

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



May 29, 2002

Advice Letter: 1373-E

Akbar Jazayeri
Director of Revenue and Tariffs
Southern California Edison Company
P O Box 800
Rosemead, CA 91770

MAY 31 2002
REVENUE & TARIFFS DEPT.

Reference: Revised Performance Based Ratemaking Performance Report for 1998

Dear Mr. Jazayeri:

Advice Letter 1373-E is effective April 19, 2001. The Commission adopted Resolution E-3712 on January 18, 2001 that reduced SCE's requested reward for its customer satisfaction incentive by \$2 million. SCE subsequently filed an application for rehearing on February 20, 2001 arguing that the \$2 million should be restored. The Commission then adopted Decision 01-04-040 on April 19, 2001 and agreed to the \$2 restoration. A copy of the advice letter is included herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas Long".

Douglas Long
Energy Division

Filed: 3/31/99; 6/1/99
Effective: 4/19/01
Resolution E-3712 (1/18/01)

June 1, 1999

ADVICE 1373-E-A
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Revised Performance Based Ratemaking (PBR)
Performance Report for 1998

PURPOSE

This advice filing submits Southern California Edison Company's (SCE) revised PBR Performance Report (Revised Report) for 1998 which details SCE's distribution rate performance mechanism as set forth in Preliminary Statement, Part CC, PBR Distribution Rate Performance Mechanism (PDRPM). This advice filing supplements Advice 1373-E, filed on March 31, 1999.¹

BACKGROUND

Advice 1373-E set forth SCE's PBR Performance Report (Report) for 1998. As a result of responding to data requests sent by The Utility Reform Network (TURN), regarding SCE's 1998 PBR Performance Report submitted to the California Public Utilities Commission (Commission) in Advice 1373-E, an issue was identified which causes SCE to modify the 1997 and 1998 PBR Performance Reports.

As described below, certain catastrophic events that SCE excluded in 1997 and 1998 spanned multiple days and SCE used the multi-day measure of Average Customer Minutes of Interruption (ACMI) to determine if the single event exceeded 5.0 minutes ACMI. We believe this is consistent with SCE's definition of catastrophic events. However, it is inconsistent with how the ACMI and outage

¹ This advice filing replaces the 1998 PBR Report filed in Advice 1373-E in its entirety.

frequency standards for SCE's PBR mechanism were developed. As a result, SCE has decided to exclude the ACMI and outage frequency only for those catastrophic events where the individual 24-hour (midnight to midnight) day ACMI is greater than 5.0 minutes.

In the PBR proceeding, SCE defined a catastrophic event as "a single occurrence due to fire, flood or earthquake which contributes 3.0 minutes or more to SCE's annual ACMI." [A.93-12-029, Exhibit 2, Page IX-5]. SCE did not limit the "single occurrence" to a single 24-hour period. Subsequently, SCE added storms to the definition and moved to a 5.0 minute threshold as a result of efforts to narrow the differences between SCE and other parties. SCE calculated the historic ACMI performance during the period 1984-1993 as 72 minutes per year (annual average), or 65 minutes per year after excluding "catastrophic events" causing 5.0 minutes or more of ACMI.

In order to identify catastrophic events in the 1984-1993 time frame, SCE screened the historical data by identifying days (24-hour, midnight to midnight, periods) with ACMI contributions greater than 5.0 minutes. There were five such days identified in the analysis used to develop SCE's historic performance (i.e. 65 minutes per year ACMI). In retrospect, SCE recognizes that the analysis did not identify all ACMI associated with catastrophic events that occurred during the 1984-1993 period, since catastrophic events that spanned multiple days, with no individual day exceeding 5.0 minutes ACMI, were not reflected in that analysis.

In SCE's PBR reports for 1997 and 1998 submitted in Advice 1302-E and 1373-E, respectively, SCE calculated ACMI based on its interpretation that a catastrophic event is a "single occurrence" in which the ACMI associated with that single event could span multiple days. This definition of a catastrophic event is consistent with SCE's intent and its PBR testimony. However, using the same methodology used in the analysis which apparently led to the reliability benchmarks set in D.96-09-092, SCE has adjusted its calculation of ACMI and outage frequency presented in the 1998 Report. SCE's two-year rolling average ACMI increased from 55 to 60 minutes, rounded to the nearest minute. This change in the ACMI index did not change the reward/penalty outcome for the ACMI reliability measure as this result is still within the deadband of the mechanism for 1998. SCE's two-year rolling average outage frequency, as shown in the Revised Report, increased from 8,728 to 9,450. This change in the outage frequency reliability measure results in a \$4 million decrease in the shareholder reward that was previously calculated for 1998. Attachment A to this advice filing contains the Revised Report incorporating revisions in both the reliability measure and reward amount.

EFFECTIVE DATE

Consistent with Advice 1373-E, it is requested that this advice filing become effective on May 10, 1999. No resolution is required for this filing; therefore, approval of this item is not subject to the review and comment provisions of Senate Bill 779.

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

/s/

Donald A. Fellows, Jr.

DAF:eml:1373ea.doc

Enclosures

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

SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

COMPLIANCE WITH DECISION 96-09-092

SCE'S PERFORMANCE BASED RATEMAKING (PBR)

DISTRIBUTION RATE MECHANISM

REVISED

1998 PERFORMANCE REPORT

**Before the
Public Utilities Commission
of the
State of California**

Revised June 1, 1999

**SCE'S PERFORMANCE BASED RATEMAKING (PBR)
DISTRIBUTION RATE MECHANISM**

REVISED

1998 PERFORMANCE REPORT

(January 1, 1998 through December 31, 1998)

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I. Introduction

1998 was Southern California Edison's (SCE or Company) second year of operation under the Distribution Performance Based Ratemaking (PBR) mechanism.² The purpose of this report is to summarize SCE's 1998 Distribution PBR performance.

This report is filed pursuant to California Public Utilities Commission Decision No. 96-09-092 (D.96-09-092) and SCE's Preliminary Statements Parts BB and CC. This filing includes the financial results of SCE's distribution operations and details the operation of SCE's PBR Distribution Rate Performance Mechanism (PDRPM).

The purpose of the PDRPM is to implement the net revenue sharing mechanism for PBR distribution rate revenues and to provide for rewards and penalties based on SCE's recorded performance measured against established criteria in the following four categories: (1) Customer Satisfaction, (2) Outage Duration, or Average Customer Minutes of Interruption (ACMI), (3) Outage Frequency, and (4) Employee Health and Safety.

SCE achieved a Recorded PBR Distribution Return on Equity that was within the deadband of the net revenue sharing mechanism – i.e., within 50 basis points of the benchmark return on equity. Thus, revenue sharing was not triggered and customers were neither provided nor responsible for a share of the PBR Distribution net revenues. The details of the net revenue sharing mechanism are shown in Section III.C, Quantification of Net Revenue Sharing Mechanism Results.

SCE's 1998 Customer Satisfaction performance resulted in a reward of \$8 million. SCE is now also eligible for rewards or penalties in the categories of Outage Duration and Outage Frequency – measures which are based on a two-year rolling average. SCE's two-year performance was within the deadband range of the Outage Duration mechanism and thus SCE neither earned a reward earned nor was assessed a penalty. SCE's two-year performance for Outage Frequency yielded a reward of \$2 million. SCE's performance in the Employee

² SCE, in Advice Letter 1344-E, revised references in its Preliminary Statements to change the title of the PBR mechanism from Nongeneration PBR to Distribution PBR. This change reflects that on April 1, 1998, the Federal Energy Regulatory Commission assumed jurisdiction over the portion of SCE's transmission system subject to operational control by the California Independent System Operator (ISO). Financial performance reported herein reflects operations for total T&D (nongeneration) from January 1 through March 31 and for the non-ISO portion of T&D from April 1 through December 31.

Health and Safety category resulted in the maximum reward of \$5 million.

The service quality rewards of \$15 million, as summarized in Table I.1, below, are to be recovered through the PBR Distribution Rate Performance Memorandum Account of SCE's Preliminary Statement, Part N, in accordance with D.96-09-092, D.97-10-057, and Resolution E-3514.

Table I.1

Sum of Net Revenue Sharing and (Rewards)/Penalties	
	(Millions of dollars)
Customer Share of PBR Net Revenues	\$ 0
Customer Satisfaction Measure	\$(8)
Reliability Measure, ACMI	\$ 0
Reliability Measure, Frequency	\$(2)
Employee Health and Safety Measure	\$(5)
Total	\$(15)

SCE also reports on two other areas: the first is related to the PBR Distribution mechanism's Cost of Capital Trigger Mechanism; and the second is related to the Commission's investigation into performance based standards for maintaining, repairing, and replacing major distribution facilities. In D.96-09-092, the Commission directed SCE to implement a Cost of Capital Trigger Mechanism (described in Section IV of this report) and to track the monthly composition of the bonds which comprise the mechanism's index. In D.98-08-015 (the "PBR Service Reliability Decision"), the Commission determined that SCE's proposal in Application No. (A.) 97-12-047 complies on an interim basis with the Commission's direction that SCE develop a balanced reward-and-penalty mechanism for maintaining, repairing, and replacing major distribution facilities. Further, SCE was directed to begin gathering distribution facility failure rate data. This filing reports 1998 performance information pertaining to the maintenance, repair, and replacement of certain distribution facilities and cable connections.

II. PBR Distribution Rate Adjustment Mechanism

The PBR Distribution Rate Adjustment Mechanism (PDRAM) contains an Update Rule which provides an annual adjustment to PBR Distribution Rate levels. This adjustment, calculated as the PBR Distribution Rate Adjustment Factor (PDRAF), is derived from the forecast Consumer Price Index (CPI) and modified by a productivity pledge (expressed as X). After the first year of operation, a correction factor is applied to reflect the difference between the forecast and recorded escalation in the previous year. The PDRAF is reported annually in November of each year that the PBR is in effect through an advice letter to the Commission. Table II.1 summarizes these factors and adjustments.

Table II.1

PBR Distribution Rates Update				
	<u>CPI</u>	<u>X</u>	<u>Correction Factor</u>	<u>Update Rule</u>
1997 ³	3.03%	1.2%	---	1.0183
1998 ⁴	2.43%	1.4%	0.9925	1.0027

³ Data reported in Advice Letter 1191-E-A.

⁴ Data reported in Advice Letter 1256-E.

III. PBR Distribution Rate Revenue Sharing Mechanism

A. Description

The PBR Distribution Rate Revenue Sharing Mechanism comprises the principal financial element of SCE's Distribution PBR mechanism. This mechanism establishes a benchmark based on SCE's authorized return on common equity and puts SCE shareholders at risk for variations within 50 basis points of this benchmark. When results vary from the benchmark by more than 50 basis points, the net revenues are shared between SCE shareholders and customers.

This part of the Performance Report will first provide SCE's financial results for distribution operations under PBR. This information will then be used to calculate a PBR Distribution return on equity which is used to determine net revenue sharing.

B. Results of Operations

Financial data from the 12-month period ending December 31, 1998 are presented in this section. Table III.B.1, begins with SCE's financial results for nongeneration operations. Nongeneration operating revenues include transmission and distribution operating revenues derived from SCE's tariffed rates and Other Operating Revenues. Incremental revenues from flexible pricing option contracts were excluded.

PBR Distribution expenses were derived on the following basis: First, Column 1, labeled "Nongeneration" was developed by functionalizing the recorded system costs between generation and nongeneration. Next, Column 2, labeled "PBR Distribution - System" was developed by excluding all ISO-related revenues and costs beginning April 1, 1998 from Column 1. Lastly, Column 3, labeled "PBR Distribution - Jurisdictional" presents retail customers' results of operations. The separation used to identify the retail component of Column 2 is based on the 1995 GRC retail jurisdictional factor of 99.95%. Those items identified as PBR exclusions are also removed. For 1998, this includes the removal of revenues and costs associated with RCRA and EMF.

Table III.B.1, Results of Operations Report

(Table on following page)

TABLE III.B.1

AVAILABLE UPON REQUEST

SCE's capital structure, as used for determining the PBR Distribution Return on Equity, is listed in Table III.B.2.

Table III.B.2

Capital Structure (Utility)⁵	
	<u>Capital Ratio</u>
Long-Term Debt	47 %
Preferred Stock	5 %
Common Equity	48 %

The Recorded PBR Distribution Return on Equity for PBR is calculated by subtracting SCE'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 SCE and then dividing by the Recorded PBR Distribution Common Equity.

Table III.B.3

Recorded PBR Distribution Return on Equity	
a. Distribution-related revenues (from Table II.B.1):	1,978,791
b. Distribution-related costs from Table II.B.1, plus	1,472,906
Synchronized Interest (Auth	195,826
WTCD)	18,051
Preferred Debt (Auth Pref):	1,686,783
c. Recorded PBR Distribution Common Equity = Recorded PBR Distribution Rate Base (from Table II.B.1) x Fractional Share of Common Equity (percent from Table II.B.2):	2,617,702
d. Recorded PBR Distribution Return on Equity = (line a - line b) / line c :	11.16 %

⁵ Decision D.96-11-060, p. 33.

|-----|

C. Quantification of Net Revenue Sharing Mechanism Results

To determine the net revenues, if any, to be shared with customers requires a comparison of the 1998 Recorded PBR Distribution Return on Equity with the Benchmark Return on Equity. SCE's 1998 Recorded PBR Distribution Return on Equity of 11.16% was provided above in Section III.B. The Benchmark return on Equity is shown below in Table III.C.1.

Table III.C.1

Benchmark Return on Equity⁶	
Benchmark Return on Equity, 1998	11.60 %

The net revenues to be shared with customers are calculated in Table III.C.2 as follows:

Table III.C.2, Net Revenue Sharing Calculation

(Table on following page)

⁶ D.96-09-092, p.66, and Preliminary Statement Part CC, Section 2.

TABLE III.C.2
AVAILABLE UPON REQUEST

D. Summary of Sharing Mechanism Results

SCE achieved a Recorded PBR Distribution Return on Equity of 11.16%. As previously shown, this Return on Equity (ROE) is 44 basis points below the benchmark ROE. Thus, SCE's financial results under the PBR mechanism are within the revenue sharing deadband (0 - 50 basis points). Thus, in accordance with D.96-09-092, no net revenue sharing amount for 1998 will be recorded in the PBR Distribution Rate Performance Memorandum Account. This memorandum account is described in Resolution E-3514 and Part N of SCE's Preliminary Statement.

IV. Service Quality Performance Mechanism

A. Description

The Service Quality Performance Mechanism consists of incentives for customer satisfaction, service reliability, and employee health and safety. The determination of rewards and penalties for these measures are presented in the following sections.

B. Customer Satisfaction Measure

The Customer Satisfaction Rating measures overall customer satisfaction with SCE's service. This rating is determined annually based on the results of a survey conducted by an outside consultant. The Customer Satisfaction Rating is expressed as the percent of customer responses (rounded to the nearest percent) in the top two of six response categories in the Customer Satisfaction Survey ("completely satisfied" and "delighted" categories). The Customer Satisfaction Rating used to determine any reward or penalty is the average of the customer responses (rounded to the nearest percent) in the top two of six response categories of four measured customer service functions:

- 1) Field Service and Meter Reading Activities;
- 2) In-Person Services;
- 3) Telephone Center Operations; and
- 4) Service Planning Activities.

In Application No. 97-12-047, as amended on April 3, 1998, SCE requested CPUC approval to modify the measurement of customer satisfaction to incorporate survey results from In-Person Services. In-Person Services includes business transactions previously performed at local offices and now performed at additional facilities called Authorized Payment Agencies.⁷ In Decision No. 98-07-077, the Commission adopted SCE's request on an interim basis.⁸

⁷ Authorized Payment Agencies are local businesses (drug stores, check cashing, etc.) that process payments in conjunction with a third-party vendor who handles the banking and data transfer to SCE for account posting.

⁸ The In-Person services category uses the same five transactions originally measured in the Local Office Operations (original category title from Advice Letter 1191-E-A) category – turn-ons/turn-offs, credit/extensions, payments, deposits, and reconnects – but now is

SCE's Customer Satisfaction Survey was administered by Maritz Marketing Research, Inc., an independent market research company, headquartered in St. Louis, Missouri. Maritz adheres to industry guidelines (Council of American Survey Research Organizations (CASRO)) with respect to maintaining confidentiality and objectivity in data collection and reporting. In accordance with CASRO guidelines, surveys were verified by spot checks of no fewer than 15 percent of all surveys completed.

C. Customer Satisfaction Results

The Customer Satisfaction Survey for 1998 resulted in an average of 71% of SCE customers' responding in the "completely satisfied" and "delighted" rankings for SCE's service. This is shown in Table IV.C.1 as follows:

Table IV.C.1

Customer Satisfaction Survey Results Percentage "Completely Satisfied" and "Delighted"	
1998	
Field service and meter reading activities	66 %
In-person services	75 %
Telephone center operations	72 %
Service planning activities	69 %
Average of "completely satisfied" and "delighted" responses	71 %

A reward is earned (penalty assessed) annually for a Customer Satisfaction Rating above 67% (below 61%), as shown in Table IV.C.2, below. Because the Customer Satisfaction Rating for 1998 was 71%, a reward was earned for the year. This result is highlighted in Table IV.C.2, as follows:

weighted based on customers served at Authorized Payment Agencies and remaining local offices.

Table IV.C.2

Customer Satisfaction Reward (Penalty)	
<u>Cust. Satisf. Rating</u>	<u>Reward (Penalty)</u> (in millions)
72% or higher	\$ 10
71%	\$ 8
70%	\$ 6
69%	\$ 4
68%	\$ 2
67% to 61%	\$ 0
60%	\$(2)
59%	\$(4)
58%	\$(6)
57%	\$(8)
56% or lower	\$(10)

Separate from the Customer Satisfaction Survey Penalty, a Floor Penalty may be assessed if the measured customer response for “completely satisfied” and “delighted” rankings in any of the four customer service functions, rounded to the nearest percent, is less than 56%. The Floor Penalty is assessed based on the lowest performing area. The lowest performing area was Field Service and Meter Reading Activities which had a Customer Service Rating of 66%. Therefore, a Floor Penalty was not assessed for 1998.

Table IV.C.3

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

A reward for Customer Satisfaction, as described above, is not applicable IF either of the following conditions apply:

- 1) The average number of responses across the four customer service functions reflect more than 10% of the customer responses (rounded to the nearest percent) in the bottom two of the six categories, OR
- 2) A Floor Penalty is assessed.

The average number of responses across the four customer service functions, in the bottom two of the six response categories, was 7% and therefore did not exceed the first condition. As described above, no Floor Penalty was assessed. Therefore, neither condition 1 nor condition 2 listed above was applicable for 1998. With overall Customer Satisfaction Survey results of 71%, SCE earned a Customer Satisfaction reward of \$8 million for 1998.

D. Reliability Measures

Average Customer Minutes of Interruption (ACMI)

The ACMI measures customer service interruptions in terms of the average minutes of service interruptions per customer excluding all events which have a duration of more than five (5.0) minutes of ACMI. The ACMI is calculated as the rolling average of two successive years. The ACMI has a performance standard of 59 minutes for the initial year of operation for SCE's Nongeneration PBR Mechanism (1997) and declines by two minutes per year thereafter through 2001. Since the ACMI requires a two-year average for measurement, 1998 is the first year that a reward may be earned or penalty may be assessed. The standard has a deadband of 6 percentage points on both sides in which there is no reward or penalty.

Outage Frequency

The Outage Frequency measures the number of circuit interruptions excluding all events that contribute interruptions which have a duration totaling more than five (5.0) minutes of ACMI. The Outage Frequency Performance Rating is a two-year average, resulting in a possible reward or penalty for the first time with the 1998 results.

E. Reliability Results

The ACMI reliability measure was 65 minutes for 1998. SCE's system was significantly affected by severe weather on two occasions in 1998: A February 3 wind storm and a December 9 wind storm. Both of these extreme weather events exceeded the five (5.0) minute ACMI exclusion provided in SCE's Preliminary Statement Part CC, Section 6, and thus are excluded from the 1998 reported results.⁹ As the ACMI reliability measure requires a rolling average of two successive years, and given that the 1997 figure was 56 minutes ACMI (55.9 minutes rounded to the nearest minute), the two-year rolling average to be used

⁹ Total ACMI for 1998 was 79.0 minutes less 8.5 minutes recorded for the February 3 rain storm and 5.5 minutes recorded for the December 9 wind storm. This resulted in an ACMI of 65 minutes, rounded to the nearest minute.

in determining whether a reward is earned or penalty assessed is 60 minutes ACMI as shown in Table IV.E.1.¹⁰

Table IV.E.1

Average Customer Minutes of Interruption (ACMI), Two-Year Rolling Average	
ACMI:	60 Minutes

A reward will be earned (penalty will be assessed) annually, starting with these 1998 results, for a two-year rolling average ACMI measurement that is outside of the deadband for the year, as shown in Table IV.E.2, below. Because the ACMI index from Table IV.E.1 was between 52 and 64 minutes, no reward was earned or penalty assessed for 1998. This result is highlighted in Table IV.E.2, as follows:

¹⁰ When a distribution circuit outage occurs, field personnel manually log the event and compile related information about the event, including when the outage ends and the reason for the outage. That information is subsequently transferred to the database used to calculate SCE's performance with respect to the PBR system reliability standards adopted by the Commission in D.96-09-092. In the past several years, SCE has implemented a number of process changes to improve the accuracy and completeness of its distribution circuit outage data. We believe that these process improvements have resulted in fewer instances where outage information is not transferred to the database, compared to the prior data collection process. This may be causing our reported ACMI and circuit outage frequencies to be overstated (higher) relative to the historic performance that was used to set the PBR system reliability standards.

Table IV.E.2

Service Reliability Reward (Penalty) 2-Year Average ACMI Measure (In Minutes)				
<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Reward (Penalty)</u> (In millions)
34 or less	32 or less	30 or less	28 or less	\$ 18
35	33	31	29	\$ 17
36	34	32	30	\$ 16
37	35	33	31	\$ 15
38	36	34	32	\$ 14
39	37	35	33	\$ 13
40	38	36	34	\$ 12
41	39	37	35	\$ 11
42	40	38	36	\$ 10
43	41	39	37	\$ 9
44	42	40	38	\$ 8
45	43	41	39	\$ 7
46	44	42	40	\$ 6
47	45	43	41	\$ 5
48	46	44	42	\$ 4
49	47	45	43	\$ 3
50	48	46	44	\$ 2
51	49	47	45	\$ 1
52 to 64	50 to 62	48 to 60	46 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)

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

The Outage Frequency reliability measure was 9,913 for 1998.¹¹ This figure excludes the frequency recorded for the severe weather events previously described. Since the ACMI for each of these events exceeded the five (5.0) minute exclusion provided in SCE's Preliminary Statement Part CC, Section 7, the interruptions from these events are excluded from the 1998 reported Outage Frequency results. As the Outage Frequency requires a rolling two-year average, and given that the 1997 Outage Frequency was 8,987, the two-year rolling average to be used in determining whether a reward is earned or penalty assessed is a frequency index of 9,450 as shown in Table IV.E.3.¹²

Table IV.E.3

Outage Frequency, Two-Year Rolling Average	
Outage Frequency:	9,450

A reward will be earned (penalty will be assessed) annually, starting with these 1998 results, for a two-year rolling average Outage Frequency Performance Rating that is below 9,800 (above 12,000). Based on the Outage Frequency Index from Table IV.E.3, SCE earned a reward of \$2 million for the year 1998. This is highlighted in Table IV.E.4, below.

¹¹ This figure represents SCE's total frequency figure of 10,705 less 456 interruptions recorded for the February 3 rain storm and 336 interruptions recorded for the December 9 wind storm.

¹² See footnote 9, above.

Table IV.E.4

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

F. Employee Health and Safety Measure

Rewards or penalties for employee safety are determined based on SCE's performance related to the frequency of all industrial injuries and illnesses. The Employee Health and Safety Rating is measured in terms of the number of injuries and illnesses per 200,000 hours worked. This frequency rate, or index number, is normalized by using the factor of 200,000, which represents the average number of hours worked by 100 full-time workers in one year (40 hours per week for 50 weeks a year). The expression for this is as follows:

$$\text{Frequency Rate (Index)} = \frac{\text{Number of incidents} \times 200,000(\text{normalizing factor})}{\text{Actual workhours}}$$

Expressing the index in this normalized manner is necessary to enable valid comparisons of the injury and illness statistic, from year to year, against the mechanism standard described in the next section. The index is rounded to the nearest first decimal.

G. Employee Health and Safety Results

SCE's Employee Health and Safety Rating is 7.9 for 1998, as shown in Table IV.G.1:

Table IV.G.1

Employee Health and Safety Index, 1998	
Number of injuries and illnesses:	1,004
X 100 employees at 2,000 hours/year:	200,000
= injuries and illnesses, statistic X employee-hours/year per 100 employees:	200,800,000
÷ Total utility employee-hours per year:	25,465,049
= Index:	7.9 per 200,000 hours worked

A reward is earned (penalty assessed) annually for an Employee Health and Safety Rating that results in an index below 12.7 (above 13.3), as shown in Table IV.G.2, below. Since the Employee Health and Safety Index was below 11.8, SCE earned a reward for the year 1998 of \$5 million. This is highlighted in Table IV.G.2.

Table IV.G.2

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

H. Summary of Service Quality Performance Results

Table IV.H.1 summarizes SCE's Service Performance Mechanism results for 1998:

Table IV.H.1

Summary of Service Quality Performance Results 1998	
Customer Satisfaction Measure	Reward = \$8 million
Reliability Measure, ACMI	\$0
Reliability Measure, Frequency	Reward = \$2 million
Employee Health and Safety Measure	Reward = \$5 million
Total	Net Reward = \$15 million

In accordance with D.96-09-092 and D.97-10-057, the net reward will be recorded in the PBR Distribution Rate Performance Memorandum Account. This memorandum account is described in Resolution E-3514 and SCE's Preliminary Statement, Part N.

V. Cost of Capital Trigger Mechanism

A. Description

In D.96-09-092, the Commission directed SCE to implement a Cost of Capital Trigger Mechanism (Trigger Mechanism). The Trigger Mechanism was established to adjust SCE's Authorized Return on Equity for changes in interest rates and to adjust PBR Distribution Base Rates to account for changes in the Authorized Return on Equity.

The Trigger Mechanism uses an index which tracks changes in Aa utility bond rates. In implementing the Trigger Mechanism, SCE selected Moody's Long Term Corporate Bond Yield Average for Aa Public Utilities which is reported in "Moody's Credit Perspectives," a publication of Moody's Investor Service. The Commission ordered SCE to track the monthly composition of this index in its annual report (D.96-09-092, p. 40).

B. Composition of the Cost of Capital Trigger Mechanism Bond Index

Table V.B.1 lists the bonds which make up Moody's Long Term Corporate Bond Yield Average for Aa Public Utilities.

(Table on following page)

Table V.B.1

Monthly Composition of the Cost of Capital Trigger Mechanism Bond Index			
<u>Company Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Rating</u>
<i>As of January, 1998</i>			
Bell Telephone Co. of Pennsylvania	7.375	03/15/33	Aa1
Dayton Power & Light Co.	7.875	02/15/24	Aa3
Duke Energy Corp.	7.375	03/01/23	Aa3
Florida Power & Light Co.	7.625	06/01/24	Aa3
Illinois Bell Telephone Co.	7.250	03/15/24	Aa1
Michigan Bell Telephone Co.	7.500	02/15/23	Aa1
National Rural Utilities Coop. Fin.	7.350	11/01/26	Aa3
New England Tel. & Tel. Co.	7.875	09/01/22	Aa2
Northern States Power Co. Wisconsin	7.375	12/01/26	Aa3
Southwestern Bell Telephone Co.	7.625	03/01/23	Aa3
US West Communications Inc.	6.875	09/15/33	Aa3
Wisconsin Electric Power Co.	7.750	01/15/23	Aa2
<i>As of March, 1998</i>			
REMOVE:			
Florida Power & Light, Co.	7.625	06/01/24	Aa3
New England Tel. & Tel. Co.	7.875	09/01/22	Aa2
ADD:			
Duke Energy Corp.	6.750	08/01/25	Aa3
Florida Power & Light Co.	7.050	12/01/26	Aa3
Florida Power & Light Co.	7.000	09/01/25	Aa3
Florida Power Corp.	7.000	12/01/23	Aa3
New England Tel. & Tel. Co.	6.875	10/01/23	Aa2
Southwestern Bell Telephone Co.	6.625	09/01/24	Aa3
US West Communications Inc.	7.125	11/15/43	Aa3

In Advice Letter 1345-E-A, SCE reported the Aa Utility Bond rate for the 12-month period ending September 1998 was 7.00 percent. Since this is less than 100 basis points below the current Trigger Value of 7.50 percent, as set forth in SCE's Preliminary Statement DD, Section 3.e., the Trigger Mechanism was not activated. Thus, as reported in Advice Letter 1345-E-A, there was no change to SCE's Authorized Return on Equity.

VI. Data on Failures of Distribution Facilities Listed in General Order 165 and Cable Connections

In D.98-08-015, the Commission directed SCE to report the frequency of circuit interruptions resulting from the failure of the types of equipment listed in General Order (G.O.) 165 and cable connections. In Table VI.1 SCE reports this information.¹³

Table VI.1

Number of Non-Catastrophic Circuit Interruptions Resulting from Equipment Failure (By Distribution Equipment Type Listed in G.O. 165) 1998	
G.O. 165 Facility Type	
Transformers	129
Switching/Protective Devices	328
Regulators/Capacitors	20
OH Conductors	223
UG Cables	328
UG Terminations	140
Streetlighting	0
Wood Poles	14

¹³ Effective August 1998, SCE modified its internal outage reporting guidelines to better identify instances in which structure or equipment failure (including cable connections) cause a circuit interruption. The revised procedures require that an Equipment and Maintenance (E&M) Engineer review and validate equipment failures, complete material failure reports, and investigate incomplete or questionable data. Final validation of the outage report by the E&M Engineer ensures that the cause codes of the circuit interruptions have been accurately recorded.