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April 28, 2000

**ADVICE 1420-E-B**  
**(U 338-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION

**SUBJECT:** Compliance Advice Filing Pursuant to Resolution E-3389  
(ACRA/RCRA) - Supplemental

This advice filing supplements and replaces Southern California Edison Company's (SCE) Advice 1420-E-A in its entirety to reflect: (1) revised revenue requirements for the year 2000; and (2) revised estimated revenue requirements that will become effective when SCE eliminates RCRA in compliance with D.94 05 068 and D.99 10 057. SCE is not making any changes to the ratemaking steps previously provided in Advice 1420 E-A that SCE will take when its nuclear investment has been fully recovered. All tariffs in Advice 1420-E are still applicable and are not provided again in this filing.

**PURPOSE**

This advice filing revises the annual 2000 revenue requirement as well as the estimated 2001 and 2002 revenue requirement changes filed in Advice 1420-E-A associated with the Additional Capital Recovery Amount (ACRA) and Reduced Capital Recovery Amount (RCRA) ratemaking mechanism to reflect corrections for deferred income taxes. This supplemental advice filing corrects an inadvertent error relating to deferred income taxes in the RCRA revenue requirement for 2000 which also effects the estimated revenue requirements for 2001 and 2002. In addition, it describes the necessary ratemaking to implement the corrected 2000 RCRA revenue requirement. Lastly, this advice filing notifies the Commission of future changes to the RCRA revenue requirement that will be made to execute the elimination of RCRA in compliance with D.94 05 068 and D.99 10 057.

## **BACKGROUND**

On December 1, 1999, SCE filed Advice 1420-E to inform the California Public Utilities Commission (Commission) of SCE's annual changes to the revenue requirements associated with the ACRA and RCRA ratemaking mechanism in compliance with Resolution E-3389, dated September 15, 1994. In addition, the Rate Components Tables of each rate schedule were attached to the filing to denote changes to the Distribution and Generation rates as a result of updated revenue requirements. There is no overall rate level change to customers in 2000 as a result of the change in rates because the Distribution rate change is offset by an equal and opposite change in the residually-determined Generation rate, thereby maintaining the rate freeze pursuant to Public Utilities Code Section 368.

On February 10, 2000, SCE filed Advice 1420-E-A to provide a projection of the estimated RCRA revenue requirement that will become effective when SCE eliminates the RCRA in compliance with Decision No. 94-05-068 (D.94-05-068) and Decision No. 99-10-057 (D.99-10-057), and to describe the ratemaking steps that SCE will take when nuclear investment has been fully recovered.

In D.94-05-068, the Commission adopted the ACRA/RCRA ratemaking mechanism. The adopted ratemaking mechanism initially provides for additional annual nuclear depreciation expense of \$75 million, which is offset by suspending annual distribution depreciation expense of \$75 million. At the time that SCE's nuclear investment is fully recovered, rates will decrease and this decrease will offset: (1) the reactivation of the suspended distribution investment recovery of \$75 million; and (2) the amount necessary to recover the distribution investment and return associated with the RCRA over the remaining life of the distribution assets. As a result of Assembly Bill (AB) 1890, recovery of SCE's nuclear investment will now end no later than December 31, 2001.

In Application 99-01-034 (Post-transition Ratemaking Proceeding), SCE submitted its ratemaking mechanisms that will be necessary to be in place prior to the end of the transition period mandated by AB 1890. In this proceeding, SCE set forth its proposal to terminate the RCRA at the end of the rate freeze period, so that the resulting increase in distribution investment recovery would be offset by the reduction in nuclear investment recovery as contemplated in D.94-05-068. In D.99-10-057, the Commission adopted SCE's proposal to eliminate the RCRA after SCE has recovered all of its nuclear costs.

Differences in deferred taxes between the nuclear-related rate base (ACRA related) and the distribution rate base (RCRA related) result in annual incremental increases in total rate base over levels which would have resulted without the ACRA/RCRA ratemaking mechanism. Because SCE would have realized an incremental increase in the amount of return on such additional rate base, resolution E-3389 requires SCE to remove the amount of return on the additional rate base in its annual ACRA/RCRA advice filing. Consistent with D.94-05-068 and D.99-10-057, when SCE eliminates the RCRA, the amount of return associated with

the differences in deferred taxes will continue to be removed from the RCRA revenue requirement on an annual basis.

The remaining sections of this advice filing sets forth: (1) The January 1, 2000 annual changes to the ACRA/RCRA revenue requirements; and (2) The RCRA revenue requirement and associated ratemaking that will be effective when SCE eliminates the RCRA at the time that SCE's nuclear assets are fully recovered.

### **JANUARY 1, 2000 REVENUE REQUIREMENT CHANGES**

Resolution E-3389 ordered SCE, among other things to: (1) implement future adjustments to its ACRA/RCRA revenue requirements by filing an advice letter to be effective January 1<sup>st</sup> of the following year; (2) provide detailed workpapers with each year's advice filing; and (3) identify variables that have changed from the previous year's advice filing.

None of the revenue requirement factors have changed from 1999 in determining the 2000 ACRA/RCRA revenue requirements. Pursuant to Decision No. 96-09-092 (SCE's non-generation Performance Based Ratemaking (PBR) Decision), the annual RCRA-related revenue requirement is an exclusion from the distribution PBR mechanism. Although the 2000 RCRA-related revenue requirement of negative \$48.334 million is an exclusion from the distribution PBR revenue requirement (that is, it is not subject to the Update Rule and Net Revenue Sharing), it is reflected in the January 1, 2000 total distribution rate component.

Public Utilities Code Section 368, among other things, freezes rates for all customers at the adopted June 10, 1996 levels through the earlier of March 31, 2002, or the date on which the Commission-authorized costs for utility generation-related assets and obligations have been fully recovered for those categories of transition costs that must be recovered by December 31, 2001. Consequently, the RCRA-related revenue requirement increase of \$8.764 million effective January 1, 2000 will not increase customers' overall rate levels. The following tables provide the change in the ACRA/RCRA revenue requirements from 1999 to 2000.

**Annual RCRA-Related Revenue Requirement Change**

(\$000 s)

<u>Calendar Year</u>	<u>RCRA</u>	<u>Return Offset</u> <sup>1/</sup>	<u>Total</u>
1999 <sup>2/</sup>	(55,597)	(1,501)	(57,098)
2000 <sup>2/</sup>	<u>(46,541)</u>	<u>(1,793)</u>	<u>(48,334)</u>
2000 Annual Change	9,056	(292)	8,764

<sup>1/</sup> Per Resolution E-3389, SCE will not receive any additional return associated with the incremental rate base associated with the ACRA/RCRA mechanism. Accordingly this amount is offset from the total revenue requirement.

<sup>2/</sup> Computed at the currently authorized 9.49 percent overall rate of return on distribution rate base.

**Annual ACRA-Related Revenue Requirement Change**

(\$000 s)

<u>Calendar Year</u>	<u>SONGS 2&amp;3</u>	<u>Palo Verde</u>	<u>Total</u>
1999 <sup>1/</sup>	41,540	20,926	62,466
2000 <sup>1/</sup>	<u>37,146</u>	<u>18,712</u>	<u>55,858</u>
2000 Annual Change	(4,394)	(2,214)	(6,608)

<sup>1/</sup> Computed at the authorized 7.35 percent overall rate of return on nuclear rate base.

This supplemental advice filing corrects an inadvertent error in the 2000 RCRA revenue requirement previously provided in Advice 1420 E A and 1420-E-A. During the Energy Division's review of Advice 1420-E-A, SCE discovered that the calculation for the 2000 and 2001 deferred income taxes was incorrect. This calculation error caused a change in accumulated deferred income taxes, which changed the calculated return on rate base amount as well as effected property tax expense. The corrected 2000 revenue requirement of negative \$48.334 million is \$0.606 million higher than the previously calculated 2000 revenue requirement of negative \$48.940 million. Since the RCRA revenue requirement is included in the calculation of residual CTC revenues as determined in the Transition Revenue Account (TRA), SCE will adjust its TRA beginning May 1, 2000 to reflect the corrected 2000 RCRA revenue requirement reported herein. In addition, at this time SCE will adjust its TRA for the period from January 1, 2000 through April 30, 2000 so that the TRA will reflect the correct RCRA revenue requirement from the beginning of the year.

Because SCE will implement the correction of its 2000 RCRA revenue requirement through an adjustment to its TRA as described above, SCE is making no changes to the rates contained in the attached tariffs of Advice 1420-E that combine both the rate changes filed in Advice 1414-E-A (filed on November 22, 1999), which reflect the application of SCE's PBR Distribution Rate Adjustment Mechanism and the

rate changes necessitated by the change in the 2000 RCRA Revenue Requirement as set forth in Advice 1420-E and 1420-E-A.

There is no overall rate level change to customers in 2000 as a result of the change in rates because the Distribution rate change is offset by an equal and opposite change in the residually-determined Generation rate, thereby maintaining the rate freeze pursuant to Public Utilities Code Section 368.

### **ELIMINATION OF RCRA**

D.99-10-057 ordered SCE, among other things, to file an advice letter (End of Freeze Filing) three months prior to the earliest forecasted date that the rate freeze will end or September 2001, if the rate freeze does not end early, proposing tariff modifications and providing calculations of proposed post rate freeze rates. Because, at this time, it is uncertain when SCE's rate freeze will end, SCE is including in this advice filing its revenue requirement changes associated with the elimination of RCRA as adopted by D.94-05-068 and D.99-10-057. These revenue requirement changes will be incorporated in SCE's End of Freeze Filing to determine the appropriate post rate freeze rate levels.

In compliance with D.99-10-057, SCE will eliminate the RCRA when all of its nuclear assets are recovered.<sup>1</sup> The elimination of the RCRA will trigger SCE to implement the following changes to its PBR Distribution Exclusion revenue requirement<sup>2</sup>: (1) the termination of the suspended annual distribution depreciation expense of \$75 million; and (2) the recovery of the distribution investment and return associated with the RCRA over the remaining life of the distribution assets.<sup>3</sup>

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<sup>1</sup> D.99-10-057, page 29. Because SCE is required to first apply additional headroom revenue to further accelerate its nuclear costs, SCE may recover its nuclear assets before the end of the rate freeze. Thus, the elimination of the RCRA may precede the ending of the rate freeze. If this circumstance takes place, SCE will make the necessary revenue requirement changes, as discussed later in this advice filing, to eliminate the RCRA within the existing rate freeze ratemaking mechanisms so that customers overall rate levels are not impacted.

<sup>2</sup> In D.99-10-057, the Commission adopted SCE's proposal to establish a balancing account (PBR Exclusions Distribution Adjustment Mechanism) and separate rate component for PBR exclusions to be effective at the end of the rate freeze period.

<sup>3</sup> The recovery of the distribution investment is calculated based on a remaining life of 26.5 years as adopted in D.96-01-011. If recovery of the distribution investment does not begin concurrent with the full recovery of SCE's nuclear investment, pursuant to D.99-10-057 SCE will continue to recover, through distribution rates, the return associated with the accumulated distribution investment. Thus, in compliance with D.94-05-068 and in order to lessen the RCRA-related revenue requirement, it is essential that the recovery of the distribution investment begins at the same time that SCE fully recovers its nuclear investment.

Solely for the purpose of providing the Commission with estimated RCRA revenue requirement changes that will become effective at the time the RCRA is eliminated, in this advice filing SCE has assumed that its nuclear assets will be fully recovered on December 31, 2001. The following table illustrates the change in the RCRA revenue requirement from 2000 to 2001 that will be implemented in the December 2000 ACRA/RCRA compliance advice letter and the change from 2001 to 2002 that will be implemented in the End of Freeze Filing when SCE's nuclear assets are recovered. This table has been corrected to reflect the revisions caused by the changes to the 2000 RCRA revenue requirement. The corrected 2001 revenue requirement of a negative \$38.175 million is \$2.674 million higher than the previous calculated 2001 revenue requirement of negative \$40.849 million. The 2002 revenue requirement of positive \$90.562 million is \$0.413 million lower than the previous calculated 2002 revenue requirement of positive \$90.975 million.

### **Estimated Annual RCRA-Related Revenue Requirement Change**

(\$000 s)

<u>Calendar Year</u>	<u>RCRA</u>	<u>Return Offset</u> <sup>1/</sup>	<u>Total</u>
2000	(46,541)	(1,793)	(48,334)
2001	<u>(36,157)</u>	<u>(2,018)</u>	<u>(38,175)</u>
2001 Annual Change <sup>2/</sup>	10,384	(225)	10,159
2001	(36,157)	(2,018)	(38,175)
2002 <sup>3/</sup>	<u>92,614</u>	<u>(2,052)</u>	<u>90,562</u>
2002 Annual Change	128,771	(34)	128,737

<sup>1/</sup> Per Resolution E-3389, SCE will not receive any additional return associated with the incremental rate base associated with the ACRA/RCRA mechanism. Accordingly this amount is offset from the total revenue requirement.

<sup>2/</sup> SCE will implement the actual 2001 RCRA revenue requirement change through its December 2000 annual compliance advice filing.

<sup>3/</sup> The 2002 estimated RCRA revenue requirement reflects the reactivation of the suspended distribution investment recovery of \$75 million plus the amount necessary to recover the distribution investment and return of the RCRA over the remaining life of the distribution assets. This 2002 estimated annual RCRA revenue requirement change will be offset by the concurrent reduction in the nuclear-related revenue requirement. Both Generation and PBR Distribution Exclusion rate levels will be adjusted to reflect these revenue requirement changes when the rate freeze period ends.

The RCRA revenue requirement change from 2001 to 2002, reflected in the above table, will differ depending on the actual date that SCE's nuclear assets are determined to be recovered. Updated RCRA revenue requirements will be included in the End of Freeze Filing consistent with D.99-10-057.<sup>4</sup>

Consistent with the Commission's guidelines regarding the Transition Cost Balancing Account (TCBA), SCE is required to first apply additional headroom revenue to further accelerate transition costs earning the highest rate of return.<sup>5</sup> Because SCE's nuclear assets earn a higher rate of return than its remaining fossil and hydro assets, additional headroom will first be applied to the recovery of nuclear assets. Therefore, SCE may fully recover its nuclear assets prior to the end of the rate freeze.

If SCE fully recovers its nuclear investment prior to the end of the rate freeze, SCE will implement the necessary revenue requirement changes to eliminate the RCRA through the operation of the Transition Revenue Account (TRA). Specifically, SCE will adjust the PBR Distribution Exclusion revenue requirement that is recorded in the TRA to reflect the termination of the suspended annual distribution depreciation expense of \$75 million as well as the recovery of the distribution investment and return associated with the RCRA. This adjustment will reduce the amount of headroom available to offset remaining non-nuclear-related transition costs during the remainder of the rate freeze period. This treatment is consistent with TRA ratemaking practices established during the rate freeze period. When the rate freeze period ends, post transition rates will be implemented through the End of Freeze Filing and the PBR Distribution Exclusion rate levels will be adjusted as described above.

No cost information is required for this advice filing.

This advice filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other schedule or rule.

### **EFFECTIVE DATE**

In accordance with D.94-05-068, Resolution E-3389, and D.99-10-057 the tariffs attached to 1420-E shall become effective on January 1, 2000.

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<sup>4</sup> Pursuant to D.99-10-057, SCE will supplement its End of Freeze Filing five days following the end of the rate freeze to include the actual post rate freeze rates to be implemented along with the associated ratemaking mechanisms.

<sup>5</sup> D.97-06-060, page 50. Transition costs will be further accelerated only when the TCBA is permanently overcollected.

**NOTICE**

Anyone wishing to protest this advice filing may do so by letter or facsimile which must be received by SCE 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 sent to the attention of the Director, Energy Division, Room 4004 (same address above).

In addition, protests and all other correspondence regarding this advice letter should also be sent by letter and transmitted via facsimile to the attention of:

Donald A. Fellows  
Manager of Revenue and Tariffs  
Southern California Edison Company  
2244 Walnut Grove Avenue, Rm. 303  
Rosemead, California 91770  
Facsimile (626) 302-4829

Bruce Foster  
Vice President of Regulatory Operations  
601 Van Ness Avenue, Suite 2040  
San Francisco, California 94102  
Facsimile (415) 673-1116

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, A.93-02-010, and A.99-01-034. Address change requests to the attached GO 96-A Service List 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:ccd/eml:1420eb.doc  
Enclosures