
November 2, 1998

ADVICE 1344-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: **Performance-Based Ratemaking (PBR) Distribution Rates**

In compliance with Decision No. 96-09-092 (D.96-09-092), dated September 20, 1996, Southern California Edison Company (SCE) hereby transmits for filing the following changes in its tariff schedules. The revised tariff sheets are listed on Attachment A and are attached hereto.

PURPOSE

This advice filing revises various parts of SCE's Preliminary Statement to change references from "Nongeneration" PBR to "Distribution" PBR.

BACKGROUND

In D.96-09-092, the California Public Utilities Commission (Commission) adopted a rate index mechanism for SCE to recover its nongeneration base rate revenue requirement, through December 31, 2001. D.96-09-092 also provided guidelines for a distribution-only PBR, since the Commission anticipated that the Federal Energy Regulatory Commission (FERC) would subsequently assume jurisdiction over SCE's transmission revenue requirement, and SCE's total nongeneration revenue requirement would be separated into a transmission-only and a distribution-only revenue requirement.^{1/} In addition, the Commission in Decision No. 97-04-067 dated April 23, 1997 vacated the requirement that SCE file a new distribution-only PBR application because D.96-09-092 already provided for the adaptation of a nongeneration PBR to a distribution-only PBR.

^{1/} D.96-09-092, page 2.

The FERC assumed jurisdiction over SCE's transmission revenue requirement on April 1, 1998. Accordingly, this advice filing revises references from "nongeneration" PBR to "distribution" PBR in the following Preliminary Statements: 1) Part BB, PBR Distribution Rate Adjustment Mechanism (PDRAM) (formerly Nongeneration Base Rate Adjustment Mechanism (NBRAM)); 2) Part CC, PBR Distribution Rate Performance Mechanism (PDRPM) (formerly Base Rate Performance Mechanism (BRPM)); 3) Part DD, Cost of Capital Trigger Mechanism; 4) Part N, Memorandum Accounts, PBR Distribution Revenue Sharing Memorandum Account (formerly Nongeneration Revenue Sharing Memorandum Account); and 5) Part N, Memorandum Accounts, PBR Distribution Rate Performance Memorandum Account (PDRPMA) (formerly Base Rate Performance Memorandum Account (BRPMA)).

As discussed above, the FERC assumed jurisdiction over SCE's transmission revenue requirement on April 1, 1998. Therefore, SCE, in its Performance Based Ratemaking Performance Report for 1998, that will be filed in March, 1999, will include nongeneration data for the months of January through March, 1998, and PBR Distribution-related data for the months of April through December, 1998.

EFFECTIVE DATE

This advice filing is made in compliance with D.96-09-092 and no resolution is required. It is requested that this advice filing become effective on the 40th day after the date filed, which is December 12, 1998.

NOTICE

Anyone wishing to protest this advice filing may do so by sending a letter no later than 20 days after the date of this advice filing. Protests should be mailed to:

IMC Program Manager
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 4002
San Francisco, California 94102
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above), and Donald A. Fellows, Manager of Revenue and Tariffs, Southern California Edison Company, 2244 Walnut Grove Avenue, Rosemead, California 91770, Facsimile (626) 302-4829. There are no restrictions on who may file a protest, but the protest shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

In accordance with Section III, Paragraph G, of General Order No. 96-A, SCE is mailing copies of this advice filing to the interested parties shown on the attached service list and A.93-12-029. Address change requests should be directed to Emelyn Lawler at (626) 302-3985.

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice filing open for public inspection at SCE's corporate headquarters.

Southern California Edison Company

Donald A. Fellows, Jr.

DAF:dan:1344-e.doc
Enclosures

cc: CPUC, SF - Attn: Elena Schmid, ORA

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 25205-E	Preliminary Statement, Part N	Revised 23405-E*
Revised 25206-E	Preliminary Statement, Part N	Revised 22377-E
Revised 25207-E	Preliminary Statement, Part N	Revised 22378-E*
Revised 25208-E	Preliminary Statement, Part BB	Original 21390-E
Revised 25209-E	Preliminary Statement, Part BB	Revised 23710-E
Revised 25210-E	Preliminary Statement, Part BB	Revised 23711-E
Revised 25211-E	Preliminary Statement, Part BB	Original 21393-E
Revised 25212-E	Preliminary Statement, Part BB	Original 21394-E
Revised 25213-E	Preliminary Statement, Part BB	Revised 22516-E
Revised 25214-E	Preliminary Statement, Part BB	Original 21396-E
Revised 25215-E	Preliminary Statement, Part BB	Original 21397-E
Revised 25216-E	Preliminary Statement, Part BB	Revised 22179-E
Revised 25217-E	Preliminary Statement, Part BB	Original 21399-E
Revised 25218-E	Preliminary Statement, Part BB	Original 21400-E
Revised 25219-E	Preliminary Statement, Part BB	Original 21401-E
Revised 25220-E	Preliminary Statement, Part CC	Revised 22180-E
Revised 25221-E	Preliminary Statement, Part CC	Revised 22181-E
Revised 25222-E	Preliminary Statement, Part CC	Revised 22182-E
Revised 25223-E	Preliminary Statement, Part CC	Revised 22183-E
Revised 25224-E	Preliminary Statement, Part CC	Revised 22184-E
Revised 25225-E	Preliminary Statement, Part CC	Revised 22185-E
Revised 25226-E	Preliminary Statement, Part CC	Revised 22186-E
Revised 25227-E	Preliminary Statement, Part CC	Revised 22187-E
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Revised 25229-E	Preliminary Statement, Part CC	Revised 22189-E
Revised 25230-E	Preliminary Statement, Part CC	Revised 22190-E
Revised 25231-E	Preliminary Statement, Part CC	Revised 22191-E
Revised 25232-E	Preliminary Statement, Part CC	Revised 22192-E
Revised 24233-E	Preliminary Statement, Part CC	Revised 22193-E
Revised 25234-E	Preliminary Statement, Part DD	Original 21415-E
Revised 25235-E	Preliminary Statement, Part DD	Original 21417-E
Revised 25236-E	Preliminary Statement, Part DD	Original 21419-E
Revised 25237-E	Table of Contents	Revised 24905-E
Revised 25238-E	Table of Contents	Revised 25103-E



PRELIMINARY STATEMENT
(Continued)

N. MEMORANDUM ACCOUNTS (Continued)
2. Definitions. (Continued)
d. Specified Project (Continued)

<u>Section No.</u>	<u>Specified Project</u>	<u>Interest Bearing Memorandum Account*</u>
(1)	Not Used	
(2)	Not Used	
(3)	Women, Minority, and Disabled Veterans Business Enterprises	Yes
(4)	Catastrophic Event	Yes
(5)	Electric and Magnetic Field Experimental Research Balancing Account	Yes
(6)	Local Area Revenue Mechanism	Yes
(7)	El Paso Electric Bankruptcy	No
(8)	Not Used	
(9)	Disputed Arizona Property Taxes	Yes
(10)	Research, Development, and Demonstration Royalties	Yes
(11)	Demand Side Management Tax Change Memorandum Account	Yes
(12)	Electric and Magnetic Fields Memorandum Account	Yes
(13)	Arbitration Memorandum Account	Yes
(14)	Income Tax Component of Contribution Memorandum Account	Yes
(15)	Demand Side Management Earnings Memorandum Account	Yes
(16)	TOU-PA-6 Memorandum Acct.	Yes
(17)	Electric Vehicle Memorandum Account	Yes
(18)	Independent System Operator Memorandum Account (ISO Memorandum Account)	Yes
(19)	Power Exchange Memorandum Account (PX Memorandum Account)	Yes
(20)	Transition Cost Audit Memorandum Account (TCA Memorandum Account)	Yes
(21)	Divestiture of Fossil Generation Memorandum Account (DFG Memorandum Account)	Yes
(22)	Telecommunication Lease Revenue Memorandum Account (TLR Memorandum Account)	Yes
(23)	Competition Transition Charge Exemption Memorandum Account (CTCE Memorandum Account)	Yes
(24)	Industry Restructuring Memorandum Account (IR Memorandum Account)	Yes
(25)	PBR Distribution Revenue Sharing Memorandum Account	Yes
(26)	PBR Distribution Rate Performance Memorandum Account (PDRPMA)	Yes
(27)	Secondary Land Use Revenue Memorandum Account (SLUR Memorandum Account)	Yes
(28)	Interim Direct Access Memorandum Account (IDA Memorandum Account)	Yes
(29)	Reduced Return On Equity Memorandum Account (RROE Memorandum Account)	Yes
(30)	Rate Reduction Bond Memorandum Account (RRB Memorandum Account)	Yes
(31)	Risk Management Tools Memorandum Account (RMTMA Memorandum Account)	Yes
(32)	Flexible Pricing Options (FPO)/Competition Transition Charge (CTC) Memorandum Account (FPO/CTC Memorandum Account)	Yes
(33)	Kramer-Victor Memorandum Account	No

(T)
(T)

* Interest shall accrue monthly to interest-bearing Memorandum Accounts by applying the Interest Rate to the average of the beginning and ending balance.

(Continued)

(To be inserted by utility)
Advice 1344-E
Decision 96-09-092
1344e.doc (2)

Issued by
John Fielder

Senior Vice President

(To be inserted by Cal. PUC)
Date Filed Nov 02, 1998
Effective _____
Resolution _____

PRELIMINARY STATEMENT

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

24. Industry Restructuring Memorandum Account (IR Memorandum Account)
(Continued)

The IR Memorandum Account consists of the following subaccounts: (Continued)

The monthly capital-related revenue requirement shall be the sum of 1) recorded depreciation expense; 2) return on investment at one-twelfth of the annual non-generation rate of return last adopted for Edison by the CPUC multiplied by net rate base (gross plant less accumulated depreciation and accumulated net deferred income taxes); 3) recorded federal and state income taxes including all applicable statutory adjustments; and 4) recorded property taxes on the plant assets associated with these memorandum subaccounts.

The costs recorded in the IRMA Subaccounts (except as recorded in subaccounts a., e., f., g., h., i., j., and k.), shall exclude Company labor and labor-related expenses, except as authorized by the Commission.

Interest shall accrue monthly to the sum of the above subaccounts by applying the interest rate to the average of the beginning and ending balance.

The Company may, at its discretion, record the balance in the IR Memorandum Account as a deferred debit on its balance sheet with entries to the appropriate income statement accounts, as necessary.

The Company may request recovery of the balance in the IR Memorandum Account by separate application or any other means deemed appropriate by the Commission including but not limited to recovery through the Competition Transition Charge.

25. PBR Distribution Revenue Sharing Memorandum Account (T)

The Utility shall maintain a PBR Distribution Revenue Sharing Memorandum (T)
Account. The purpose of the PBR Distribution Revenue Sharing Memorandum (T)
Account is to record revenues which are in excess of the 6.00 percent range (T)
applicable to the PBR Distribution Rate Revenue Sharing Mechanism, as set forth in (T)
Part CC of the Preliminary Statement. If at any time the Recorded Rate of Return
should exceed the Benchmark Rate of Return, either positive or negative, by 600
basis points (6%) or more, the Utility shall begin recording revenues associated with (T)
the Rate of Return in excess of the 600 basis point variance in the PBR Distribution (T)
Revenue Sharing Memorandum Account.

The account shall accrue interest, on a monthly basis, by applying the Interest Rate (T)
to the average of the beginning and ending monthly balance in the PBR Distribution (T)
Revenue Sharing Memorandum Account.

(Continued)



PRELIMINARY STATEMENT
(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

- 25. PBR Distribution Revenue Sharing Memorandum Account (Continued) (T)

Disposition of the recorded balance in the account shall either be determined pursuant to the Commission's decision rendered in the Company's application for reconsideration of the PBR Distribution Rate Adjustment Mechanism (PDRAM) and the PBR Distribution Rate Revenue Sharing Mechanism filed pursuant to D.96-09-092 or disposition of amounts in this account shall be determined in the annual Revenue Adjustment Proceeding (RAP) or other proceeding expressly authorized by the Commission. (T)

- 26. PBR Distribution Rate Performance Memorandum Account (PDRPMA) (T)

The Utility shall maintain a PBR Distribution Rate Performance Memorandum Account (PDRPMA). The purpose of the PDRPMA is to record revenue sharing resulting from the PBR Distribution Rate Revenue Sharing Mechanism and all rewards and penalties resulting from the application of the: (1) Customer Satisfaction, (2) Average Customer Minutes of Interruption (ACMI), (3) Outage Frequency, and (4) Employee Health and Safety performance mechanisms as set forth in Preliminary Statement Part CC, "PBR Distribution Rate Performance Mechanism". Balances in the account may not be carried over to affect rates following the transition period, and during the transition period, shall be added to or subtracted from total billed revenues in calculating revenues available to offset uneconomic generation costs. Disposition of amounts in this account shall be determined in the annual Revenue Adjustment Proceeding (RAP) or other proceeding expressly authorized by the Commission. Entries shall be made to the PDRPMA on a monthly basis and shall include: (T)

- a) The annual rewards or penalties included in the Utility's annual March 31 filing in compliance with Decision 96-09-092 as set forth in Preliminary Statement Part CC, PBR Distribution Rate Performance Mechanism. (T)
- b) Any revisions to the annual rewards or penalties as may be ordered by the Commission.

Interest shall accrue to the memorandum account monthly by applying the Interest Rate to the average of the beginning and ending balance.

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 1 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (T)

1. Purpose.

The purpose of the PBR Distribution Rate Adjustment Mechanism (PDRAM) is to (T)
annually adjust the PBR Distribution Rates for escalation and a specified Productivity (T)
Pledge as authorized in Decision No. 96-09-092. The PDRAM shall be effective (T)
from January 1, 1997 through December 31, 2001 as authorized by the Decision, or (T)
until such time as the PDRAM is modified or terminated by the Commission, and (T)
may remain in effect beyond December 31, 2001 if authorized by the Commission.

2. Applicability.

The PDRAM shall be used to adjust the PBR Distribution Rate component of the (T)
Distribution rate. (T)

3. Definitions.

a. Excluded Item:

An Excluded Item is any item for which the base rate revenue requirement (T)
associated with the exclusion is not subject to recovery through PBR (T)
Distribution Rates subject to the PDRAM. Rate recovery of Excluded Items (T)
may be determined in separate proceedings and shall be subject to recovery (T)
mechanisms other than PBR Distribution Rates. Excluded Items may be (T)
reflected in PBR Distribution Rates subject to Commission approval of a (T)
separate application. Table A identifies those items for which base rate (T)
revenue requirements shall be excluded from the PDRAM pursuant to (T)
Commission order.

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 2 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

a. Excluded Item: (Continued)

Table A
Excluded Items From The PDRAM (T)

<u>Excluded Items</u>	<u>Authorization for Separate Recovery Mechanism</u>	
1. Generation Revenue Requirements	D.96-09-092	
2. Hazardous Substance Clean-up Costs	D.94-05-020	
3. Low Emission Vehicles	D.95-11-035	
4. Additional Capital Recovery Amount and Reduced Capital Recovery Amount (ACRA/RCRA)	D.94-05-068	
5. 47% of Research Development and Demonstration (RD&D)	D.96-09-092	
6. PBR Distribution Rate Performance Memorandum Account (PDRPMA)	D.97-08-056	(T) (T)
7. PBR Distribution Revenue Sharing Memorandum Account	D.97-08-056	(T)
8. Optional Pricing Adjustment Clause (OPAC)	D.97-08-056	
9. Electric and Magnetic Fields Experimental Research Balancing Account	D.97-08-056	
10. Electric and Magnetic Fields Memorandum Account	D.97-08-056	
11. Non-Utility Affiliate Credit	D.97-08-056	
12. Catastrophic Event Memorandum Account	D.97-08-056	

b. Effective Date:

The Effective Date shall be January 1, 1997 pursuant to the Decision for revision of PBR Distribution Rates under the PDRAM. (T)

(Continued)



PRELIMINARY STATEMENT
 (Continued)

Sheet 3 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

c. Revision Date:

The Revision Date shall initially be the Effective Date. Thereafter, the Revision Date shall be January 1 of the Subject Year or such other date as authorized by the Commission for revision of PBR Distribution Rates under the PDRAM. (T)
 (T)

d. Current Year:

The Current Year shall be the present calendar year in which the Utility files for revisions to the PBR Distribution Rates under the PDRAM. (T)

e. Prior Year:

The Prior Year shall be the calendar year immediately preceding the Current Year.

f. Subject Year:

The Subject Year shall be the calendar year immediately following the Current Year.

g. Escalation Rate:

The Escalation Rate is that rate which shall be used to account for input price inflation in the determination of the PBR Distribution Rate Adjustment Factor (PDRAF). Recorded Escalation Rates and Forecast Escalation Rates shall be determined as follows: (T)
 (T)

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 4 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

g. Escalation Rate: (Continued)

(1) The Recorded Escalation Rate for the Current Year shall be equal to the percent change between the Prior Year's and the Current Year's simple average of the June and July "Unadjusted indexes" for "All items" of the "Consumers Price Index for All Urban Consumers, U.S. City Average" where the base period of 1982 through 1984 is set equal to 100, as published in Table 1 of the July release of the "U.S. Department of Labor, Bureau of Labor Statistics, CPI Detailed Report." Should publication of this data be discontinued, the Recorded Escalation Rate shall be calculated using the closest approximation of the discontinued indexes published in the "U.S. Department of Labor, Bureau of Labor Statistics, CPI Detailed Report" or its successor publication. Should the base period be revised to other than 1982 through 1984, the Utility shall accordingly use indexes with the corresponding new base periods for derivation of the Recorded Escalation Rate.

(2) The Forecast Escalation Rate for the Subject Year shall be calculated as follows:

(a) Calculate the simple average of the Current Year's June and July "Unadjusted indexes" for "All items" of the "Consumers Price Index for All Urban Consumers, U.S. City Average" where the base period of 1982 through 1984 is set equal to 100, as published in the July release of the "U.S. Department of Labor, Bureau of Labor Statistics, CPI Detailed Report".

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PRELIMINARY STATEMENT
(Continued)

Sheet 5 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

g. Escalation Rate: (Continued)

(2) The Forecast Escalation Rate for the Subject Year shall be calculated as follows: (Continued)

(b) Calculate the simple average of the second and third quarter forecasts for the Subject Year of the "Consumer Price Index (All Urban) - All Items" where the base period of 1982 through 1984 is set equal to 1.0, as published in the "CONTROL" forecast of the September release of the Current Year's "DRI / McGraw-Hill, Review of the U.S. Economy" under the variable name "CPI" in the "Technical Appendix/Variable Description." Should publication of this data be discontinued, the Forecast Escalation Rate shall be calculated using the closest approximation of the discontinued indexes published in the "DRI / McGraw-Hill, Review of the U.S. Economy" or its successor publication. Multiply this average by 100 to place it on a comparable basis with the average calculated in g.(2)(a) above.

Should the base period for the "CPI Detailed Report Data" referenced above be revised to other than 1982 through 1984, the Utility shall accordingly use indexes with corresponding new base periods for derivation of the Forecast Escalation Rate.

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PRELIMINARY STATEMENT
(Continued)

Sheet 6 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

g. Escalation Rate: (Continued)

(2) The Forecast Escalation Rate for the Subject Year shall be calculated as follows: (Continued)

(c) Calculate the percent change from (2)(a) to (2)(b) above.

The Recorded Escalation Rate and Forecast Escalation Rate for each year are set forth in Table B below:

Table B
Escalation Rates

<u>Year</u>	<u>Forecast Escalation Rate</u>	<u>Recorded Escalation Rate</u>
1997	3.03%	2.26%
1998	2.43%	

h. Productivity Pledge:

The annual Productivity Pledge (X-Factor) for PBR Distribution Rates as adopted in Decision No. 96-09-092 is 1.2 percent for 1997, 1.4 percent for 1998, 1.6 percent for 1999 through 2001. (T)

i. Update Rule:

The Update Rule is the mechanism authorized under the Utility's Distribution PBR that allows for the application of an annual PDRAF to the PBR Distribution Rates. The Update Rule allows for PBR Distribution Rate level changes based on the annual change in escalation as measured by the Consumer Price Index (CPI), modified by the Productivity Pledge. (T)

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PRELIMINARY STATEMENT
(Continued)

Sheet 7 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

i. Update Rule: (Continued)

In the development of the factors used within the Update Rule (3.j., 3.k. and 3.l below), the following notations apply:

where:

Subscript "s" reflects a Subject Year value;
Subscript "c" reflects a Current Year value;
Lower case "f" reflects a Forecast value; and
Lower Case "r" reflects a Recorded value.

j. Update Factor:

The Update Factor (UF) is the annual multiplier developed through the Update Rule that, when applied to the PBR Distribution Rate components, will revise the PBR Distribution Rate levels to account for input price inflation (as measured by the Forecast Escalation Rate), less the Productivity Pledge. The Update Factor for the Subject Year is expressed as 1 plus the Forecast Escalation Rate for the Subject Year (expressed as "fER_s"), less the Productivity Pledge for the Subject Year (expressed as "X_s"), or: (T)

$$UF_s = 1.0 + fER_s - X_s$$

k. Correction Factor:

The Correction Factor (CF) for the Subject Year (CF_s) is the annual multiplier developed through the Update Rule that, when applied to the PBR Distribution Rate components, will correct for the ratio between: the forecast escalation rate (ER) included in the Update Factor for the Current Year and the recorded ER for the Current Year. The Correction Factor is expressed as: (1) the quantity 1 plus the recorded ER for the Current Year minus the Productivity Pledge for the Current Year (X_c), divided by (2) the quantity 1 plus the forecast ER for the Current Year (rER_c) minus the Productivity Pledge for the Current Year, or: (T)

$$CF_s = (1.0 + rER_c - X_c) / (1.0 + fER_c - X_c)$$

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 8 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

3. Definitions. (Continued)

I. PBR Distribution Rate Adjustment Factor (PDRAF): (T)

The PDRAF is the annual multiplier developed through the Update Rule to be applied to the PBR Distribution Rate components to determine the PBR Distribution Rate levels that shall be applicable for service rendered on and after the Revision Date each year through 2001. The PDRAF is the combination of the Update Factor and the Correction Factor and shall be expressed as the Update Factor multiplied by the Correction Factor, or: (T)

$$\text{PDRAF} = \text{UF}_s \times \text{CF}_s \quad (T)$$

m. Z-Factor:

A Z-Factor is a specifically identified external event, or events, which arise from the same proximate cause, pertaining to Distribution activities which: (1) have a financial impact on the operation of the Utility in excess of \$10 million over any consecutive 12-month period; and (2) has met the nine Z-Factor criteria set forth in the PDRAM. (T)

n. Potential Z-Factor:

A Potential Z-Factor is an event, or events, resulting from the same proximate cause, pertaining to Distribution activities that have been identified by the Utility or the Office of Ratepayer Advocates (ORA) as potentially qualifying for Z-Factor recovery for which the Commission has been properly notified in accordance with the PDRAM. (T)

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 9 of 12

- BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)
4. Calculation of the PBR Distribution Rate Adjustment Factor (PDRAF). (T)
- On an annual basis, the Utility shall calculate the PDRAF as set forth herein for the Subject Year (PDRAF) to adjust PBR Distribution Rates effective for service rendered on and after the Revision Date for the Subject Year. The Utility shall file an Advice Letter by November 1 of each year, commencing in 1997, setting forth the application of the PDRAM. (T)
5. Application of the PDRAF to PBR Distribution Rates. (T)
- The PDRAF will be applied to the Distribution customer, facilities-related demand, time-related demand, and base energy rates for the Current Year, to arrive at the PBR Distribution Rates for the Subject Year. In the event that adjustments to the PBR Distribution Revenue Requirement are adopted, the Current Year PBR Distribution Rates will be adjusted to reflect the adopted PBR Distribution Revenue Requirement before the PDRAF is applied. In order to be in conformance with the rate freeze mandated by Section 368 of the Public Utilities Code, customer, facilities-related demand, and time-related demand charges cannot be changed from levels in effect on June 10, 1996. Thus, the amount of incremental revenue generated by applying the PDRAF to customer, facilities-related demand and time-related demand charges is calculated based on adopted billing determinants. This incremental revenue is converted to a cents per kWh factor for each rate schedule and added to the PBR Distribution rate for the Subject Year. The Generation Rates, as set forth in the Rate Components Table of the customers' applicable tariff, are adjusted by an equal and opposite amount so that total energy rates do not change. (T)

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 10 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

6. Z-Factors.

In order to receive the ratemaking treatment provided under Decision No. 96-09-092 for a Z-Factor, a Potential Z-Factor, must qualify as a Z-Factor under the nine criteria set forth in Decision No. 94-06-011. Table C lists the nine criteria under which a Potential Z-Factor will qualify as a Z-Factor:

Table C
Z-Factor Criteria

1. The event causing the cost must be exogenous to the Utility.
2. The event must occur after implementation of the PBR.
3. The Utility cannot control the costs.
4. The costs are not a normal part of doing business.
5. An event affects the Utility disproportionately.
6. The PBR Update Rule must not implicitly include the cost.
7. The cost must have a major impact on the Utility.
8. The cost impact must be measurable.
9. The Utility must incur the cost reasonably.

a. Identification of Potential Z-Factors:

A Potential Z-Factor may be identified by the Utility or the Office of Ratepayers Advocates (ORA). The Commission shall be notified of all Potential Z-Factors by a Letter of Notification in compliance with Decision No. 96-09-092. The Letter of Notification shall be sent to the Commission addressed to the Executive Director. For all Potential Z-Factors identified by the Utility, copies of the letter shall be sent to the Director of the Energy Division and the Director of the ORA. For all Potential Z-Factors identified by the ORA, copies of the Letter of Notification shall also be sent to the Vice President of Regulatory Policy and Affairs and the Manager of the Revenue and Tariffs Division of the Utility. The Letter of Notification shall:

- (1) clearly identify the Potential Z-Factor,
- (2) include a detailed description of the event,
- (3) include a forecast of the annual financial impact of the Potential Z-Factor; and
- (4) show how the Potential Z-Factor meets the Z-Factor Criteria listed above in Table C.

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 11 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

6. Z-Factors. (Continued)

b. Application for Z-Factor Recovery:

In order to receive recovery of a Z-Factor through PBR Distribution Rates, the Utility shall include its request for recovery of the revenue requirement associated with the Potential Z-Factor in its annual March 31 filing as required under the Distribution PBR Mechanism. (T)

c. Z-Factor Threshold:

The Utility will bear the risk of all potential Z-Factors which do not have a financial impact on the Utility of more than \$10 million. The \$10 million threshold amount is also applied as a deductible on a one-time basis to each Z-Factor authorized for recovery by the Commission. The deductible amount is only applied in the first year's ratemaking treatment for the Z-Factor. The \$10 million deductible does not apply to the formation of new municipal utilities and for projects subject to Public Utilities Code Section 463 for which the Utility is seeking Z-Factor recovery. (T)

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 12 of 12

BB. PBR DISTRIBUTION RATE ADJUSTMENT MECHANISM (PDRAM) (Continued) (T)

7. Reporting Requirements.

- a. An Advice Letter in compliance with Decision No. 96-09-092 shall be submitted no later than November 1 annually. The Advice Letter shall set forth:
- (1) The PDRAF for the Subject Year resulting from the application of the PDRAM; (T)
 - (2) Determination of PBR Distribution Rate levels for the Subject Year through application of the PDRAF to the PBR Distribution Rates of the Current Year; and (T)
 - (3) Operation of the Cost of Capital Trigger Mechanism, described under Preliminary Statement, Part DD, Cost of Capital Trigger Mechanism. (T)
- b. The Utility shall also make an annual filing on March 31 for each year that the Distribution PBR Mechanism is in effect. The March 31 filing will include: (T)
- (1) The Utility's request, if any, for recognition of and recovery of Potential Z-Factors; and (T)
 - (2) Details of the operation of the Utility's PBR Distribution Rate Performance Mechanism as set forth in the Utility's Preliminary Statement, Part CC, PBR Distribution Rate Performance Mechanism (PDRPM). (T)
- c. Other filings may be made as necessary to reflect changes in Excluded Items initially established in accordance with Commission Decision No. 96-09-092. Such filings will address any changes necessary to the PDRAM to reflect the addition of or elimination of Excluded Items, and their effect on Distribution Rates. (T)

Changes to PBR Distribution Rates pursuant to a., b., and c. above shall be effective on the Revision Date of the Subject Year. Commission decisions rendered subsequent to November 1 of the Current Year and prior to the Revision Date in the Subject Year shall be properly reflected in the adopted PBR Distribution Rates for the Subject Year. (T)



PRELIMINARY STATEMENT
(Continued)

Sheet 1 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (T)

1. Purpose.

The purpose of the PBR Distribution Rate Performance Mechanism (PDRPM) is to (T)
implement the net revenue sharing mechanism for Performance Based Ratemaking (T)
(PBR) Distribution Rate revenues and to provide for rewards and penalties based on (T)
the Utility's recorded performance measured against established criteria in the
following four categories: (1) Customer Satisfaction; (2) Average Customer Minutes of
Interruptions (ACMI); (3) Outage Frequency; and (4) Employee Health and Safety.

2. Definitions.

a. Current Year:

The Current Year shall be the present calendar year in which the Utility files the
March 31 Advice Letter for the Prior Year.

b. Prior Year:

The Prior Year shall be the calendar year immediately preceding the Current
Year.

c. Benchmark Return on Equity:

The Benchmark Return on Equity for each year shall be equal to the Authorized
Return on Equity adjusted by the Cost of Capital Trigger Mechanism, as set forth
in Preliminary Statement, Part DD, Cost of Capital Trigger Mechanism. The
Benchmark Return on Equity for each year is set forth in Table A below:

Table A
Benchmark Return on Equity

<u>Year</u>	<u>Benchmark Return on Equity</u>
1997	11.60 percent
1998	11.60 percent

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 2 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

2. Definitions. (Continued)

d. Recorded PBR Distribution Rate Base: (T)

The Recorded PBR Distribution Rate Base shall be calculated in accordance with the Commission-approved methods specified in Decision No. 96-01-011 and Decision No. 96-09-092. (T)

e. Recorded PBR Distribution Common Equity: (T)

The Recorded PBR Distribution Common Equity shall be calculated by multiplying the Recorded PBR Distribution Rate Base by the share of common equity in the Utility's authorized capital structure as adopted in Decision 96-11-060 in A.96-05-023. (T)

f. Recorded PBR Distribution Return on Equity: (T)

The Recorded PBR Distribution Return on Equity shall be calculated by subtracting the Utility's costs of providing Distribution services (including income taxes and a component for Franchise Fees and Uncollectible Accounts expense) from the Distribution-related revenues received by the Utility and then dividing by the Recorded PBR Distribution Common Equity. The costs of providing Distribution services shall be calculated in accordance with the Commission's methodology adopted in Decision No. 96-01-011 and Decision No. 96-09-092. Interest costs and the costs of preferred equity shall be calculated using the cost of long-term debt and the cost of preferred stock adopted in Decision No. 96-11-060 in A.96-05-023 and the capital structure adopted by the Commission in the same decision. Income taxes, certain other taxes, and the cost of franchise fees and uncollectibles shall be calculated using the most recent factors adopted by the Commission. The PBR Distribution-related revenues received by the Utility shall be the revenues recorded in the Revenue Sharing Tracking Account maintained in this section of the Preliminary Statement, Part 4. The following shall be excluded from the calculation of the Recorded PBR Distribution Return on Equity: (T)

- (1) Rewards and penalties associated with Commission adopted incentive mechanisms shall be excluded;

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 3 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

2. Definitions. (Continued)

f. Recorded PBR Distribution Return on Equity: (Continued) (T)

(2) Revenues and costs associated with the operation of Edison Pipeline Terminal Utility, in accordance with Decision No. 94-10-044, in which the Commission adopted specific revenue sharing; and

(3) The Net Incremental Revenue Change associated with Flexible Pricing Options in accordance with the specific revenue sharing adopted in Decision No. 96-08-025.

g. Net-To-Gross Multiplier:

The Net-To-Gross Multiplier is used to derive the incremental change in required operating revenue resulting from a required change in net revenue. The initial value for the Net-To-Gross Multiplier shall be as adopted in Decision No. 96-01-011. The Utility may file an advice letter to adjust the Net-To-Gross Multiplier for any changes in tax rates, franchise fees or uncollectible accounts expense. Table B sets forth the Net-To-Gross Multiplier for each year:

Table B
Net-To-Gross Multiplier

<u>Year</u>	<u>Net-To-Gross Multiplier</u>	<u>Authorization</u>
1997	1.8045	D.96-01-011
1998	1.8045	D.96-01-011

h. Recorded PBR Distribution-related Other Operating Revenue (OOR): (T)

Recorded PBR Distribution-related OOR shall be the PBR Distribution (T)
 revenue received from sources other than sales of electricity. PBR (T)
 Distribution-related OOR that is currently subject to specific ratemaking (T)
 treatment pursuant to Commission orders shall be excluded from the (T)
 Recorded PBR Distribution-related OOR. (T)

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 4 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

2. Definitions. (Continued)

i. PBR Distribution-related Recorded Level of Revenue: (T)

The PBR Distribution-related Recorded Level of Revenue shall be derived (T)
based on PBR Distribution component of the Distribution rates and charges |
set forth in the Rate Components Table of the customers' applicable tariff. |
The PBR Distribution Rates and charges have been developed to collect the |
Utility's PBR Distribution-related Authorized Revenues subject to the |
Distribution PBR Mechanism. (T)

3. PBR Distribution Rate Revenue Sharing Mechanism. (T)

The PBR Distribution Rate Revenue Sharing Mechanism will compare the Recorded (T)
PBR Distribution Return on Equity for the Prior Year with the Benchmark Return on |
Equity for the Prior Year to determine the net revenues, if any, to be shared with (T)
ratepayers. The amount to be shared, if any, shall be reported in the annual
March 31 filing in compliance with Decision No. 96-09-092. The net revenues
subject to sharing shall be determined as follows:

a. Determine the Equity Return Variance (ERV) by subtracting the Benchmark (T)
Return on Equity from the Recorded PBR Distribution Return on Equity. If
the resulting value is negative (recorded less than Benchmark), multiply the
value by (minus one).

b. If the ERV falls within the Inner Band by being equal to or less than 0.5
percent (or 50 basis points), there shall be no revenues subject to sharing.

c. If the ERV falls into the Middle Band by being greater than 0.5 percent
(50 basis points) but less than 3.0 percent (300 basis points), calculate the
Ratepayer Equity Sharing Percent (RESP) by subtracting 0.5 percent from
the ERV. The RESP cannot exceed 2.50 percent. If the ERV is in the
Middle Band, the Ratepayer Equity Factor (REF) shall be equal to the RESP
multiplied by 0.75 minus the square of the RESP multiplied by 15.

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 5 of 14

- CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)
- 3. PBR Distribution Rate Revenue Sharing Mechanism. (Continued) (T)
 - d. If the ERV is in the Upper Band by being greater than 3.00 percent (300 basis points), the REF shall equal 0.9375 percent.
 - e. Multiply the REF in 3.c. or 3.d. above by the Recorded PBR Distribution Common Equity as of December of the Prior Year. (T)
 - f. Multiply the result of 3.e. above by the Net-To-Gross Multiplier for the Prior Year.
 - g. If the Recorded PBR Distribution Return on Equity for the Prior Year is less than the Benchmark Return on Equity for the Prior Year, then multiply the value in 3.f. above by (minus one). (T)
 - h. The result of 3.g. above shall be credited if positive, or debited if negative, to the PBR Distribution Rate Performance Memorandum Account. (T)
 - i. If the ERV exceeds 6.00 percent (600 basis points), then an entry shall be made to the PBR Distribution Revenue Sharing Memorandum Account as follows: (T)
 - (1) Subtract 6.00 percent (600 basis points) from the ERV.
 - (2) Multiply the result of 3.i.(1) above by the Recorded PBR Distribution Common Equity as of December of the Prior Year. (T)
 - (3) Multiply the result of 3.i.(2) above by the Net-To-Gross Multiplier for the Prior Year.
 - (4) If the Recorded PBR Distribution Return on Equity for the Prior Year is less than the Benchmark Return on Equity for the Prior Year, then multiply the value in 3.i.(3) above by (minus one). (T)
 - (5) The result of 3.i.(4) above shall be credited if positive and debited if negative to the PBR Distribution Revenue Sharing Memorandum Account. (T)

(Continued)

PRELIMINARY STATEMENT
 (Continued)

Sheet 6 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

4. Revenue Sharing Tracking Account (RSTA).

The RSTA shall report the recorded revenue that is subject to the net revenue sharing mechanism set forth herein. Monthly entries to this account shall be equal to:

- (1) The PBR Distribution-related Recorded Level of Revenue, plus (T)
- (2) The Recorded PBR Distribution-related OOR. (T)

5. Customer Satisfaction Rating.

The Customer Satisfaction Rating shall measure the overall customer satisfaction with the Utility's service. The Customer Satisfaction Rating shall be measured on an annual basis by the Utility's ongoing Customer Satisfaction Survey program. The Customer Satisfaction Rating shall be expressed as the percent of customer responses (rounded to the nearest percent) in the top two of the six response categories in the Customer Satisfaction Survey. The Customer Satisfaction Rating used to determine any reward or penalty shall be a simple average of the customer responses (rounded to the nearest percent) in the top two of the six response categories of the four measured customer service functions for:

- a. field service and meter reading activities;
- b. in-person services;
- c. telephone center operations; and
- d. service planning activities.

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 7 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

5. Customer Satisfaction Rating. (Continued)

a. Customer Satisfaction Survey Penalty:

If the Customer Satisfaction Rating is less than 61 percent, a penalty will be assessed annually, as set forth in Table C below:

Table C
Customer Satisfaction Survey Penalty

<u>Customer Satisfaction Rating</u>	<u>Penalty (in millions)</u>
64% to 61%	\$ 0
60%	\$ (2)
59%	\$ (4)
58%	\$ (6)
57%	\$ (8)
56% or lower	\$(10)

b. Floor Penalty:

Separate from the Customer Satisfaction Survey Penalty, a Floor Penalty may be assessed annually based on the Customer Satisfaction Rating within the four areas being measured. If the measurement of customer satisfaction in any of the four customer service functions (rounded to the nearest percent) is less than 56 percent, a Floor Penalty will be assessed based on the worst performing area, as set forth in Table D below:

Table D
Customer Satisfaction Survey Floor Penalty

<u>Customer Satisfaction Rating</u>	<u>Floor Penalty (In millions)</u>
56% or higher	\$ 0
55%	\$ (2)
54%	\$ (4)
53%	\$ (6)
52%	\$ (8)
51% or lower	\$(10)

The actual penalty for the Utility will be the greater of the overall Customer Satisfaction Survey Penalty or the Floor Penalty.

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 8 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

5. Customer Satisfaction Rating. (Continued)

c. Customer Satisfaction Survey Reward:

If the average Customer Satisfaction Rating is more than 67 percent in the top two categories, the Utility will earn a reward annually, as set forth in Table E below:

Table E
Customer Satisfaction Survey Reward

<u>Customer Satisfaction Rating</u>	<u>Reward</u> <u>(In millions)</u>
64% to 67%	\$ 0
68%	\$ 2
69%	\$ 4
70%	\$ 6
71%	\$ 8
72% or higher	\$10

The rewards set forth in Table E above are not applicable if the average number responses for the four customer service functions reflect more than 10 percent of the customer responses (rounded to the nearest percent) in the bottom two of the six categories, or if a Floor Penalty is assessed.

As part of the March 31 Advice Filing, the Utility will report any changes in the scope of its customer services activities that result in elimination of specific transactions which are represented in the Customer Satisfaction Survey. The Utility will adjust the 64 percent customer satisfaction standard, if necessary, to maintain consistency with the ongoing measurement of customer satisfaction.

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 9 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

6. Average Customer Minutes of Interruptions (ACMI)

The ACMI shall measure customer service interruptions in terms of the average minutes of service interruptions per customer excluding all interruptions from events which produce an impact on system wide ACMI of more than five (5.0) minutes. The ACMI measure will be calculated as the rolling average of two successive years. The ACMI measure will have a performance standard of 59 minutes for the initial year of operation for the Utility's Distribution PBR Mechanism (1997) and will decline by two minutes per year thereafter through 2001. Since the ACMI requires a two-year average for measurement, 1998 will be the first year that a reward or penalty may be assessed. There shall be a "Dead Band" that extends 6 percentage points around the standard wherein there shall be no reward or penalty. (T)

A penalty will be assessed annually for an ACMI measurement that is in excess of the "Dead Band" for each year, as set forth in Table F below:

Table F
Service Reliability Penalty
2-year average ACMI Measure
(In minutes)

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Penalty</u> (In millions)
58 to 64	56 to 62	54 to 60	52 to 58	\$ 0
65	63	61	59	\$(1)
66	64	62	60	\$(2)
67	65	63	61	\$(3)
68	66	64	62	\$(4)
69	67	65	63	\$(5)
70	68	66	64	\$(6)
71	69	67	65	\$(7)
72	70	68	66	\$(8)
73	71	69	67	\$(9)
74	72	70	68	\$(10)
75	73	71	69	\$(11)
76	74	72	70	\$(12)
77	75	73	71	\$(13)
78	76	74	72	\$(14)
79	77	75	73	\$(15)
80	78	76	74	\$(16)
81	79	77	75	\$(17)
82 or more	80 or more	78 or more	76 or more	\$(18)

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 10 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

6. Average Customer Minutes of Interruptions (ACMI). (Continued)

If the Utility achieves an average ACMI of 55 minutes, or less, (rounded to the nearest minute) over the 5-year PBR cycle (1997 to 2001), any annual penalties assessed during that period shall be reversed.

The Utility will earn an annual reward for an ACMI measurement that is less than the "Dead Band" for each year, as set forth in Table G below:

Table G
Service Reliability Reward
2-year Average ACMI Measure
 (In minutes)

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Reward</u> (In millions)
58 to 52	56 to 50	54 to 48	52 to 46	\$ 0
51	49	47	45	\$ 1
50	48	46	44	\$ 2
49	47	45	43	\$ 3
48	46	44	42	\$ 4
47	45	43	41	\$ 5
46	44	42	40	\$ 6
45	43	41	39	\$ 7
44	42	40	38	\$ 8
43	41	39	37	\$ 9
42	40	38	36	\$10
41	39	37	35	\$11
40	38	36	34	\$12
39	37	35	33	\$13
38	36	34	32	\$14
37	35	33	31	\$15
36	34	32	30	\$16
35	33	31	29	\$17
34 or less	32 or less	30 or less	28 or less	\$18

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 11 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

7. Outage Frequency.

The Outage Frequency shall measure the number of circuit interruptions excluding all interruptions which have a duration of more than five (5.0) minutes. The Outage Frequency Performance Rating will be a two-year average. Since a two-year average is used for measurement, there will be no reward earned or penalty assessed until 1998. If the Outage Frequency Performance Rating rises above 12,000, a penalty will be assessed annually, as set forth in Table H below:

Table H
Outage Frequency Penalty

<u>Outage Frequency Performance Rating</u>	<u>Penalty (In millions)</u>
10,900 to 12,000	\$ 0
12,001 to 12,183	\$(1)
12,184 to 12,367	\$(2)
12,368 to 12,550	\$(3)
12,551 to 12,733	\$(4)
12,734 to 12,917	\$(5)
12,918 to 13,100	\$(6)
13,101 to 13,283	\$(7)
13,284 to 13,467	\$(8)
13,468 to 13,650	\$(9)
13,651 to 13,833	\$(10)
13,834 to 14,017	\$(11)
14,018 to 14,200	\$(12)
14,201 to 14,383	\$(13)
14,384 to 14,567	\$(14)
14,568 to 14,750	\$(15)
14,751 to 14,933	\$(16)
14,934 to 15,117	\$(17)
15,118 or more	\$(18)

(Continued)



PRELIMINARY STATEMENT
 (Continued)

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

7. Outage Frequency. (Continued)

If the Outage Frequency Performance Rating falls below 9,800, the Utility will earn an annual reward, as set forth in Table I below:

Table I
Outage Frequency Reward

<u>Outage Frequency Performance Rating</u>	<u>Reward (In millions)</u>
10,900 to 9,800	\$ 0
9,799 to 9,617	\$ 1
9,616 to 9,433	\$ 2
9,432 to 9,250	\$ 3
9,249 to 9,067	\$ 4
9,066 to 8,883	\$ 5
8,882 to 8,700	\$ 6
8,699 to 8,517	\$ 7
8,516 to 8,333	\$ 8
8,332 to 8,150	\$ 9
8,149 to 7,967	\$10
7,966 to 7,783	\$11
7,782 to 7,600	\$12
7,599 to 7,417	\$13
7,416 to 7,233	\$14
7,232 to 7,050	\$15
7,049 to 6,867	\$16
6,866 to 6,683	\$17
6,682 or less	\$18

(Continued)

PRELIMINARY STATEMENT
(Continued)

Sheet 13 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

8. Employee Health and Safety.

The Employee Health and Safety Rating shall measure the number of accidents and illnesses per 200,000 hours worked. If the Employee Health and Safety Index (rounded to the nearest first decimal) rises above 13.3, a penalty will be assessed annually, as set forth in Table J below:

Table J
Employee Health and Safety Penalty

<u>Employee Health and Safety Index</u> <u>(per 200,000 hours worked)</u>	<u>Penalty</u> <u>(In thousands)</u>
13.0 to 13.3	\$0
13.4	\$(555.6)
13.5	\$(1,111.1)
13.6	\$(1,666.7)
13.7	\$(2,222.2)
13.8	\$(2,777.8)
13.9	\$(3,333.3)
14.0	\$(3,888.9)
14.1	\$(4,444.4)
14.2 or more	\$(5,000.0)

(Continued)



PRELIMINARY STATEMENT
(Continued)

Sheet 14 of 14

CC. PBR DISTRIBUTION RATE PERFORMANCE MECHANISM (PDRPM) (Continued) (T)

8. Employee Health and Safety. (Continued)

If the Employee Health and Safety Index (rounded to the nearest first decimal) falls below 12.7, the Utility will earn an annual reward, as set forth in Table K below:

Table K
Employee Health and Safety Rewards

<u>Employee Health and Safety Index</u> <u>(per 200,000 hours worked)</u>	<u>Reward</u> <u>(In thousands)</u>
13.0 to 12.7	\$0
12.6	\$ 555.6
12.5	\$1,111.1
12.4	\$1,666.7
12.3	\$2,222.2
12.2	\$2,777.8
12.1	\$3,333.3
12.0	\$3,888.9
11.9	\$4,444.4
11.8 or less	\$5,000.0

9. Ratemaking Treatment for Rewards and Penalties.

Any rewards or penalties resulting from application of the performance mechanisms within the PBR Distribution Rate Performance Mechanism shall be recorded in the PBR Distribution Rate Performance Memorandum Account (PDRPMA) as set forth in Preliminary Statement, Part N, Memorandum Accounts. Amounts recorded in the PDRPMA are subject to Commission approval in the Utility's annual March 31 filing.

10. Reporting Requirements.

In compliance with Decision No. 96-09-092, the Utility will include in its annual March 31 filing, which reports the results of the Utility's performance under its Distribution Performance-Based Ratemaking Mechanism, the results of the PBR Distribution Rate Performance Mechanism. The derivation of any shared earnings, earned rewards or assessed penalties resulting from application of the separate performance mechanisms for: (1) Net Revenue Sharing; (2) Customer Satisfaction; (3) Average Customer Minutes of Interruption (ACMI); (4) Outage Frequency; and (5) Employee Health and Safety shall be included in the March 31 filing.



PRELIMINARY STATEMENT
(Continued)

DD. COST OF CAPITAL TRIGGER MECHANISM

1. Purpose.

The purpose of the Cost of Capital Trigger Mechanism is to automatically adjust the Utility's Authorized Return on Equity for changes in interest rates, and to adjust PBR Distribution Rates to account for changes in the Authorized Return on Equity. (T)

2. Applicability.

The Cost of Capital Trigger Mechanism will become effective only when the Commission has rendered a final decision authorizing use of the mechanism. The Cost of Capital Trigger Mechanism may not be made effective prior to January 1, 1997.

3. Definitions.

a. Current Year:

The Current Year shall be the present calendar year in which the Utility files its November 1 Advice Letter for revisions to the PBR Distribution Rates, as set forth in Preliminary Statement, Part BB, PBR Distribution Rate Adjustment Mechanism, including the Utility's request for a Capital Market Adjustment under the Cost of Capital Trigger Mechanism. (T)

b. Subject Year:

The Subject Year shall be the calendar year immediately following the Current Year.

c. Prior Year:

The Prior Year shall be the calendar year immediately preceding the Current Year.

(Continued)

PRELIMINARY STATEMENT
 (Continued)

Sheet 3 of 5

DD. COST OF CAPITAL TRIGGER MECHANISM (Continued)

3. Definitions. (Continued)

f. AA Utility Bond Rate:

The AA Utility Bond Rate shall be the simple average for the 12 months ending in September of the Current Year of the "Moody's Long-Term Corporate Bond Yield Averages, Avg. Public Utility AA" annual bond rate as published in "Moody's Credit Perspectives". If publication of the "Moody's Long-Term Corporate Bond Yield Averages, Avg. Public Utility AA" bond rate is discontinued, the AA Utility Bond Rate shall be calculated using the bond rate which most closely approximates the discontinued rate which is published in the "Moody's Credit Perspectives" or its successor publication.

g. Recorded PBR Distribution Rate Base:

(T)

The Recorded PBR Distribution Rate Base shall be calculated in accordance with the Commission-approved methods specified in Decision 96-01-011 and Decision 96-09-092.

(T)

h. Equity Ratio:

The Equity Ratio shall be 48.0 percent as authorized for 1997 in Decision 96-11-060 in Application 96-05-023.

(Continued)



PRELIMINARY STATEMENT
(Continued)

DD. COST OF CAPITAL TRIGGER MECHANISM (Continued)

5. Capital Market Adjustment (CMA).

If the Cost of Capital Trigger Mechanism is activated, the PBR Distribution Rates for the Subject Year shall be adjusted to reflect the CMA calculated as follows: (T)

a. The Recorded PBR Distribution Rate Base as of September 30 of the Current Year shall be multiplied by the Equity Ratio. (T)

b. The result of 5.a above shall be multiplied by the difference between the Authorized Return on Equity for the Subject Year calculated in 4. above, and the Authorized Return on Equity in effect for the Current Year.

c. The result of 5.b. above shall be multiplied by the Net-To-Gross Multiplier for the Subject Year.

The Capital Market Adjustment shall be reflected in the PBR Distribution Rates effective for service rendered on and after January 1 of the Subject Year. (T)

6. Reporting Requirements.

The determination of the Capital Market Adjustment shall be included in the Company's annual November 1 filing made in accordance with Preliminary Statement Part BB, PBR Distribution Rate Adjustment Mechanism (PDRAM). (T)



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