

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Advisory Branch

RESOLUTION E-3172  
December 18, 1989

**R E S O L U T I O N**

RESOLUTION E-3172. SOUTHERN CALIFORNIA EDISON COMPANY.  
TO REVISE THE PRELIMINARY STATEMENT TO REFLECT AN  
INCREASE IN AUTHORIZED BASE RATE REVENUE WHICH WILL  
RESULT FROM 1990 OPERATIONAL AND FINANCIAL ATTRITION.

BY ADVICE LETTER 850-E, FILED ON NOVEMBER 1, 1989.

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**SUMMARY**

1. This Resolution approves a January 1, 1990 increase of \$40,500,000 to Southern California Edison Company's (SCE or Edison) authorized level of base rate revenue. Of the total, \$66,229,000 is for operational attrition, \$13,404,000 is for capital-related attrition, and (\$39,133,000) is for other authorized items.

2. The rate increases included in this Resolution will be consolidated with rate changes in Edison's pending Energy Cost Adjustment Clause (ECAC) proceeding, Application 89-05-064. No rate changes will occur January 1, 1990. Edison's consolidated rate relief plan anticipates a rate revision date of February 1, 1990 for all pending rate changes.

3. Edison is authorized to adjust its currently effective Monthly Distribution Percentages (MDPs) to reflect the 1990 MDPs ultimately adopted for 1990 in Edison's pending ECAC proceeding.

**BACKGROUND**

1. In Decision 87-12-066 (Edison's test year 1988 general rate case), the Commission authorized Edison to revise electric base rates to compensate for 1989 and 1990 operational and financial attrition. Resolution E-3120, dated December 19, 1988, adopted an increase in Edison's authorized base rate revenues of \$116,367,000 for Attrition Year 1989.

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. Financial 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. In D. 89-11-068 (the cost of capital proceeding), the Commission adopted the 1990 capital structure and cost of capital for Edison shown in Attachment A.

#### NOTICE

1. Public notice of this advice letter was made by publication in the Commission calendar, and by Edison's mailing copies to other utilities, governmental agencies, and all interested parties who requested notification.

#### PROTESTS

1. On December 1, 1989, Toward Utility Rate Normalization (TURN) filed a protest of Advice Letter 850-E on two grounds:

"1. Edison has indicated in its sworn testimony in A.89-05-064 that it does not intend to credit ratepayers with the revenues it is forecasted to receive in 1990 from energy and capacity sales to the Sacramento Municipal Utility District. TURN believes that these revenues should be credited to ratepayers and has so stated in its testimony and briefs in A.89-05-064. In response, Edison has argued that the existence and amount of these credits should not be decided in an ECAC proceeding because they are credits against base rates. TURN disagrees with this argument, but files this protest to protect its ability to litigate this issue should the Commission decide that it is more appropriately resolved in connection with Edison's attrition request.

2. The advice letter does not contain any information on the derivation of the amounts requested for operational attrition. As a result, TURN is unable to determine the basis for Edison's request and whether this request complies with D.87-12-066."

2. TURN filed its protest on December 1, 1989, after the close of the protest period. TURN has included a sworn affidavit alleging that TURN did not receive the advice letter until November 29, 1989. TURN believes that an obsolete address in Edison's records may be the cause of the delayed receipt, but we note that the address listed for TURN in the service list attached to the advice letter appears to be accurate. We will allow TURN's protest because of the uncertainty surrounding service of the letter and because no party's interest will be unfairly affected by our considering the protest.

3. On December 12, 1989, Edison filed its Response to TURN's protest. Edison objects to consideration of TURN's out-of-time protest, and argues that its attrition filing complies with D. 87-12-066. Edison is now forwarding to TURN workpapers supporting the attrition increase.
4. We will consider the proper treatment of forecast revenues from sales to the Sacramento Municipal Utility District in A. 89-05-064, Edison's pending ECAC.
5. Advice Letter 850-E contains summary information on Edison's attrition request. As TURN well knows, such filings are backed up by detailed workpapers available to interested parties on request.

#### DISCUSSION

1. In Advice Letter 850-E, filed November 1, 1989, Edison requests a 1990 base rate revenue increase of \$73,500,000 for service rendered on and after January 1, 1990.
2. CACD has recalculated Edison's request using the rate of return adopted for Edison in D. 89-11-068. This and other revenue changes are shown in Attachment B.
3. Appendix B of D. 87-12-066 (Edison's TY 1988 general rate case) authorized, for Attrition Year 1990, (a) a decrease of \$13,659,000 for State Board of Equalization (SBE) current assessment, (b) an increase of \$3,846,000 in Arizona property taxes, (c) an increase of \$3,642,000 in accrued vacation, (d) an increase of \$10,554,000 in deferred taxes, and (e) an increase of \$475,000 for Palo Verde Unit 3 operating and maintenance expense. CACD has verified that Edison's request for these adjustments (in some cases recalculated for 1990 cost of capital) in Attrition Year 1990 complies with D. 87-12-066 and is reasonable.
4. D. 87-12-066 also authorized attrition recovery of the additional cost of serving incremental numbers of residential and other customers who choose optional time-of-use (TOU) service. Since Edison forecasts no residential optional TOU customers in its current ECAC, CACD recommends adjusting Edison's attrition request downward by \$1,368,000.
5. CACD recommends an increase of \$1,070,000 from Edison's request to implement D. 89-11-058. In Ordering Paragraph 2 of that decision, the Commission authorized the utilities to "recover the revenue requirement related to the change to flow-through for the CCFT [California Corporate Franchise Tax] deduction in estimating ratemaking federal income tax expense". This increase is embedded in the capital-related items in Attachment B.
6. In A. 89-05-064, Edison has requested a change in the Monthly Distribution Percentages (MDPs) used to spread Electricity Rate Adjustment Mechanism (ERAM) revenues to

individual months for accounting purposes. Edison alleges that the proposed change would reduce earnings fluctuations among seasons. A. 89-05-064 is currently pending before the Commission. In Advice Letter 850-E, Edison requests that the MDPs used beginning January 1, 1990 be made subject to adjustment should the Commission choose to adopt new MDPs in A. 89-05-064. Since making the MDPs subject to adjustment will not affect rates and may greatly simplify the complications of changing MDPs after the beginning of a calendar year, we will grant Edison's request to leave the current MDPs subject to adjustment to conform them with any change in MDPs we may adopt in A. 89-05-064. Our granting this request should in no way be considered a prejudgment of issues in A. 89-05-064.

#### FINDINGS

1. For the reasons discussed above, a base rate revenue requirement increase of \$40,500,000 effective January 1, 1990 is just and reasonable.
2. It is reasonable for the current Monthly Distribution Percentages (MDPs) to be made subject to adjustment to reflect the 1990 MDPs ultimately adopted in A. 89-05-064.

THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company is authorized to increase its Authorized Level of Base Rate Revenues by \$40,500,000 effective January 1, 1990.
2. The current Monthly Distribution Percentages (MDPs) shall be subject to adjustment following adoption of new 1990 MDPs in A. 89-05-064.
3. Upon a Commission Decision in A. 89-05-064, SDG&E shall file revised supplemental tariff sheets for Advice Letter 850-E to reflect the consolidation of any rate revisions authorized by that decision and the rate revisions authorized herein. The effective date of these consolidated rate revisions is to be the date authorized by said decision.
4. Advice Letter 850-E and any subsequent supplemental tariff sheets shall all be marked to show that they were approved for filing by Resolution E-3172.
5. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 1989. The following Commissioners approved it:

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. CHANAN  
PATRICIA M. ECKERT  
Commissioners

*Wesley Franklin*  
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Acting Executive Director

Attachment A

Southern California Edison Company  
1990 Attrition Allowance

Prior Authorized Capital Structure  
(D.88-12-094)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	48.00%	9.30%	4.46%
Preferred Stock	6.00	7.84	0.47
Common Equity	<u>46.00</u>	13.00	<u>5.98</u>
TOTAL	100.00%		10.91%

Requested Capital Structure\*  
(Attrition Year 1990)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	48.00%	9.01%	4.32%
Preferred Stock	6.00	7.75	0.47
Common Equity	<u>46.00</u>	13.25	<u>6.10</u>
TOTAL	100.00%		10.89%

\*Updated to reflect the September 1989 DRI forecast.

Adopted Capital Structure  
(D.89-11-068)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	48.00%	9.01%	4.32%
Preferred Stock	6.00	7.75	0.47
Common Equity	<u>46.00</u>	12.85	<u>5.91</u>
TOTAL	100.00%		10.70%

Southern California Edison Company  
1990 Attrition Allowance  
Revenue Requirements  
(\$000)

Description	Requested 1/ (Modified)	Adopted
<b>Operational Attrition:</b>		
Labor Inflation	\$28,554	\$28,554
Non-Labor Inflation	22,434	22,434
Nuclear Refueling	15,241	15,241
<b>Capital-Related Attrition</b>	<b>33,056</b>	<b>13,404</b>
<b>ARA Mechanism for 1990</b>	<b>\$99,285</b>	<b>\$79,633</b>
<b>Other Items:</b>		
Optional TOU Meter Charges	\$1,560	\$192
NRC Fees	1,237	1,237
SBE Current Assessment	(13,659)	(13,659)
Arizona Property Taxes	3,846	3,846
Revenue Act of 1987 (Accrued Vacation Pay)	3,642	3,642
Deferred Taxes: Retirement/Refinancing of Debt	10,596	10,376
SONGS Units 2&3 Pre-COD Investment	(21,148)	(27,338)
SONGS Units 2&3 Post-COD Investment	(2,240)	(2,935)
Palo Verde Units 1&2 Investment	(5,256)	(7,618)
Palo Verde Unit 3 Investment and O&M Expense	(2,978)	(4,409)
Balsam Meadows Hydroelectric Project	(558)	(1,314)
Devers-Valley-Serrano Transmission Line	(793)	(1,153)
<b>Total 1990 ARA Base Rate Revenue Change</b>	<b>\$73,534</b>	<b>\$40,500</b>

1/ Original filing modified by Edison to reflect requested cost of capital. See A.89-05-011 et al. and D.89-11-068.