post-COD costs, will exceed 1% of present rate revenues, which is the maximum change allowable for "equal cents per kilowatt-hour" rate changes. Therefore the net January 1, 1989 rate change should be on an SAPC basis. Because the revenue increase is relatively small, Edison should apply the increase to energy components of rates only.

12. Under the terms of the ARA mechanism, attrition year rate base is forecast in general rate proceedings. The CACD notes that Edison's latest estimate of 1988 rate base is lower than that adopted in its general rate proceeding for 1988. Although this enables the utility to increase its earnings, we do not take issue with Edison's latest estimate of 1988 rate base. However, we note that Pacific Gas and Electric (PG&E) revenues for attrition year 1985 were reduced to account for unrealized plant additions, and that the DRA has protested PG&E's 1989 attrition filings (Advice Letters 1226-E and 1499-G) for the same reason. We commend that dispute to Edison's attention and urge Edison to participate in any litigation of the issue in PG&E's test year 1990 general rate proceeding, A.88-12-005.

13. Public notification of this filing has been made by mailing copies of each filing to other utilities, governmental agencies and to all interested parties who requested such notification.

14. No protests to this advice letter have been received by CACD.

FINDINGS

1. For the reasons discussed above, a base rate revenue requirement increase of $116,367,000 is just and reasonable.

2. For the reasons discussed above, it is reasonable for Edison to terminate its UCTR and to transfer any remaining balance in the UCTA to the ECAC balancing account.

3. Rate changes should be calculated on a system average percent change basis, subject to baseline and other constraints.

THEREFORE, IT IS ORDERED, that:

1. Southern California Edison Company is authorized to increase its Authorized Level of Base Rate Revenue by $116,367,000 and to increase base rates to recover that amount in revenues, effective January 1, 1989, as shown in Attachment B to this Resolution.

2. Southern California Edison Company shall terminate its Uranium Contract Termination Rate and transfer any remaining balance in the Uranium Contract Termination Account to the Energy Cost Adjustment Clause balancing account effective January 1, 1989.

3. On or before December 28, 1988, Southern California Edison Company is authorized to file revised tariffs reflecting the combined effect of base rate revenue changes and the Uranium Contract Termination Rate change adopted by this Resolution.

4. The rate changes shall be calculated on a system average percent change basis, subject to baseline and other constraints.

5. The tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution E-3120 and that the rates are effective January 1, 1989. The revised tariffs shall apply to service rendered on or after January 1, 1989.

6. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following Commissioners approved it:

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

Executive Director

Resolution E-3120
Attachment A

Southern California Edison Company
1989 Attrition Allowance

Present Authorized Capital Structure
(Test Year 1988)

Component	Capital Ratio	Cost Factor	Weighted Cost
Long Term Debt	47.00%	9.22%	4.33%
Preferred Stock	7.00	7.88	0.55
Common Equity	46.00	12.75	5.87
Total	100.00%		
Rate of Return			10.75%

Requested Capital Structure
(Attrition Year 1989)

Component	Capital Ratio	Cost Factor	Weighted Cost
Long Term Debt	48.00%	9.30%	4.46%
Preferred Stock	6.00	7.84	0.47
Common Equity	46.00	13.75	6.33
TOTAL	100.00%		
Rate of Return			11.26%

Adopted Captial Structure
(Attrition Year 1989)

Component	Capital Ratio	Cost Factor	Weighted Cost
Long Term Debt	48.00%	9.30%	4.46%
Preferred Stock	6.00	7.84	0.47
Common Equity	46.00	13.00	5.98
TOTAL	100.00%		
Rate of Return			10.91%

Southern California Edison Company
1989 Attrition Allowance
Revenue Requirements
($000)

Description	Requested	Adopted
Operational Attrition:		
Labor Inflation	$ 21,961	$ 21,961
Non-Labor Inflation	24,635	24,635
SONGS Refueling	(11,718)	(11,718)
Capital-Related Attrition	110,165	72,346
ARA Mechanism for 1989	$145,043	$107,224
Other Items:		
Jurisdictional allocation change	$9,400	$9,400
Hydro automation adjustment	(356)	(356)
Optional TOU meter charges	1,013	1,013
QF program funding	0	0
SBE reassessment (property tax)	2,003	2,003
Postage rate increase	1,545	1,545
TRA 1986 (capitalized overheads)	11,964	11,964
SONGS 2&3 pre-COD	(4,524)	(16,770)
PVNGS 1&2	(894)	(5,471)
PVNGS 3	368	(2,385)
Nuclear units jurisdiction allocation	8,200	8,200
Total 1989 ARA Base Rate Revenue Change	$173,760	$116,367
ECAC revenue change due to the termination of UCTR	($77,066)	($77,066)
NET INCREASE	$96,694	$39,301

SOUTHERN CALIFORNIA EDISON COMPANY
Revenue Changes Adopted for Attrition, Uranium Contract Termination and SONGS 2&3
CPUC Jurisdictional - Effective January 1, 1989

LINE	REVENUE ELEMENT	PRESENT RATE REVENUE 1/ 2/ 3/ ($ million)	REVENUE CHANGE ($ million)	ADOPTED REVENUE REQUIREMENT ($ million)	AVERAGE RATE (cents/kwh)
	(a)	(b)	(c)	(d)	(e)
1	Base rates				
2	Previously authorized revenues	$ 3,316.271	$ 0.000	$ 3,316.271	
3	1989 attrition increase	0.000	116.367	116.367 4/	
4	SONGS 2&3 post-COD base rates	0.000	48.155	48.155 5/	
5	Subtotal base rate revenues	3,316.271	164.522	3,478.793	5.327
6	Major Additions Adjustment Clause (MAAC)				
7	SONGS 2&3 pre-COD balancing account	8.490	(0.653)	7.837 5/	0.012
8	SONGS 2&3 post-COD interim rates	52.248	(52.248)	0.000 5/	0.000
9	SONGS 2&3 post-COD balancing account	0.000	43.105	43.105 5/	0.066
10	Balsam Meadow interim rates	35.921	0.000	35.921	0.055
11	Devers Valley-Serrano interim rates	19.593	0.000	19.593	0.030
12	Subtotal MAAC rate revenues	116.252	(9.797)	106.456	0.163
13	Conservation Load Management Adjustment Clause (CLMAC)	(16.981)	0.000	(16.981)	(0.026)
14	Energy Cost Adjustment Clause (ECAC)				
15	Fuel and purchased power	2,203.733	0.000	2,203.733	3.374
16	Balancing account	(1.959)	0.000	(1.959)	(0.003)
17	LSFO writedown	52.901	0.000	52.901	0.081
18	Distillate writedown	4.572	0.000	4.572	0.007
19	Chevron settlement	201.809	0.000	201.809	0.309
20	Uranium contract termination	77.066	(77.066)	0.000	0.000
21	Subtotal ECAC rate revenues	2,538.121	(77.066)	2,461.055	3.768
22	Annual Energy Rate (AER)	0.000	0.000	0.000	0.000
23	Electric Revenue Adjustment Billing Factor (ERABF)	(50.942)	0.000	(50.942)	(0.078)
24	SUBTOTAL	$ 5,900.722	$ 77.659	$ 5,978.381	9.154
25	Other Revenue	57.547	0.000	57.547	
26	CPUC fees	7.841	0.000	7.841	0.012
27	TOTAL	$ 5,966.110	$ 77.659	$ 6,043.769	

1/ Based on adopted ECAC sales of 65,310.25 GWH, after adjustment for employee discounts and exclusion of Fringe and Sequoia sales (65,340 GWH unadjusted).
2/ Present rates using current tariffs, which were made effective 10/1/88.
3/ Present rate revenues differ slightly from adopted revenues in D.88-09-031 due to rate rounding.
4/ From Attachment B, calculated at 10.91% rate of return (13.00% return on equity).
5/ From Appendix C, D.88-12-033 in A.87-05-031, adjusted for 13% return on equity.

Resolution E-3120
Attachment C