PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3478
December 20, 1996

RESOLUTION

RESOLUTION E-3478. SOUTHERN CALIFORNIA EDISON COMPANY REQUESTS COMMISSION AUTHORIZATION TO ESTABLISH A NONGENERATION PERFORMANCE BASED RATE ADJUSTMENT MECHANISM (NBRAM) AND A COST OF CAPITAL TRIGGER MECHANISM ON JANUARY 1, 1997. EDISON ALSO SEEKS TO CREATE A BASE RATE PERFORMANCE MECHANISM (BRPM) AND THE FOLLOWING INTEREST BEARING MEMORANDUM ACCOUNTS: THE Z FACTOR ACCOUNT, THE NONGENERATION REVENUE SHARING ACCOUNT, AND THE BASE RATE PERFORMANCE ACCOUNT (BRPMA).

BY ADVICE LETTER 1191-E DATED OCTOBER 22, 1996.

SUMMARY

1. By Advice Letter 1191-E, Southern California Edison (Edison) has requested authorization by the Commission to implement its Nongeneration Performance Based Ratemaking proposal as ordered in Decision (D.) 96-09-092. Edison's filing also purports to conform to the requirements of Assembly Bill 1890 (AB 1890.)

2. The Office of Ratepayer Advocates (ORA) filed a protest on November 12, 1996, asking for a prehearing conference. ORA identified inconsistencies in the generation and nongeneration dollar splits and nonconformance of the split in this Advice Letter with the Federal Energy Regulatory Commission (FERC) declaratory order in Docket No. EL96-48-000.

3. This resolution approves in part Edison's Advice Letter 1191-E, clarifies aspects not addressed in the request, and orders Edison to file a supplement to revise tariff sheets and workpapers to reflect the generation allocation of the SONGS 2 and 3 generator step-up substations and radial generation-ties adopted by the Federal Energy Regulatory Commission.

BACKGROUND

1. Edison has applied to the Commission for the purpose of implementing its nongeneration performance based ratemaking (PBR) mechanism adopted in D.96-09-092. The nongeneration base rate adjustment mechanism (NBRAM) will annually adjust Edison's nongeneration base rates for escalation and productivity. Qualifying external events, termed Z factor events, may also adjust the nongeneration base rates. The base rate performance mechanism (BRPM) will implement a net revenue sharing mechanism for nongeneration base rate revenues and will determine the level of rewards and penalties for Edison's recorded performance in the areas of customer satisfaction, average customer minutes of interruptions (ACMI), outage frequency, and employee health and safety.

2. Decision D.96-09-092 specifies the inflation measure to be used for the CPI-X calculation and identifies the annual productivity factors for years 1997 through 2001 for the annual adjustment to the nongeneration base rates.

3. D.96-09-092 identifies certain exclusions in developing the nongeneration base rates; for example, special one-time amortization accounts.

4. Edison has proposed the Base Rate Performance Mechanism (BRPM) to implement the net revenue sharing mechanism for nongeneration base rate revenues and track the rewards and penalties of Edison's recorded performance.

5. Edison has proposed a memorandum account to record revenues subject to sharing and another memorandum account to record rewards and penalties resulting from its BRPM.

6. Decision D. 96-09-092 has identified the following standards for purposes of measuring performance: 64% customer satisfaction, 59 minutes of Average Customer Minutes of Interruptions (ACMI) in 1997, 10,900 service interruptions, and an employee health and safety index value of 13.0 for 7 years.

7. Decision D. 96-11-021 directs Edison to file PBR proposals for maintaining, repairing and replacing distribution systems no later than July 1, 1998.

8. D.96-09-092, p.42, orders Edison to file an annual update of its return on equity for changes in interest rates and to adjust the nongeneration base rates to account for changes in the authorized equity return on ratebase for the purpose of updating the net revenue sharing benchmark and for revenue requirement recovery.

9. D.96-09-092 maintained the Z-factor criteria adopted in the New Regulatory Framework

decision (D.89-10-031). Edison has proposed a Z-Factor Memorandum Account to record all costs associated with potential Z-factors until the Commission renders a decision on the applicability of Z-factor recovery.

10. Pursuant to D.96-09-092, the nongeneration PBR mechanism would become effective on January 1, 1997, and remain in effect through December 31, 2001, or until superseded by other Commission decisions or the filing of a general rate case application.

11. D.96-09-092 ordered Edison to use the authorized equity return on ratebase for net revenue sharing purposes.

12. Calculation of the January 1, 1997 authorized level of base rate revenues (ALBRR) was developed starting with the 1995 General Rate Case revenue requirement (D.96-01-0 11.) It was adjusted to reflect the modifications ordered in the following Commission decisions: D. 94-05-068, D. 94-09-065, D. 94-12-046, D. 95-11-062, D. 96-01-011, D. 96-04-050, D. 96-04-059. Edison has also reflected revenue changes from its pending application numbers A. 96-02-056 and A. 96-05-023. Edison has stated it will file a supplemental Advice Letter filing to reflect final Commission adopted ALBRR changes.

13. Edison has modified its Energy Cost Adjustment Billing Factor to be determined on a residual basis effective January 1, 1997.

14. A. 96-05-045, Edison's Energy Cost Adjustment Clause proceeding, has not yet adopted a 1997 ECAC revenue requirement forecast.

15. Pursuant to Assembly Bill 1890 (Stats. 1996, Ch. 854, section 364), the Commission must adopt inspection, maintenance, repair, and replacement standards for distribution systems no later than March 31, 1997. In reviewing whether the adopted standards have been met, the Commission may order appropriate sanctions if the standards have not been met. Publicly accessible, annual filings by the utilities discussing their compliance of these standards is required by the bill. Penalties collected from reviewing major outage events are to be used to offset the California Alternative Rates for Energy (CARE) Program.

16. Pursuant to Assembly Bill 1890 (Section 382), CARE shall be funded at not less than 1996 authorized levels.

17. Section 330 of Assembly Bill 1890, lays out the general provisions of the electric industry restructuring. Of note is the provision (v) which mandates that electric customers not have an increase in rates, and provision (w) which provides for electric customers to receive rate reductions of no less than 10% for 1998 continuing through 2002.

18. In Docket number EL96-48-000, the Federal Energy Regulatory Commission (FERC)

endorsed the CPUC's recommendations concerning the identification of Edison's San Onofre Nuclear Generating Station (SONGS) 2 and 3 generator step-up substations and its radial generation ties as generation. On October 30, 1996, the FERC adopted the Commission's recommendations on the T&D split. *Pacific Gas and Electric Company, San Diego Gas and Electric and Southern California Edison Company*, 77 FERC ¶ 61,077 (1996).

19. Pursuant to Ordering Paragraph 3 of D.96-09-092, existing rates and charges were to be split into separate generation and nongeneration rates and charges to recover the applicable generation and nongeneration base revenue requirements.

NOTICE

1. The Advice Letter was noticed in accordance with Section III of General Order 96-A by publication in the Commission Calendar and distribution to Edison's advice filing service list.

PROTESTS

1. The Office of Ratepayer Advocates filed a protest on November 12, 1996 asking for a prehearing conference. ORA identified inconsistencies in the generation and nongeneration dollar splits and nonconformance of the split in this Advice Letter with the Federal Energy Regulatory Commission (FERC) declaratory order in Docket No. EL96-48-000.

2. Edison responded to ORA's protest on December 5, 1996. In Edison's response, it stated that it did not receive a copy of ORA's protest until December 3, 1996, and recommended that it not be considered because it was not timely filed.

DISCUSSION

1. On October 22, 1996, Edison filed Advice Letter 1191-E requesting approval of its nongeneration Performance Based Ratemaking Rate Index mechanism for January 1, 1997.

2. Edison's estimated January 1, 1997 ALBRR has been separated into generation and nongeneration components. In D.96-09-092, the Commission ordered Edison to describe the method and result of its assignment of ratebase assets and stated that this assignment should recognize our recommendation in the Commission's comments to FERC regarding separation of transmission and distribution (T&D) facilities (slip op., p. 19).

3. On August 14, 1996, the CPUC submitted supplemental comments to the Federal Energy

Regulatory Commission (FERC) in Docket No. EL96-48-000. The Commission supported Edison's T&D split , with the exception of Edison's designation as transmission of the SONGS 2 and 3 generator step-up substations and some radial generation-ties, which are generation facilities. Edison reflected the SONGS substations and radial generation ties as transmission facilities in its Advice Letter.

4. Edison's methodology for splitting the rates is composed of the following steps: 1) calculating the January 1, 1997 total base rates; 2) separating the total base rates into generation and nongeneration; and 3) applying the update rule of (CPI-X) to the non-generation base rates (Ordering Paragraph 4, D.96-09-092).

5. Where applicable, Edison reflected information and guidelines from the 1995 General Rate Case Phase 2A Decision (D. 96-04-050) and ECAC Decision D.96-02-071 in developing the generation and nongeneration base rate splits.

6. The Energy Division recommends that Edison be ordered to revise its Advice Letter to reflect the FERC adopted designation of the SONGS 2 and 3 generator step-up substations and some radial generation-ties as generation facilities in order to bring the Advice Letter into compliance with D.96-09-092 and FERC's Order on the T&D split. Because Edison's Advice Letter is not in compliance with Commission orders, the Energy Division, in this respect, recommends that ORA's protest be granted, despite the fact that Edison claims the protest was not provided to Edison in a timely manner.

7. The Commission has not yet adopted an ECAC revenue requirement, nor has it adopted Edison's residual approach to calculating the ECABF in either its ECAC or the PBR. Edison's attempt to implement this approach is premature and the Energy Division recommends that Edison be ordered to revise its tariffs to retain the currently tariffed ECABF.

8. Edison's proposed Nongeneration Base Rate Adjustment Mechanism (NBRAM) is designed to annually adjust the nongeneration base rates for approved escalation and productivity factors. The Energy Division recommends approval of the proposed mechanism.

9. Edison has proposed the Base Rate Performance Mechanism (BRPM) to implement the net revenue sharing mechanism for nongeneration base rate revenues and tracks the rewards and penalties of Edison's recorded performance. The BRPM describes Edison's proposed reporting requirements with respect to revenue sharing and rewards and penalties. Except as described below, the Energy Division recommends approval of this mechanism.

10. Edison has proposed a memorandum account to record revenues subject to sharing and another memorandum account to record rewards and penalties resulting from its BRPM. D.96-09-092 did not authorize specific reporting responsibilities for Edison with respect to

revenue sharing or rewards and penalties, nor did it establish how any shared revenues, rewards, or penalties should be recovered in Edison's rates or revenue requirement. Because D.96-09-092 adopted a rate PBR, rather than a revenue PBR, and the subsequent adoption of AB 1890 established a rate freeze, it is not clear how shared revenues, rewards, or penalties which affect Edison's revenue requirement, should be passed on to ratepayers. Because of this disconnect between the BRPM and recovery of these costs, the Energy Division recommends that Edison be allowed to establish memorandum accounts to record shared revenues, rewards, and penalties. However, the Energy Division recommends that Edison be ordered to revise the language of these proposed memorandum accounts to reflect that the Commission may consider the disposition of the recorded balances at any time.

11. Edison's Advice Letter was submitted prior to issuance of the 1997 Cost of Capital decision, therefore, the proposed Cost of Capital Trigger Mechanism requires updating to reflect D.96-11-060, which established Edison's authorized return on equity. The Energy Division recommends that Edison be ordered to revise its Cost of Capital Trigger Mechanism to reflect the authorized equity return on ratebase as adopted in D.96-11-060.

12. Edison has proposed a Z-Factor Memorandum Account to record all costs associated with potential Z-factors until the Commission renders a decision on the applicability of Z-factor recovery. D.96-09-092 does not provide for a memorandum account to record these potential costs, and in fact, explicitly does not adopt Edison's proposed recording of expenses in a memorandum account (slip op., p. 33). Instead, the decision requires Edison to apply for Z-factor treatment in its annual filing for rate changes. For these reasons, Energy Division recommends that Edison be required to revise its Advice Letter to eliminate the Z-Factor Memorandum Account.

13. Edison selected the Moody's Long-Term Corporate Bond yield Average Index as the double A bond Index for purposes of calculating the Cost of Capital Trigger Mechanism authorized in D.96-09-092. This selection is reasonable and should be granted.

14. The purpose of the Electric Revenue Adjustment Mechanism (ERAM) is addressed in the decision on Edison's Cost Recovery Plan, submitted pursuant to AB 1890 Section 368. As a result of that decision, additional revisions to ERAM may be required.

15. Edison's tariffs do not reflect that sanctions imposed for non-compliance with adopted inspection, maintenance, repair, and replacement standards for distribution systems are to be used to offset the CARE program. Tariff language reflecting that such penalties will be booked to the CARE balancing account can be incorporated prior to Commission adoption of inspection, maintenance, repair, and replacement standards for distribution systems. The Energy Division recommends that this language be incorporated in Edison's revised Advice Letter.

FINDINGS

1. Southern California Edison's Advice Letter 1191-E requested the adoption of its proposed tariff sheets for its nongeneration base rate revenue requirement performance based ratemaking mechanism.

2. The ALBRR will be updated to reflect authorized revenue requirement changes from pending Commission decisions.

3. Edison should revise its Advice Letter to retain the currently tariffed ECABF.

4. Edison should revise its Advice Letter to eliminate the Z-Factor Memorandum Account.

5. Edison should be allowed to establish memorandum accounts to record shared revenues, rewards, and penalties but the proposed memorandum accounts should be revised to reflect that the Commission may consider the disposition of the recorded balances at any time.

6. It is reasonable to approve the Nongeneration Base Rate Adjustment Mechanism (NBRAM) to annually adjust the nongeneration base rates for escalation and productivity.

7. Edison should modify its BRPM to reflect the authorized equity return on ratebase. With that adjustment, it is reasonable to approve the BRPM for implementing the net revenue sharing mechanism and for tracking performance rewards and penalties.

8. Edison should modify its Cost of Capital Trigger Mechanism to reflect the authorized equity return on ratebase. With that adjustment, it is reasonable to approve the Cost of Capital Trigger Mechanism for adjusting nongeneration base rates.

9. Edison should revise its tariff language to reflect that penalties for non-compliance with Commission adopted inspection, maintenance, repair, and replacement standards for distribution systems will be booked to the CARE balancing account.

10. The separation of the January 1, 1997 ALBRR into generation and nongeneration components must be revised to reflect the generation allocation of the SONGS 2 and 3 generator step-up substation and radial generation-ties.

11. Additional revisions to ERAM may be required as a result of the decision on Edison's cost recovery plan.

12. The ORA protest regarding Edison's classification of certain facilities in a manner inconsistent with the FERC adopted designations should be granted.

THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company shall refile Advice Letter 1191-E as a supplemental Advice Letter within 10 days of adoption of this Resolution. The supplemental Advice Letter shall include revised tariff sheets and workpapers to reflect the following items:
   - allocation of the SONGS 2 and 3 generator step-up substations and radial generation-ties to generation as adopted by the Federal Energy Regulatory Commission;
   - retention of the currently tariffed Energy Cost Adjustment Billing Factor;
   - adjustments to the authorized level of base rate revenue, adopted in any Commission decisions since the original date of Edison's Advice Letter filing;
   - revisions of the Base Rate Performance Mechanism and its Cost of Capital Trigger Mechanism to reflect the authorized equity return on ratebase;
   - revisions of the tariff sheets in Section O to reflect that penalties for non-compliance with Commission adopted inspection, maintenance, repair, and replacement standards for distribution systems will be booked to the California Alternative Rates for Energy Program balancing account;
   - elimination of the Z-Factor Memorandum Account; and
   - revisions to the proposed memorandum accounts to record shared revenues, rewards, and penalties to reflect that the Commission may consider the disposition of the recorded balances at any time.

2. The Office of Ratepayer Advocates protest regarding Edison's classification of certain facilities in a manner inconsistent with the FERC adopted designations is granted, and in all other respects is denied.

3. The Supplemental Advice Letter containing the modifications described above shall be marked to show they were approved by Commission Resolution E-3478, and shall be effective on January 1, 1997.

4. This Resolution is effective today.

Resolution E-3478**
SCE/AL 1191-E/llk

December 20, 1996

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 20, 1996. The following Commissioners approved it:

Wesley Franklin
WESLEY FRANKLIN
Executive Director

P. Gregory Conlon
President
Daniel Wm. Fessler
Jessie J.Knight Jr.
Henry M. Duque
Josiah L. Neeper
Commissioners