

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Southern California Edison Company)
) **Dkt. No. ER20-____-000**
)

DECLARATION OF ALFRED L. LOPEZ
FOR SOUTHERN CALIFORNIA EDISON COMPANY

I, Alfred L. Lopez, declare and state as follows:

1. My name is Alfred L. Lopez. My business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.
2. I am a Senior Advisor, Tax Research & Planning, at Southern California Edison Company (“SCE”). My responsibilities include managing tax-related regulatory matters that come before the Federal Energy Regulatory Commission (“FERC” or “Commission”) and the California Public Utilities Commission for SCE, as well as other tax-related research and planning activities.
3. I hold a Master of Science Degree in Taxation from Golden Gate University, and a Bachelor of Science Degree in Business Administration (with an emphasis in Accounting) from California State University, Los Angeles. I am a member of the California Society of CPAs and the American Institute of Certified Public Accountants, and have been employed by SCE in the Tax Department since 1989. Over the years, I have been responsible for Tax Research and Planning, Accounting for Income Taxes, and Regulatory Tax-related Matters at SCE. Prior to joining SCE, I worked in the tax and audit groups of a large public accounting firm and the tax departments of two other large corporations.

I. PURPOSE OF DECLARATION

4. The purpose of this declaration is to describe the changes proposed in this filing to SCE’s Transmission Owner Tariff (“TO Tariff”), FERC Electric Tariff, Volume No. 6 and related transmission formula rate (“Formula Rate”), and to demonstrate that these

proposed changes, coupled with SCE's existing Formula Rate, comply with all of the requirements of Order 864 in Docket No. RM19-5-000.¹

II. BACKGROUND

5. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act ("TCAJA"),² which included, among other things, a reduction in the federal corporate income tax rate from 35% to 21% beginning January 1, 2018. This reduction in the income tax rate required corporations to re-measure their accumulated deferred income tax ("ADIT") balances at the new lower rate of 21%.
6. For ratemaking purposes, ADIT liability balances represent amounts previously collected from customers at 35% that were expected to be paid to federal tax authorities in the future at the same rate of 35%.³ However, as a result of the reduction in tax rate by the TCAJA, the ADIT liability balances collected from customers at 35% will be paid to federal tax authorities in the future at the new lower rate of 21%, which results in what is referred to as excess ADIT amounts.⁴ In addition, because ADIT liability balances represent amounts collected from customers that have not yet been paid to federal tax authorities, rate base for ratemaking purposes is reduced by the ADIT liability balances. After ADIT liability balances are re-measured at the lower tax rate of 21%, rate base should continue to be reduced by not only the re-measured ADIT balance at 21%, but also by any excess ADIT amounts.
7. On November 15, 2018, FERC issued its Notice of Proposed Rulemaking in Docket No. RM19-5-000, which proposed requiring public utility transmission providers to revise their transmission rates to account for changes caused by the TCAJA.
8. On November 21, 2019, FERC issued its final rule in Docket No. RM19-5-000, known as Order 864, requiring all public utility transmission providers with transmission formula rates under an Open Access Transmission Tariff, a transmission owner tariff, or a rate

¹ *Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes*, Order No. 864, 169 FERC ¶ 61,139 (2019) ("Order 864").

² Federal Public Law 115-97.

³ The converse is true for ADIT asset balances that represent amounts previously paid to federal tax authorities at 35% that were expected to be collected from customers in the future at 35%.

⁴ The opposite is true for ADIT asset balances that result in deficient ADIT amounts.

schedule to submit filings demonstrating that their transmission formula rates account for changes caused by TCAJA, including revisions to their transmission formula rates, as necessary.

III. SCE'S PROPOSED NEW PERMANENT WORKSHEETS SATISFY THE REQUIREMENTS OF ORDER 864

9. Paragraph 5 of Order 864 requires all public utilities with transmission formula rates to incorporate a new permanent worksheet into their transmission formula rates that will track information related to excess and deficient accumulated deferred income taxes ("EDADIT"). This submission includes Exhibit B reflecting two new permanent worksheets ("EDADIT Worksheets") included in SCE's Formula Rate that satisfy the following worksheet requirements of Order 864:

- a) New Permanent EDADIT Worksheets
 - o **9-ADIT-3** - This new permanent worksheet is utilized to compute the new EDADIT amounts under the comprehensive recalculation approach when there is a change to the income tax rate. Under the comprehensive recalculation approach, the ADIT balance along with any remaining unamortized EDADIT balance related to the accumulated book-to-tax adjustment⁵ in the year of change is compared to the new required ADIT amount under the new tax rate in order to derive the new either excess or deficient ADIT to be amortized into rates. Columns (2) through (8) of the attached 9-ADIT-3 worksheet show the FERC ADIT accounts affected, how these ADIT accounts were re-measured as a result of a change to the income tax rate, and the new or revised EDADIT amounts as required by Paragraph 63 and category (1), Paragraph 52 of Order 864. Column (2) reflects the FERC ADIT accounts (i.e., 190, 282 and 283) affected by the change to the income tax rate. Column (3) reflects the systems-generated accumulated book-to-tax adjustment; Column (4) reflects

⁵ Book-to-tax adjustments (commonly referred to as Schedule M Adjustments) are book-to-tax adjustments required to convert costs and income amounts under generally accepted accounting principles to costs and income amounts under the tax rules.

the systems-generated current combined related ADIT and EDADIT balances; Column (5) reflects the new required ADIT balance at the new tax rate (i.e., Column (3) multiplied by the new tax rate); and Column (6) reflects the new or revised EDADIT amount (i.e., Column (4) minus Column (5)). Columns (7) and (8) reflect the adjustment to the current EDADIT balance needed to properly reflect the new or revised EDADIT amount. Column (7) reflects the net EDADIT balance at the prior tax rate (i.e., amounts from Column (8) of 9-ADIT-2); and Column (8) reflects the adjustment needed to properly reflect the new or revised EDADIT balance (i.e., Column (6) minus Column (7)).

- Column (1), Lines 1 through 50 show Protected – Property Related EDADIT; Lines 100 to 200 show Unprotected – Property Related EDADIT; and Lines 300 through 350 show Unprotected – Non-Property Related EDADIT as required by category (3), Paragraph 52 of Order 864.
- **9-ADIT-2** – This permanent worksheet is a roll-forward schedule that is utilized each year, regardless of whether or not there is a change to the income tax rates. Columns (2) through (11) of 9-ADIT-2 reflect the annual roll-forward balances of existing EDADIT as required by Paragraph 52 of Order 864. Column (2) reflects the beginning deficient ADIT balance in Account 182.3 (i.e., prior year ending balance in Column (10) of 9-ADIT-2); Column (3) reflects the beginning excess ADIT balance in Account 254 (i.e., prior year ending balance in Column (11) of 9-ADIT-2); Column (4) reflects other adjustments⁶ to deficient ADIT balances in Account 182.3; Column (5) reflects other adjustments to excess ADIT balances in Account

⁶ “Other adjustments” to the beginning deficient and excess ADIT balances in FERC Accounts 182.3 and 254 are typically a result of the final fine-tuning of prior year amounts into their appropriate subcategories (e.g., between substation costs and transmission line costs) prior to the filing of SCE’s tax returns for the prior year. Beginning balance adjustments can also occur as a result of cost adjustments from final tax audit settlements.

254; Column (6) reflects the system-generated annual amortization of deficient ADIT in Account 410.1; Column (7) reflects the system-generated annual amortization of excess ADIT in Account 411.1; Column (8) reflects the net EDADIT balance at the current tax rate (i.e., summation of Columns (2) through (7)); Column (9) reflects the adjustment to existing net EDADIT balances to derive the new or revised EDADIT balance as a result of a new change to the income tax rate (i.e., pulls amounts from Column (8) of 9-ADIT-3); Column (10) reflects the ending deficient ADIT balance in Account 182.3 (i.e., Column (8) plus (9)) and Column (11) reflects the ending excess ADIT balance in Account 254 (i.e., Column (8) plus (9)).

- o Column (1), Lines 1 through 50 show Protected – Property Related EDADIT; Lines 100 to 200 show Unprotected – Property Related EDADIT; and Lines 300 through 350 show Unprotected – Non-Property Related EDADIT as required by category (3), Paragraph 52 of Order 864.

- b) Footnotes 1 through 4 of attached worksheet 9-ADIT-2 describe the amortization periods for each of the EDADIT balances being returned or recovered through the transmission rates as required by Paragraph 63 and category (5), Paragraph 52 of Order 864.

10. Worksheets 9-ADIT-2 and 9-ADIT-3 included in this compliance submission are populated with actual 2017 and 2018 EDADIT amounts resulting from the TCAJA as required by Paragraph 63 of Order 864.
11. The attached 9-ADIT-3 worksheet is formatted to incorporate any subsequent change to the income tax rate as required by Paragraphs 29 and 43 of Order 864.
12. Footnote 1 of 9-ADIT-2 indicates that the Protected Property Related Method/Life and Federal NOL EDADIT amounts are being amortized consistent with the average rate assumption method over the remaining book life and the South Georgia Adjustment is being amortized under the straight-line method over the remaining book life pursuant to the tax normalization rules as required by Paragraph 46 of Order 864.

13. Footnotes 2, 3, and 4 of 9-ADIT-2 indicate the amortization periods of the unprotected EDADIT amounts as required by category (5), Paragraph 52 of Order 864. In addition, the amortization periods are pursuant to terms in SCE's Offer of Settlement (the "Settlement") submitted in Docket Nos. ER18-169-000 and EL18-44-000 and accepted by the Commission on December 3, 2019⁷ as fair and reasonable and in the public interest; and are consistent with Paragraphs 46 and 47 of Order 864. Under the terms of the Settlement, Unprotected – Property Related EDADIT amounts are being amortized over a four-year period beginning in the 2018 true-up mechanism;⁸ and Unprotected – Non-Property Related EDADIT amounts has been fully amortized in one year with the 2018 true-up mechanism.⁹ Because SCE's Formula Rate returns the unprotected net excess ADIT to customers under these accelerated periods pursuant to the Commission's accepted Settlement terms, the Commission should find that the amortization periods are just and reasonable, as provided in Paragraph 104 of Order 864.
14. Finally, 9-ADIT-2 and 9-ADIT-3 have their own separate permanent schedules in SCE's Formula Rate as required by Paragraph 5 of Order 864.

IV. SCE'S EXISTING FORMULA RATE INCLUDES MECHANISMS THAT ALREADY SATISFY THE REQUIREMENTS OF ORDER 864 TO AMORTIZE EDADIT INTO RATES AND TO ADJUST RATE BASE FOR UNAMORTIZED EDADIT BALANCES

15. On January 4, 2019, the Commission accepted SCE's tariff revisions in Docket Nos. ER18-2440-000 and ER18-2440-001 that incorporated changes into SCE's Formula Rate resulting from the TCAJA.¹⁰ The changes accepted by the Commission included the re-measured ADIT balances at the new rate of 21% and a new tax-related adjustment to rate base¹¹ to reflect the net excess ADIT caused by the tax rate change as a result of the

⁷ *S. Cal. Edison Co.*, 169 FERC ¶ 61,177 (2019).

⁸ The Settlement terms note that SCE is currently awaiting Internal Revenue Service guidance on the appropriate ratemaking treatment of the cost-of-removal deficient ADIT.

⁹ See Dkt. No. ER18-169-000, SCE's Offer of Settlement (submitted Sept. 17, 2019) at Section 1.11. See also *S. Cal. Edison Co.*, 169 FERC ¶ 63,009 (2019), Certification of Uncontested Settlement (issued Oct. 22, 2019) at P 22.

¹⁰ *S. Cal. Edison Co.*, 166 FERC ¶ 61,006 (2019).

¹¹ See Line 4, Column 2 of SCE's existing Schedule 9-ADIT.

TCAJA, as later required by Paragraphs 28 and 29 of Order 864. In addition, SCE's existing Formula Rate already includes, in its calculation of income tax expense, a line-item for the amortization of any net EDADIT¹² resulting from the TCAJA and any other subsequent tax rate change, as required by Paragraphs 42 and 43 of Order 864.

V. **ADDITIONAL PROPOSED ANCILARY CHANGES TO ALIGN SCE'S FORMULA RATE WITH ORDER 864**

16. Existing Schedule 9-ADIT in SCE's Formula Rate is re-labeled as "9-ADIT-1" in order to accommodate the two new EDADIT Worksheets described herein into SCE's Formula Rate.
17. Line 4, Column 1 of Schedule 9-ADIT-1 is re-labeled as "Net (Excess)/Deficient Deferred Tax Liability/Asset" from its current label as "Net Excess/Deficient Deferred Tax Liability/Asset – 2017 TCAJA" in order to reflect all future tax rate changes on this line as required by Paragraphs 28 and 29 of Order 864.
18. The source to the input on Line 4, Column 2 of Schedule 9-ADIT-1 is revised to allow more specificity regarding which pages of FERC Form 1 the amount is extracted from. The revised reference reads "FF1 278.x and 232.x, see reference to right and Note 4," which will allow reference to the specific subpage numbers of the appropriate FERC Accounts in FERC Form 1. This format is necessary since the subpage numbers for the net input amount can move from one subpage number to another each year in FERC Form 1.
19. Note 4 of Schedule 9-ADIT-1 is revised to make the reference universal for both "excess" ADIT as well as "deficient" ADIT. The revised Note 4 reads: "The net excess/deficient is derived from the net difference arising in the asset Account 182.3 balance that is offset by balances in liability Account 254."
20. Note 5 in Schedule 9-ADIT-1 ("SCE must submit a Federal Power Act Section 205 filing to obtain Commission approval prior to reflecting in rates any regulatory assets and liabilities arising from future tax changes") is deleted to reflect the Commission's determination in Paragraph 69 of Order 864 that public utilities with formula rates will no longer be required to make FPA Section 205 filings to include EDADIT in rates as a result of any future income tax rate change.


¹² See Line 60 of SCE's existing Schedule 1-BaseTRR.

21. The description on Line 60 of Schedule 1-BaseTRR is revised to state “Amortization of Net (Excess)/Deficient Deferred Taxes” from previous “Amortization of Excess Deferred Tax Liability.”
22. The value on Line 60 of Schedule 1-BaseTRR (“Amortization of Net (Excess)/Deficient Deferred Taxes”) is now linked to the Grand Total amount on Line 500, Column (7) of Schedule 9-ADIT-2 to reflect the EDADIT amortization as required by Paragraphs 42 and 43 of Order 864, and the related “Note 3” reference in the “Note” Column of Schedule 1-BaseTRR is deleted with a new reference in the “FERC Form 1 Reference or Instructions” Column to Line 500, Column (7) of Schedule 9-ADIT-2.
23. The description on Line 13 of 1-BaseTRR is revised to state “Accum Net ADIT (Liab)/Asset and Net (Excess)/Deficient ADIT Amount” from previous “Accumulated Deferred Income Tax.” Deleted “Negative amount” in “Notes” column, Line 13 of 1-BaseTRR

VI. CONCLUSION

24. SCE’s existing Formula Rate as described in Section IV herein and as accepted by the Commission in Docket Nos. ER18-2440-000 and ER18-2440-001 that incorporated changes resulting from the TCAJA, coupled with the inclusion of the proposed new permanent Schedules 9-ADIT-2 and 9-ADIT-3 into SCE’s Formula Rate as described in Section III herein along with the ancillary revisions described in Section V, provide a revised Formula Rate that satisfies all of the requirements of Order 864.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on this 29th day of April, 2020, at Temple City, California.



Alfred L. Lopez