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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
Energy Branch

EVALUATION AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3014
December 17, 1986

RESOLUTION

SOUTHERN CALIFORNIA EDISON COMPANY (SCE), ELECTRIC DEPARTMENT. REQUEST FOR AUTHORIZATION TO INCREASE BASE RATE REVENUE TO COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS, RESULTING IN AN INCREASE OF \$40,379,000 IN THE LEVEL OF BASE RATE REVENUES.

By Advice Letter 747-E, filed October 31, 1986, Southern California Edison Company (SCE) requests authorization to increase its "Level of Base Rate Revenues" as set forth on Cal. P.U.C. Sheets Nos. 9016-E through 9017-E, inclusive. The amount requested is \$2,933,000 in annual revenues. The facts are as follows:

1. The purpose of this filing is to revise the Preliminary Statement to reflect an increase in the Level of Base Rate Revenues to offset 1987 financial and operational attrition and certain expense adjustments. This filing is made pursuant to Decision 85-12-076 dated December 18, 1985, in Application 83-12-053.
2. SCE requests that the increase in the Level of Base Rate Revenues become effective January 1, 1987 as contemplated by Decision 85-12-076, but requests no change in rates. This could result in an undercollection in SCE's ERAM account, depending on future adjustments for the Tax Reform Act of 1986 and other factors, but the dollar amounts are relatively small.
3. The ratemaking elements of SCE's requested increase are shown in Attachment A. SCE's adopted capital structure for Attrition Year 1986 and requested capital structure for Attrition Year 1987 are shown in Attachment B.
4. SCE requests an attrition increase relating to general operating and maintenance expense of \$24,471,000, exclusive of San Onofre Nuclear Generating Station (SONGS) refueling expense. The amount is calculated by an indexing formula approved by this Commission in Decision 85-12-076.

5. SCE requests a net decrease of \$16,353,000 in expenses for refueling of SONGS plant units. This reflects the refueling of a single unit (SONGS 2) in 1987, compared to refueling of all three units in 1986.
6. SCE has used a seven year average to estimate net plant additions in 1987.
7. SCE has included in this attrition filing an updated embedded cost of debt and forecast of embedded cost of debt during 1987. The 1987 capital ratio is unchanged from Attrition Year 1986.
8. SCE requests an increase of \$20,594,000 to reflect loss of sales to resale customers and hence an increase in costs assigned to CPUC jurisdictional sales. A similar request was made and approved by this Commission for SCE's Attrition Year 1986.
9. In order to terminate a previously authorized write-off of fuel cell expenses, SCE requests a reduction in revenues of \$3,313,000. Attrition Year 1986 was the last of the four amortization years, which were authorized in SCE's Test Year 1983 General Rate Case.
10. Advice Letter 747-E correctly includes a net revenue reduction for interest synchronization.
11. SCE's request includes a \$6,932,000 increase for a change in ad valorem tax rates, based on an increase in SCE's Unitary Assessed Ratio over the Unitary Assessed Ratio adopted for 1986.
12. SCE's request includes income taxes based on 1986 tax rates in effect. Consideration of the revenue requirement impacts of the Tax Reform Act of 1986 is deferred to Order Instituting Investigation (OII) 86-11-019, which orders that all revenues collected in 1987 are subject to refund pending outcome of that proceeding.
13. The Evaluation and Compliance Division has reviewed SCE's attrition request and associated workpapers, and recommends that a \$2,933,000 increase in the Level of Base Rate Revenues be authorized.
14. It is recommended that the Commission now complete the disbursement to ratepayers of an overcollection in SCE base rates made during 1981. By Resolution No. F-599, dated July 7, 1982, the Commission ordered that \$5,879,000 be reserved in a deferred debit account (Account 253 - Other Deferred Credits) for future disbursement, with interest accumulated from January 1, 1982 using ECAC balancing account methodology. As of December 31, 1986 that overcollection will amount to \$9,278,807.88 with interest.

The Commission may complete this disbursement by transferring the \$9,278,807.88 in the deferred debit account to SCE's ERAM account as a ratepayer credit. No change in authorized Level of Base Rate Revenues is required. In this way the net ratepayer obligation authorized by this Resolution will be reduced during 1987. It is anticipated that both attrition revenues and the overcollection disbursement will cease at the end of 1987 at which time SCE's Test Year 1988 General Rate Case will be decided.

15. Although SCE requests no increase in rates to match the authorized increase in level of Base Rate Revenues, and the overcollection disbursement could remain in the ERAM account until SCE's next ECAC/ERAM decision, as a matter of policy it is preferable to match authorized revenues and rates wherever possible. Therefore, SCE should include in rates a decrease of \$6,640,408 in annual revenues during 1987. The calculation of the rate level is shown in Attachment C. Filing of revised tariff schedules should be made within five days, with all changes to become effective January 1, 1987.

16. SCE's Advice Letter 747-E requests an increase of \$40,379,000 in Level of Base Rate Revenues, but notes that this amount would be reduced to \$2,933,000 when and if the Stipulation and Agreement approved in Decision 86-08-025 becomes effective. Work papers for both figures were provided. Decision 86-08-025 adopted a stipulated return on equity of 13.9% and the capital ratio shown in Attachment B. According to its terms, the stipulation does not become effective until the Commission order is final and no longer subject to appeal. However, the Federal Executive Agencies (FEA) have filed a petition for writ of review of Decision 86-08-025 with the California Supreme Court.

The Commission should now authorize an increase in SCE's Level of Base Rate Revenue of \$2,933,000, which is based on the assumption that the stipulation in Decision 86-08-025 will become effective. Because the decision has not yet become final, the Commission should at the same time authorize SCE to record in a memorandum account monthly debits based on the pro-rata difference between \$2,933,000 and \$40,379,000, plus interest at the same rate as allowed in SCE's ERAM account. This memorandum account should protect SCE revenues in the event the stipulation approved in Decision 86-08-025 does not become effective.


17. The \$2,933,000 authorized by this Resolution should also be subject to refund plus interest if the stipulation approved in Decision 86-08-025 does not become effective and if the Commission should in a final decision adopt a return on equity lower than 13.9%.

18. Public notice of this filing has been made by mailing copies of the advice letter to other utilities, government agencies and all interested parties who requested it. The Commission has received no protests in this matter.

THEREFORE:

1. Southern California Edison Company (SCE) is authorized to increase its Level of Base Rate Revenues by \$2,933,000 to compensate for operational and financial attrition and certain expense adjustments, to become effective January 1, 1987.
2. SCE is ordered to credit its ERAM account by \$9,278,807.88 in order to complete disbursement of ratepayer overcollections made during 1981, as anticipated in Commission Resolution No. F-599, dated July 7, 1982. The accumulated amount in SCE's deferred credit account shall be terminated. These changes shall be made effective January 1, 1987.
3. SCE shall file within five days revised tariff schedules decreasing rates by \$6,640,408 in annual revenues, to match the net revenues for attrition and the overcollection disbursement authorized herein. Rate changes shall be calculated on system average percent change basis. The revised tariff schedules shall become effective January 1, 1987.
4. SCE is authorized to record in a memorandum account monthly debits based on the difference between \$2,933,000 and \$40,379,000 in annual revenues. When and if the Stipulation and Agreement adopted by Decision 86-08-025 becomes effective, the memorandum account shall be terminated. The memorandum account shall accrue interest at the same rate authorized for SCE's ERAM account.
5. Should the Commission, as a result of the Federal Executive Agencies appeal to the California Supreme Court, thereafter issue an order providing for a 1987 return on equity lower than 13.9%, then the \$2,933,000 authorized in this Resolution is subject to refund plus interest accrued at the same rate authorized for SCE's ERAM account.
6. The tariff sheets shall be marked to show that they are authorized for filing by Commission Resolution E-3014. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1986. The following Commissioners approved it:



Executive Director

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

SOUTHERN CALIFORNIA EDISON COMPANY

1987 ATTRITION ALLOWANCE SUMMARY

(Thousands of Dollars)

Operation & Maintenance Expenses - Variable	
Labor	\$ 21,948
Nonlabor	2,523
SONGS Refueling	<u>(16,353)</u>
Subtotal	8,118
Capital Related - Fixed (13.9% on equity)	
Depreciation	34,454
Ad Valorem	3,137
Income Taxes	(4,385)
Rate Base	<u>4,070</u>
Subtotal	37,276
Financial Attrition (13.9% on equity)	(55,856)
Reduction in Resale Sales	20,594
Termination of Fuel Cell Write-Off	(3,313)
Interest Synchronization	(10,818)
Ad Valorem Taxes - Based Upon Unitary Market Values for 1986-1987	<u>6,932</u>
INCREASE IN CPUC JURISDICTIONAL REVENUE REQUIREMENT (13.9% on equity)	<u>\$ 2,933</u>
Adjustment to 16.0% on equity, if stipulation in D.86-08-025 does not become effective.	<u>37,446</u>
TOTAL REQUEST	\$40,379

SOUTHERN CALIFORNIA EDISON COMPANY
ATTRITION YEAR 1987 CHANGES IN COST OF CAPITAL

(REQUESTED WITH STIPULATION EFFECTIVE)

	<u>Capital Ratio</u>	<u>Cost of Capital</u>	<u>Weighted Cost of Capital</u>
<u>Attrition Year 1986 (D.86-08-025)</u>			
Long-Term Debt	43.00%	9.72%	4.180%
Preferred Stock	10.00	8.24	0.824
Common Equity	<u>47.00</u>	14.60	<u>6.862</u>
Total	100.00%		11.866%

Attrition Year 1987

Long-Term Debt	43.00%	9.11%	3.917%
Preferred Stock	10.00	7.90	0.79
Common Equity	<u>47.00</u>	13.90	<u>6.533</u>
Total	100.00%		11.240%

(REQUESTED)

Attrition Year 1986 (D.86-08-025)

Long-Term Debt	45.00%	9.72%	4.374%
Preferred Stock	10.00	8.24	0.824
Common Equity	<u>45.00</u>	16.00	<u>7.2</u>
Total	100.00%		12.398%

Attrition Year 1987

Long-Term Debt	45.00%	9.11%	4.100%
Preferred Stock	10.00	7.90	0.79
Common Equity	<u>45.00</u>	16.00	<u>7.2</u>
Total	100.00%		12.090%

RESOLUTION E-3014
ATTACHMENT C

SOUTHERN CALIFORNIA EDISON COMPANY
CALCULATION OF ATTRITION YEAR 1987 RATES

Attrition Request (Stipulation Effective): \$ 2,933,000

Overcollection Disbursement:

December 31, 1986 Value	(\$9,278,808)	
Amortization Factor <u>1/</u>	<u>x 0.08698</u>	
Monthly Revenues	(797,784)	
	<u>x 12</u>	
Annual Revenues	(\$9,573,408)	<u>\$ (9,573,408)</u>
Net Rates, Annual Revenues:		<u>\$ (6,640,408)</u>

1/ Amortization factor for 12 months at ERAM
account interest rate of 5.81% per year.
Interest rate from DRI forecast for 1987,
supplied by SCE.