

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3353
December 17, 1993

R E S O L U T I O N

RESOLUTION E-3353. SOUTHERN CALIFORNIA EDISON COMPANY
REQUEST TO REVISE ITS ELECTRIC BASE REVENUES
EFFECTIVE ON JANUARY 1, 1994, TO IMPLEMENT THE 1994
ATTRITION RATE ADJUSTMENT ADOPTED IN ITS 1992 GENERAL
RATE CASE, DECISION 91-12-076.

BY ADVICE LETTER 1021-E FILED ON OCTOBER 29, 1993.

SUMMARY

1. Southern California Edison Company's (Edison) requests revision of its electric base revenues effective January 1, 1994, to implement the 1994 Attrition Rate Adjustment (ARA) adopted in Edison's 1992 General Rate Case (GRC) Decision (D. 91-12-076).
2. This advice letter was protested by the Division of Ratepayer Advocates (DRA), Towards Utility Rate Normalization (TURN), and the California Large Energy Consumer Association (CLECA). These protests are denied without prejudice on procedural grounds.
3. This Resolution approves, with modifications, Edison's request to implement its 1994 operational and rate base attrition, a nuclear refueling adjustment, recovery of the additional taxes that were caused by the Revenue Reconciliation Act of 1993, and the decrease caused by Edison's California Property Tax Settlement with the State Board of Equalization.

BACKGROUND

1. Edison's filing seeks to revise its electric base revenues effective January 1, 1994, to implement the 1994 ARA adopted in Edison's 1992 GRC, D. 91-12-076.

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2. Edison requests authorization of an increase of \$97.708 million to its Authorized Level of Base Rate Revenues (ALBRR), under the Electric Revenue Adjustment Mechanism (ERAM), effective for service rendered on and after January 1, 1994.

3. The base rate increase, effective January 1, 1994, is calculated using the California Public Utilities Commission (Commission) adopted ARA procedure, and includes the effects of the Revenue Reconciliation Act of 1993 and the California Property Tax Settlement Agreement.

4. Pursuant to D. 91-12-076, Ordering Paragraph 10, and D. 93-04-062, revisions are requested for Edison's Preliminary Statement, Part J, ERAM to reflect a \$97.708 million increase to the ALBRR under the ERAM effective for service rendered on and after January 1, 1994. The \$97.708 million ALBRR increase is computed using the adopted ARA procedure and the attrition factors set forth in Appendix E of D. 91-12-076, as modified by Appendix E of D. 92-08-042, Appendix E of D. 92-12-063, and D. 93-04-062. The ARA procedure permits the updating of escalation rates for operation and maintenance (O&M) expenses, flexible refueling schedules, and changes in tax law.

5. Revisions to Edison's Preliminary Statement, Part J, ERAM, to reflect the January 1, 1994, ALBRR increase consist of:

- * an \$81.932 million increase to reflect escalation of O&M and adopted increases in capital costs pursuant to D. 91-12-076 and D. 93-04-062;
- * a \$21.602 million increase to reflect increased federal income taxes pursuant to the Revenue Reconciliation Act of 1993; and,
- * a \$5.826 million decrease to reflect decreased California property taxes pursuant to Commission D. 93-07-047 (the California Property Tax Settlement Decision).

In addition, revisions are requested for Preliminary Statement, Part N, Memorandum Accounts, and Preliminary Statement Part R, San Onofre Nuclear Generating Station Unit 1 (SONGS 1) Ratemaking Procedure.

6. The total increase to the ALBRR under the ERAM effective for service rendered on and after January 1, 1994, is \$97.708 million.

1994 Attrition Allowance

Component	\$ Million
Labor	\$40.347
Nonlabor	16.321
Capital Relate	61.190
Nuclear Refueling Adjustment	(35.926)
WMDVBE	<u>0.000</u>
Sub-total	\$81.932
Revenue Reconciliation Act of 1993	21.602
California Property Tax Settlement	<u>(5.826)</u>
Total	\$97.708

7. The following table shows the Annual revenue changes by customer group associated with the \$97.708 million ALBRR increase if the Commission allocates the revenue change on a System Average Percentage Change basis.

1994 Attrition Revenue Change

Customer Group	\$ in millions	%
Domestic	\$37.2	1.4
Light-SMP	35.8	1.4
Large Power	21.6	1.4
AG & Pumping	2.7	1.4
St & Area Lgt	<u>0.4</u>	0.6
Total	\$97.7	1.4

NOTICE

1. Edison made public notice of AL 1021-E by mailing copies of the advice letter to other utilities, governmental agencies, and all parties who requested such information. In addition, notice of the advice letter was published in the Commission calendar on November 5, 1993.

PROTESTS

1. The Commission Advisory and Compliance Division (CACD) has received three protests on Edison's advice letter. These are:

Division of Ratepayer Advocates

2. DRA filed its protest to Edison's advice letter on November 18, 1993. In its protest, DRA urges the Commission to suspend Edison's operational and rate base attrition for 1994. DRA believes that the attrition mechanism is flawed, and that: Attrition should only be considered for substantial departures from the norm of operating cost changes due to cost escalations; Edison has the ability to handle the expected nominal inflation costs without a safety net; Edison should be called on to absorb its share of the economic pain that other California businesses and customers face daily.

3. The financial community has put Edison on notice that it is now at considerable competitive risk; another rate increase would only worsen its already vulnerable competitive posture. Edison's generating costs are the highest in the Western Council, and this impairs Edison's ability to compete. Edison should become directly linked to economic realities in its energy marketplace.

4. DRA asks the Commission to suspend Edison's current attrition mechanism for 1994 because: 1) Economic conditions warrant this Commission to take firm steps to help rekindle California's economic growth; and, 2) Underlying corporate cost drivers, inflation and customer growth, are at relative standstills compared to the high inflation and robust economy when attrition was adopted by the Commission for Edison.

Towards Utility Rate Normalization

5. TURN protested Edison's advice letter on November 18, 1993. TURN requests that the Commission deny Edison's 1994 ARA and suspend the attrition mechanism. TURN believes that the time has arrived to terminate annual attrition increases because the conditions which originally led to the adjustment have long since passed.

6. According to TURN, the attrition mechanism is a measure for coping with the high inflationary pressures of the late 1970s and early 1980s. At present the inflation rates are nowhere near the levels which led to the adoption of the attrition mechanism. The attrition mechanism is counter-productive in the endeavor to restore the economic health of California's residents and businesses, as it increases electric rates which are already amongst the highest in the nation.

California Large Energy Consumers Association

7. CLECA filed its protest on November 18, 1993. CLECA is an organization comprised of high voltage, high load factor industrial customers (of Edison and Pacific Gas and Electric Company (PG&E)), and has participated in numerous Edison rate proceedings in recent years on behalf of its members. CLECA opposes Edison's request for approval of operational and ratebase attrition adjustments for calendar year 1994, and requests that it be afforded an opportunity to present evidence and arguments why the 1994 Attrition Adjustment should not be granted.

8. In May of 1993, CLECA and others filed a petition to modify the decision which authorized the attrition mechanism for PG&E. In that filing, CLECA argues for a suspension of the operational and rate base attrition mechanisms pending a return of early 1980's levels of inflation. The reasons, for the attrition procedures are no longer present and there remains no rationale for maintenance of the attrition mechanism. CLECA's protest incorporates those arguments for suspension of Edison's attrition by this reference.

9. The presence of the attrition procedure in today's environment removes from the utilities much of the needed

incentive to keep their costs in line. CLECA believes that if Edison were serious about its announced commitment to keep costs down, it would not be making this attrition filing.

10. CLECA requests that the Commission reject Edison's advice letter and that it orders the suspension of the utility's operational and ratebase attrition mechanisms at least for calendar year 1994.

Edison's Response

11. On November 29, 1993, Edison responded to the three protests. Its response states that: the purpose of the ARA is to provide utilities with an opportunity to earn their authorized rates of return; the suspension of Edison's 1994 ARA would deprive Edison of this opportunity, while the ERAM prevents offsetting cost increases with increased revenues from sales increases; the ARA is the only mechanism currently available that allows recovery of forecast cost increases associated with both customer growth and inflation between GRCs; and that, analysis of historical customer growth by itself does not accurately measure the current need for the ARA.

12. Edison states that it is very concerned about its high rates, but believes that it should not be denied recovery of legitimate, unavoidable costs of providing electric service because of high electric rates.

13. Hastily eliminating a long-standing mechanism, such as ARA, would serve only to support the rating agencies' concerns about California's regulatory environment and would more likely contribute to potential downgrades than Edison's alleged "vulnerable competitive position." To avoid this the Commission should maintain cost recovery through adopted long-standing rate mechanisms, such as ARA.

14. Edison believes that the Commission must look at both the ARA and ERAM and their relationship to the three year GRC cycle, when considering elimination of either one. The only alternative to the Advice Letter filing process is to return to annual GRCs which would impose tremendous costs on the Commission, its staff, the utilities and the other interested parties.

DISCUSSION

1. CACD recommends that the protests filed by DRA, TURN, and CLECA, be denied without prejudice because the attrition filing is not the appropriate procedure to file for discontinuing Edison's attrition mechanism.

2. Edison was authorized to request revenue requirement adjustments for attrition years 1993 and 1994 in D. 91-12-076, ordering paragraph 10. The estimated attrition years revenue requirements were adopted in D. 92-08-042, ordering paragraph 6.

3. A summary of the changes that Edison is seeking is appended to the resolution as Attachment 1.

4. Edison has modified its authorized operational attrition to reflect changes made by the Commission in prior decisions and to reflect the updated escalation rates to reflect newer numbers. Edison is allowed to include in its attrition filing updated escalation rates per D. 85-12-076 (19 CPUC 2d, 453, 473).

5. The cost escalation for the 1994 labor component of Edison's O&M expenses is calculated in accordance with previous Commission decisions by adjusting the Attrition Year 1993 labor expenses authorized in D. 93-04-062 to:

- * remove certain RD&D/EPRI expenses as required in D. 93-06-095;
- * remove Yuma/Axis expenses pursuant to D. 92-12-044; and,
- * true-up forecast labor escalation rates.

For the historical years through 1992, Edison used recorded labor escalation rates, while, for the estimated years 1993 and 1994, Edison's used negotiated union wage agreement increases. Calculation of the labor escalation rates for historical years utilizes the method adopted by the Commission in D. 91-12-076, Edison's 1992 GRC. Use of the labor escalation rates from union wage procedure results in an incremental 1994 labor-related revenue requirement increase of \$40.347 million.

6. The procedure used to determine cost escalation associated with the 1994 nonlabor component of Edison's O&M expenses is the same as the procedure described above for the labor component. The nonlabor escalation rates were updated using the methodology adopted by the Commission in D. 91-12-076 and D. 93-04-062. The procedure results in an incremental 1994 nonlabor related revenue requirement increase of \$16.321 million.

7. The revised operational attrition numbers for Edison are \$40.347 million for Edison's labor escalation and \$16.321 million for Edison's non-labor escalation. CACD has reviewed Edison's calculation of its operational attrition numbers and found them to be correct.

8. Edison has modified its authorized rate base attrition number to reflect changes made by the Commission in prior decision.

9. The ARA procedure uses the incremental capital related revenue requirement adopted for the attrition year in the previous GRC decision. Accordingly, Edison used the 1994 incremental revenue requirement set forth in D. 91-12-076, Appendix E, as modified by D. 92-12-063. The resulting revenue has been reduced to reflect the 9.945% rate of return on rate base authorized by the Commission in D. 92-11-047, and will be

further modified to reflect the rate of return ultimately authorized for 1994 in Application (A.) 93-05-013.

10. The incremental capital related 1994 revenue requirement was adjusted to remove:

- * SONGS 1, pursuant to D. 92-08-036;
- * Cal Energy Interconnection Facilities costs, pursuant to D. 92-12-022;
- * the HVDC Project, pursuant to D. 91-12-022; and,
- * Yuma/Axis Generating Station and related facilities, pursuant to D. 92-12-044.

In addition, an adjustment was made to reflect the transfer of the HVDC project from MAAC to base rates pursuant to D. 93-02-007.

11. The resulting incremental 1994 capital related revenue requirement increase is \$61.190 million (excluding the tax effects of the Revenue Reconciliation Act of 1993 which is discussed below). CACD has reviewed Edison's calculation of its rate base attrition numbers and has found them to be correct.

12. In 1994, Edison will have three fewer nuclear refuelings than it had in 1993. Therefore, consistent with Edison's 1992 GRC decision (D. 92-08-042), Edison deducted the cost savings associated with the lower number of nuclear refuelings.

13. Incremental 1994 revenue requirements are reduced to reflect a reduction in the number of SONGS refuelings forecasted to occur in 1994 compared to 1993. Rates for 1993 reflect two such refuelings, while none are projected for 1994. Incremental 1994 revenue requirements were also reduced to reflect a reduction in the number of PVNGS refuelings forecasted to occur in 1994 compared to 1993. The rates for 1993 reflect two such refuelings, while only one is projected for 1994. The incremental amounts for SONGS and PVNGS refueling were adopted in D. 92-08-042, Appendix D.

14. The savings associated with the lower number of nuclear fuelings is \$35.926 million. CACD has reviewed Edison's calculation of its nuclear refueling adjustment and found them to be correct.

15. Edison petitioned the Commission to modify D. 91-12-076 on October 25, 1993, to permit recovery, through the 1994 ARA procedure, of \$545,000 associated with the Women, Minority, and Disabled Veteran Business Enterprise Program (WMDVBE). When the Commission issued D. 91-12-076, it anticipated that the Commission would authorize recovery of WMDVBE expenses through a separate, generic proceeding, but no such authorization has taken place. Edison's Petition for Modification is similar to a

petition filed by Edison and granted by the Commission for the 1993 ARA procedure, except for the effects of escalation, recovery of WMDVBE costs will not increase 1994 revenue requirements since recovery of these expenses are already reflected in 1993 rates. The decision associated with this Petition is scheduled to be issued on December 17, 1993. Edison needs to file amended tariffs based on this decision if the amount that is authorized differs from that requested in its attrition filing.

16. Edison also seeks to include in its rates the base tax increase on its existing rates in its attrition filing. In August 1993, President Clinton signed into law the Revenue Reconciliation Act of 1994 (ACT). One of the provisions of the Act is an increase in the corporate income tax rate from 34% to 35% effective January 1, 1993. Besides including the increase in its corporate tax rate, Edison also included the change in the deductibility of meals and entertainment expenses, and the dollar cap for the Medicare portion of FICA. Application of the newly enacted federal corporate income tax rate, and other changes, results in an incremental CPUC jurisdictional base rate revenue requirement increase of \$20.862 million. The impact of the Act on the Company's 1994 ARA as requested herein results in an additional \$740,000 of base revenue requirement for a total of \$21.602 million ALBRR increase attributable to the Act on January 1, 1994.

17. Edison is allowed to include in its attrition filing changes in tax rates per D. 85-12-076 (19 CPUC 2d, 453, 476), however, this decision does not allow Edison to reflect the change in the deductibility of any tax expenses, or to revise the dollar cap on any expenses.

18. The Commission, in Resolution E-3331, authorized Edison to establish the 1993 Federal Tax Reform Legislation Memorandum Account (TMA) for recording changes to its 1993 base rate revenue requirements reflected in rates, resulting from changes to Edison's federal and state tax liability under the Revenue Reconciliation Act of 1993. Entries to this account shall continue until the effect of the Act are fully reflected in Edison's base rates. Edison will request rate recovery of amounts recorded in the TMA in either a: separate application specifically for that purpose; an annual ECAC proceeding; or another rate setting proceeding. These amounts are to be reviewed prior to their being recovered in rates.

19. Edison has to revise its attrition's Revenue Reconciliation Act of 1993 amount to remove the decreased deduction for meals and entertainment, and the change in the dollar cap for the Medicare portion of FICA. CACD does not take exception with the use of the 35% income tax rate that was required in the Revenue Reconciliation Act of 1993.

20. In compliance with Ordering paragraph No. 6 of D. 93-07-047, Edison revises Preliminary Statement, Part J, ERAM, to reflect a decrease in the ALBRR under the ERAM of \$5.826 million. This reflects the reduction in the Company's California property tax

revenue requirement resulting from the Settlement Agreement with the State Board of Equalization (SBE).

21. In addition, Edison seeks to revise its Preliminary Statement, Part N, Memorandum Accounts, to reflect: the removal of Section 11, California Property Tax (CPT) memorandum Account, resulting from the termination of Edison's CPT Memorandum Account effective January 1, 1994; and, the renumbering of several sections of Part N resulting from the removal of Section 11. The CPT Memorandum Account was authorized by the Commission in D. 92-03-052. In the California Property Tax Settlement Decision 93-07-047, the Commission ordered that the CPT memorandum Account be terminated when the Company's California property tax revenue requirement resulting from the Settlement Agreement with the SBE was fully reflected in rates.

22. CACD has reviewed the calculation of Edison's California Property Tax Settlement adjustment and found them to be correct, however, the California Property Tax Memorandum Account has to remain open until the Commission has reviewed the balance in it and transfers the balance to the ERAM Balancing Account. Edison has to file a separate advice letter to transfer the balance in the CPT Memorandum Account which will be reviewed at that time.

23. Edison requests to revise the SONGS 1 Ratemaking Procedure (Preliminary Statement, Sections R.3.k. and R.3.l.) to reflect the impact of the ARA procedure on the Annual SONGS 1 Operating Noninvestment-Related Revenue Requirement. The adjustment that Edison made in its attrition filing is to reflect the escalation rates that are included in its attrition filing. CACD has reviewed the calculation and does not take exception with Edison's calculation.

24. In addition, Edison seeks to revise its Investment Related Revenue Requirement (Preliminary Statement, Section R.3.j.) and the Annual SONGS Unamortized Nuclear Fuel Inventory Revenue Requirement (Preliminary Statement, Section R.3.m) to reflect the impact of the 35% federal corporate income tax rate for the remaining SONGS 1 Revision Date anniversaries. CACD has reviewed Edison's calculation and found it to be correct.

25. Edison also requests that the Monthly Distribution Percentages for the ERAM Balancing Account be changed in accordance with D. 92-06-020. CACD recommends that Edison's request be approved.

26. On December 3, 1993, the Commission issued D. 93-12-022, the Cost of Capital Decision. This decision revised Edison's cost of capital from 9.94% to 9.17%. Edison did not seek a change in its cost of capital in its 1994 Attrition filing. Before January 1, 1994, the Commission's new cost of capital rates authorized for Edison in D. 93-12-022 have to be reflected in its ERAM Base Amount.

FINDINGS

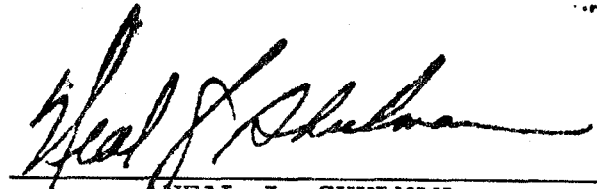
1. The protests filed on these advice letters by DRA, TURN, and CLECA are denied without prejudice.
2. Edison was authorized to request revenue requirement adjustments for attrition years 1993 and 1994 in D. 91-12-076, ordering paragraph 10. The estimated attrition years revenue requirements were adopted in D. 92-08-042, ordering paragraph 6.
3. Edison needs to make the following adjustments to its 1994 attrition filing:
 - a) File amended tariffs based on this WMDVBE decision if the amount that is authorized differs from that requested in its attrition filing;
 - b) Remove the effect of the change in the deduction of meals and entertainment expenses, and the price cap on the Medical FICA payment in calculating its Revenue Reconciliation Act of 1993 amount; and,
 - c) Reinstate the California Property Tax Memorandum Account in Edison's Preliminary Statement until the Commission has review the balance in it and transfers the balance to the ERAM Balancing Account.
4. With the exception of the items listed above, the amounts that Edison is seeking to recover are reasonable and are consistent with prior Commission precedence.
5. Edison needs to file a separate advice letter with the Commission to transfer the balance in the CPT Memorandum Account to its ERAM Balancing Account. CACD will review the balance in the CPT Memorandum Account at that time.
6. Before January 1, 1994, the Commission's new cost of capital rates authorized for Edison in D. 93-12-022 need to be reflected in its ERAM Base Amount.

December 17, 1993

THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company shall file revised tariff sheets consistent with the findings of this Resolution on or before December 28, 1993.
2. The protests that were filed by the Division of Ratepayer Advocates, Towards Utility Rate Normalization, and the California Large Energy Consumers Association to this advice letter are denied without prejudice.
3. The revised tariff sheets shall be marked to show that it was approved by Resolution E-3353, with an effective date of January 1, 1993.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1993. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners

Attachment 1

Summary of Edison's attrition filing revenue requirement adjustments.

1994 Attrition Allowance

<u>Component</u>	<u>\$ Million</u>
Labor	40.347
Nonlabor	16.321
Capital-related	61.190
Nuclear refueling adjustment	(35.926)
WMDVBE	<u>0.000</u>
Sub-total	81.932
Revenue Reconciliation Act of 1993	21.602
California Property Tax Settlement	<u>(5.826)</u>
Total	97.708