

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3389  
September 15, 1994

R E S O L U T I O N

RESOLUTION E-3389. SOUTHERN CALIFORNIA EDISON COMPANY REQUESTS APPROVAL OF PROPOSAL TO REDUCE AUTHORIZED LEVEL OF BASE RATE REVENUE BY \$5.544 MILLION FOR SERVICE RENDERED ON AND AFTER JULY 1, 1994.

BY ADVICE LETTER 1058-E, FILED ON JUNE 28, 1994.

---

SUMMARY

1. Southern California Edison Company [Edison] seeks approval of its revised Preliminary Statement, Part J, Electric Revenue Adjustment Mechanism [ERAM] to reflect a reduction of \$5.544 million in Edison's authorized level of base rate revenue [ALBRR] effective for service rendered on and after July 1, 1994. Edison subsequently revised the amount of reduction to \$5.514 million effective for services on and after September 15, 1994
2. This filing is made in compliance with Decision [D.] 94-05-068 that authorized Edison to adjust recovery of nuclear plant investment subject to approval by the Commission of an advice letter establishing a mechanism to accomplish the adjustment.
3. Division of Ratepayer Advocates [DRA] protested Advice Letter [AL] 1058-E. The protest is discussed below.
4. This Resolution grants the request.

BACKGROUND

1. In Application [A.] 93-02-010, filed on February 2, 1993, Edison requested authority to adjust the recovery of its investment in the San Onofre Nuclear Generating Station [SONGS] units 2 and 3 and Palo Verde units 1, 2, and 3, by establishing a continuous additional capital recovery procedure.
2. The proposed procedure in A.93-02-010 provided for the accelerated recovery of Edison's unrecovered nuclear plant by an additional capital recovery amount [ACRA] of \$75 million per year.

3. On July 9, 1993, Edison filed supplemental testimony in A.93-02-010 requesting an equal and offsetting annual reduced recovery of \$75 million associated with its transmission and distribution [T&D] plant investment. This is known as the reduced capital recovery amount [RCRA].

4. Edison states that it has, with this advice filing, updated the supplemental testimony to revise the CPUC jurisdictional revenue requirement. The update is for:

[a] the increase in the federal corporate tax rate from 34% to 35%, as mandated by the Revenue Reconciliation Act of 1993, and

[b] elimination of the return on incremental rate base associated with the difference between the reduction in nuclear rate base and the increase in transmission and distribution rate base.

5. Edison states that with its supplemental testimony and updates, it has complied with D.94-05-068 by eliminating the rate of return on incremental rate base(\*), thereby eliminating all returns on incremental rate base associated with ACRA/RCRA proposal.

6. This compliance with D.94-05-068 decreases the annual CPUC jurisdictional revenue requirement by \$5.514 million effective September 15, 1994 as follows:

	Rev. Req. [CPUC Jurisdict'l] \$'000 [negative] -----
Incremental revenue requirement as in the supplemental testimony	[5.035]
Change in the incremental rate base as a result of eliminating the rate of return	[252]
Effect of revenue reconciliation act of 1993	[257]
Implementation delay [from 7/1/94 to 9/15/94]	30
Adjusted incremental revenue requirement	----- [5.514] =====

7. Edison proposes to adjust its ALBRR for the incremental revenue requirement associated with the ACRA/RCRA, by annual advice letter filings, effective on January 1st of each year, at which time it will determine the change in the ACRA/RCRA revenue requirement and eliminate the rate of return on incremental rate base.

(\*) Incremental rate base in a given year is the difference in rate base between accelerated recovery of nuclear rate base and reduced recovery of transmission and distribution rate base.

NOTICE

1. Edison served notice of AL 1058-E by mailing copies to other utilities, government agencies, and parties that requested such information.

PROTESTS

1. On July 18, 1994, DRA, in a letter to CACD, expressed its concerns about AL 1058-E. Edison responded to those concerns on July 25, 1994. Afterwards DRA and Edison negotiated their differences which resulted in DRA's reconciling letter of August 10, 1994.

2. DRA in its letter of concern states that D.94-05-068 ordered Edison to "...establish a mechanism for eliminating all incremental returns associated with the ACRA/RCRA proposal...". According to DRA, Edison did not come up with such a "mechanism". Edison, instead, presented its proposed reduction in the rate of return on incremental rate base only for the first year of the ACRA/RCRA proposal. It is DRA's view that a mechanism to eliminate the additional profits should clearly establish the reductions for more than just the first year. DRA recommends that Edison's forecast of its incremental return in A.93-02-010 be used to establish the reduction in its future returns, with Edison filing an advice letter only if the forecast amount needs to be adjusted. DRA contends that in this way the ratepayers will obtain the required reduction in rates and the procedure will not depend on Edison's filing annual advice letters.

3. Edison responds that its mechanism to implement the Commission decision is its annual advice letter filing proposal. Edison states that it is unable to construct a one-time mechanism for the purpose because the variables associated with adjusting the return on incremental ratebase are too numerous and prone to change to forecast them over the remaining lives of the assets. Some of those variables change from year to year; for example, revisions to capital budget and ratebase forecasts, authorized rate of return on ratebase, state and federal taxes, Franchise Fees and Uncollectibles, Ad Valorem taxes, and CPUC/FERC jurisdictional factors.

4. DRA's next concern is that Edison is lowering the amount of money that is to be returned to the ratepayers according to D.94-05-068. DRA contends that the reduction in return shown in the advice letter [\$252,000] is lower than the value Edison proposed in A.93-02-010 and adopted by the Commission [\$355,000].

5. Edison responds that the difference in the amounts arise because the workpapers for A.93-02-010 contain two outdated, but important, variables. They are the rate of return on ratebase of 9.94% compared to the recently authorized 9.17% used in the advice letter, and the ratebase amount developed in mid-1992 for the application. The advice letter, on the other hand, relies on a current forecast for these two variables.

DISCUSSION

1. D.94-05-068 approved, with modifications, the proposal by Edison [A.93-02-010] to accelerate rate recovery of its embedded investment in nuclear generating plants. Under the plan, Edison would accelerate depreciation of current investment in its San Onofre and Palo Verde plants by a total additional capital recovery of \$75/million a year. The utility also proposed to offset the additional plant recovery by reducing depreciation accruals on T&D plant investment by an equal amount.

2. As a result of D.94-05-068, the consumers would see a \$5-million rate reduction in the near term, along with a \$39-million net present value reduction in revenue requirement over about 40 years.

3. The Decision directed Edison to eliminate the additional rate-base returns it would earn as a result of decelerating the depreciation schedule for the T&D assets. Edison has filed AL 1058-E to comply with the latter directive.

4. There are two issues concerning AL 1058-E:

[a] whether Edison has complied with D.94-05-068 in so far as devising a method to eliminate the incremental return it would earn from its ACRA/RCRA proposal, and

[b] whether the variables that go into the calculation of capital recovery amounts are updates and therefore have caused the return on incremental rate base reduction to be lower than the value indicated in A.93-02-010 and adopted in D.94-05-068.

5. CACD agrees with Edison's position that a fixed schedule of annual revenue requirement adjustments for the remaining lives of assets would not be an appropriate method to eliminate the returns. The variables associated with adjusting the return on incremental ratebase change from year to year. Those changes are the result of numerous other economic changes that cannot be readily predicted. Edison estimates full capital recovery for SONGS 2 and 3 by the year 2013, the three Palo Verde units by the year 2027, and an average remaining life of 40 years for transmission and distribution plant. A one-time mechanism, formulated in general terms, may not accomplish the desired objective of eliminating the incremental return Edison would earn from its ACRA/RCRA proposal over the remaining lives of the assets. Accordingly, CACD believes that Edison's proposal [subsequently accepted by DRA] of providing detailed workpapers with its annual advice letter filings and identification of changed variables from that of previous year's itself constitutes a method that would satisfy the intent of the Order in D.94-05-068.

6. CACD has reviewed Edison's AL 1058-E and DRA's initial concerns for the advice letter and concludes that the proposed plan is an acceptable mechanism to fulfill the intent of D.94-05-068 which is to eliminate the return on incremental ratebase

associated with the ACRA/RCRA decision. To facilitate the handling of the advice letter, Edison should file it by December 1st of each year to be effective January 1st of the following year.

FINDINGS

1. Southern California Edison Company filed AL 1058-E in compliance D.94-05-068, establishing a method to eliminate the incremental return it would earn from its ACRA/RCRA proposal.
2. The Division of Ratepayer Advocates initially expressed concern over the advice letter but subsequently acquiesced in the proposed procedure.
3. Edison plans to adjust its ALBRR for the incremental revenue requirement associated with the ACRA/RCRA, by annual advice letter filings not later than December 1st of each year, to be effective on January 1st of the following year.
4. Edison's method provides for detailed workpapers to be filed with each year's advice letter which would identify variables that have changed from the previous year's advice letter.
5. Edison's mechanism would eliminate the return on incremental ratebase associated with the ACRA/RCRA decision.
6. CACD has reviewed AL 1058-E and recommends its approval by the Commission.

September 15, 1994

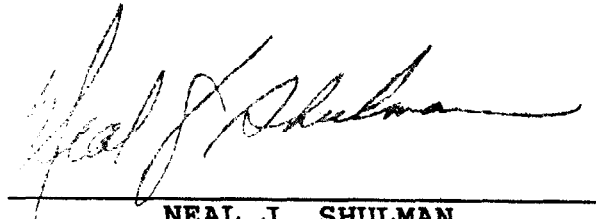
**THEREFORE, IT IS ORDERED that:**

1. Southern California Edison Company [Edison] is authorized to change its Preliminary Statement, Part J, Electric Revenue Adjustment Mechanism, to reflect a reduction in its Authorized Level of Base Rate Revenue [ALBRR] by \$5.514 million, effective for service rendered on and after September 15, 1994.

2. Edison shall implement future such adjustments to its ALBRR by filing an annual advice letter not later than December 1st of each year, to be effective on January 1st of the following year, providing detailed workpapers with each year's advice filing and identifying variables that have changed from the previous year's advice letter.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 15, 1994. 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