Southern California Edison
R.17-07-007 – Rule 21 OIR to Streamline

DATA REQUEST SET E D - S C E - 0 0 2

To: Energy Division
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Question 01-03: 1. What are your existing policies and cost accounting practices related to COO? Please be specific and detailed. For example, when replaced items get zeroed out in GRC, is depreciation included and how is it treated? How are total costs vs. incremental costs or replacements treated?

2. For equipment that received GRC approval for COO cost recovery and is replaced with equipment that is financed by a customer:

a. How does the utility ensure that O&M and depreciation are no longer collected from ratepayers?

b. Are there currently cases where ratepayers continue to pay O&M that would cover the new equipment in whole or in part?

3. Please respond as appropriate to the following IOU-specific questions:

a. SCE does not charge O&M for equipment replacement that is like for like. How is this defined? Does it include reconductoring and transformer upsizing?

b. Would PG&E and SDG&E consider not charging O&M for equipment replacement that is like for like?

c. SCE does not charge depreciation, return on investment, or income tax for upgrades that are customer financed. Is that true for PG&E and SDG&E?

d. PGE does not charge COO for moving the location of a facility. Is that true for SCE and SDG&E?

e. What are the customer options for whether to pay upfront for replacement after a certain number of years? Is the one-time payment option only available if the customer elects replacement in perpetuity? SCE stated that the one-time payment is available only if replacements in perpetuity are pre-paid, but a GRC document seems to indicate it is also available if replacement is only within a 20-year term (2015 GRC, Results of Operations Volume 1, SCE-10, p. 88). Please clarify. PG&E stated that all or most of its COO one-time payment assessments are for a 12-year term. Please verify and explain how that works.

Response to Question 01-03:

1. **What are your existing policies and cost accounting practices related to COO? Please be specific and detailed. For example, when replaced items get zeroed out in GRC, is depreciation included and how is it treated? How are total costs vs. incremental costs or replacements treated**?

As discussed within the workshop, COO (Cost of Ownership) is established in SCE's Rule 2 H (Added Facilities) and reviewed within SCE's General Rate Case. COO practices are not specific to Rule 21 "Interconnection Facilities", but instead apply to all facilities requested by an applicant which are in addition to or a substitution for standard facilities. They include, but are not limited, to, all types of equipment normally installed by SCE in the development of its electric and distribution systems and facilities, or equipment related to SCE's provision of service to a customer, or a customer's receipt or utilization of SCE's electrical energy.

In response to the Question One, the following explanation is provided regarding COO related existing policies and cost practices.

For clarity, SCE has divided its cost accounting practices into the following categories.

Construction of the Asset Financed by SCE:
SCE pays for the asset at the time of construction. The customer pays the SCE-financed rate (see table below) which includes the cost of capital, i.e., return, depreciation, and income taxes. The revenue collected for the customer-requested asset offsets SCE’s revenue requirement.

Construction of the Asset Financed by Customer:
Customer pays for the asset at the time of construction. This payment is treated by SCE as a Contribution in Aid of Construction (“CIAC”) and credited to the work order where the work was performed. This offsets the costs incurred by SCE to construct the asset. As a result, assets that are offset by CIAC payments are not included in the base for calculating cost of capital, i.e., return, depreciation, and income taxes. This process is consistent with the Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act (“Uniform System of Accounts,” 18 C.F.R. § 101). The Uniform System of Accounts, 18 C.F.R. § 101, under Electric Plant Instruction # 2 (“Electric Plant to Be Recorded at Cost”), Section D states: “The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction.”

Optional Replacement Coverage:
As shown in the table below, customers ***may choose*** to add replacement coverage to either of the above construction financing options. ***SCE does not require an interconnection customer to purchase replacement coverage.*** Replacement coverage is analogous to buying an extended warranty for a car. If the asset needs to be replaced during the coverage period, it will be done at SCE cost. The cost to provide this coverage is a component in the applicable monthly rate. The revenue collected for the customer-requested asset offsets SCE’s revenue requirement.

If the customer does not choose the optional replacement coverage, any replacements needed would be performed using the same financing option chosen at the time of the original construction, i.e., SCE-Financed or Customer-Financed.

Ongoing Operations & Maintenance Costs:

Regardless of the construction financing option (SCE or customer) and any optional replacement coverage chosen (20 years or perpetuity), customers are responsible for paying for the ongoing operation and maintenance of the asset. The cost to provide this is a component in the applicable monthly rate. The revenue collected for the customer-requested asset offsets SCE's revenue requirement.

Added facilities rates are determined through SCE's general rate case, for example, Table VIII-29 of SCE's 2015 GRC, SCE-10, Vol. 1.

Table VIII-29
Added Facilities Rate Components

Line No.	Rate Components	SCE Financed With Replacement at Additional Cost (%) (1)	SCE Financed With Replacement for 20 Years at No Additional Cost (%) (2)	SCE Financed With Replacement (Perpetuity) at No Additional Cost (%) (3)	Customer Financed With Replacement at Additional Cost (%) (4)	Customer Financed With Replacement for 20 Years at No Additional Cost (%) (5)	Customer Financed With Replacement (Perpetuity) at No Additional Cost (%) (6)
1.	Overhead: A&G,	2.67	2.72	3.00	2.67	2.73	3.02
2.	Ad Val., & Ins.						
3.							
4.	Return, Depreciation,						
5.	and Income Taxes	10.52	10.52	10.52	0.00	0.00	0.00
6.							
7.	Replacement:	0.00	0.23	1.46	0.00	0.25	1.46
8.							
9.	Total	13.19	13.48	14.98	2.67	2.97	4.48
10.	Average O&M	1.84	1.88	2.07	1.84	1.88	2.08
11.							
12.	Annual	15.03	15.36	17.05	4.51	4.86	6.57
13.	Monthly	1.25	1.28	1.42	0.38	0.40	0.55
14.							
15.	One-Time-						
16.	Payment Factor	N/A	151.92	213.56	N/A	48.03	82.24

2. **For equipment that received GRC approval for COO cost recovery and is replaced with equipment that is financed by a customer:**

    a. **How does the utility ensure that O&M and depreciation are no longer collected from ratepayers?**

Capital costs, including depreciation, associated with previously approved equipment that is removed from service is reduced from Rate Base and would no longer be included in the Test Year revenue requirement of SCE's next General Rate Case filing.

Ongoing operations and maintenance costs for all equipment (standard and added facilities) are recorded to the appropriate FERC account as required under the Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act ("Uniform System of Accounts," 18 C.F.R. § 101 "Operation and Maintenance Expense Chart of Accounts") The monthly O&M rate component shown in the table in SCE's response to Question 1 for added facilities is recorded as revenue and offsets SCE's revenue requirements.

b. Are there currently cases where ratepayers continue to pay O&M that would cover the new equipment in whole or in part?

Yes. When an interconnection customer enters into an interconnection agreement with SCE and a distribution facilities upgrade to existing equipment is required (one-time construction cost), ratepayers, not the interconnection customer, would pay O&M for the new equipment so long as the new equipment was comparable in nature to the original item of property. For example: if a 35 Ft wood pole was replaced with a 45 Ft wood pole, then this equipment would be comparable in nature and ratepayers, not the interconnection customer, would continue to be responsible for paying for ongoing O&M. On the other hand, if a 35 Ft wood pole was replaced with a Tubular Steel Pole, then this equipment would not be comparable in nature and the interconnection customer would therefore assume the responsibility of paying for ongoing O&M.

Alternatively, if the location where an interconnection customer will operate requires new equipment to meet the interconnection customer's needs (Example: a new capacitor bank that increases reliability in that location) ratepayers would not be responsible for O&M costs even though ratepayers may benefit from the increased reliability – the interconnection customer would be responsible for this ongoing O&M.

3. **Please respond as appropriate to the following IOU-specific questions**:

a. SCE does not charge O&M for equipment replacement that is like for like. How is this defined? Does it include reconductoring and transformer upsizing?

SCE defines like-for-like as replacing existing equipment with equivalent equipment. This generally applies to poles and reconductoring. Transformers also apply under certain operational configurations.

b. Would PG&E and SDG&E consider not charging O&M for equipment replacement that is like for like?

This question is not directed to SCE.

c. SCE does not charge depreciation, return on investment, or income tax for upgrades that are customer financed. Is that true for PG&E and SDG&E?

SCE confirms, as shown in the table included in SCE's response to Question 1, that SCE does not include depreciation, return on investment, or income taxes for distribution upgrades or added/interconnection facilities when such facilities are financed by the customer.

d. PGE does not charge COO for moving the location of a facility. Is that true for SCE and SDG&E?

When SCE relocates assets to accommodate a customer, the customer is responsible for paying the construction costs and associated Income Tax Component of Contribution (ITCC). *The customer is <u>not</u> charged ongoing operations and maintenance costs for relocating the asset.*

e. What are the customer options for whether to pay upfront for replacement after a certain number of years? Is the one-time payment option only available if the customer elects replacement in perpetuity? SCE stated that the one-time payment is available only if replacements in perpetuity are pre-paid, but a GRC document seems to indicate it is also available if replacement is only within a 20-year term (2015 GRC, Results of Operations Volume 1, SCE-10, p. 88). Please clarify. PG&E stated that all or most of its COO one-time payment assessments are for a 12-year term. Please verify and explain how that works.

Pursuant to SCE's Rule 2, Section H.2.d, "Where SCE determines the collection of monthly charges to be impractical, the Added Facilities [or Interconnection Facilities under Rule 21] customer is required to make an equivalent one-time payment in lieu of the monthly charges. *The applicable payment options, if any, will be selected solely by SCE*." (Emphasis added).

While SCE's 2015 GRC testimony (Results of Operations Volume 1, SCE-10, p.88) contemplated offering a one-time payment option with 20-year replacement for Customer-Financed Added Facilities, it is SCE's general policy to only offer one-time payment with replacement in perpetuity for Customer-Financed Added Facilities.