

PRELIMINARY STATEMENT

Sheet 1

AAA. Post Test Year Ratemaking Mechanism (PTYR)

1. Purpose

The Post Test Year Ratemaking (PTYR) mechanism shall provide SCE with additional authorized Distribution and Generation base revenues during 2016 and 2017 in accordance with D.15-11-021. (T) (T)

The most current California Public Utilities Commission-authorized revenue requirements are located in Preliminary Statement YY, Base Revenue Requirement Balancing Account (BRRBA).

The PTYR mechanism consists of the following three elements:

- a. Operation and Maintenance (O&M) Expense Adjustment
- b. Capital Additions Adjustment; and
- c. Z-Factors Adjustment

2. Applicability

The PTYR mechanism is effective for calendar years 2016 and 2017, unless (T) extended by Commission order.

3. Definitions:

a. Capital Additions

Post-test year capital additions are escalated as follows in accordance with D.15-11-021. The test year 2015 authorized CPUC gross additions of \$2.447 billion are escalated by 2.00% for 2016 and 2.00% for 2017. The authorized gross additions for 2016 and 2017 shall be \$2.496 billion and \$2.546 billion respectively. (C) (C)

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(To be inserted by utility)

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Senior Vice President

(To be inserted by Cal. PUC)

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AAA. Post Test Year Ratemaking Mechanism (PTYR) (Continued)

3. Definitions: (Continued)

b. GRC Escalation Rate Methodology

The GRC Escalation Rate Methodology shall be used to implement 2016 and 2017 Operation and Maintenance (O&M) expense adjustments adopted in D.15-11-021 as follows:

- (1) Adjustment of labor and non-labor O&M expenses is based on the most current forecast of escalation rates from IHS Global Insight's (IHS) Power Planner services as of November 1, and currently ratified collective bargaining agreements; (T)
- (2) Adjustments of labor expenses related to disability programs, executive benefits, and 401(k), are based on escalation rates from IHS as of November 1; (T)
- (3) Any forecast error in O&M expense adjustment resulting from the difference between escalation factors using the most current IHS factor projections, and subsequent escalation rate projections shall not be recovered from, or returned to SCE's customers; and
- (4) 2016 and 2017 medical programs expenses, including Post-Employment Benefits Other Than pensions (PBOPs), are calculated using an eight percent (8%) escalation rate.

c. Z-Factor: Z-Factors (Exogenous Cost Adjustments) are those events that result in a major cost impact to SCE.

4. Establishment of PTYR Revenue Requirements

By December 1, of the Post Test Year, SCE shall file an advice letter with the Commission to implement the updated Post Test Year revenue requirements. The updated Post Test Year revenue requirement shall be based on the following:

- a. O&M expense escalation using the GRC Escalation Rate Methodology;
- b. Capital costs based on the Capital Additions methodology approved in D.15-11-021;
- c. Continuation of the Z-Factors methodology authorized in D.15-11-021.

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AAA. Post Test Year Ratemaking Mechanism (PTYR) (Continued)

5. Z-Factors:

Continuation of the Z-Factors methodology is authorized in D.06-05-016. In order to receive the ratemaking treatment provided for a Z-Factor, a Potential Z-Factor, must qualify as a Z-Factor under the criteria set forth in Decision No. 94-06-011:

a. Identification of Potential Z-Factors:

A Potential Z-Factor may be identified by SCE or the Office of Ratepayer (T)
Advocates (ORA). The Commission shall be notified of all Potential (T)
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 SCE, 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 (T)
Letter of Notification shall also be sent to the Vice President of Regulatory
Operations and the Manager of the Revenue Requirements Division of SCE.
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 per D.94-06-011.

b. Application for Z-Factor Recovery:

In order to receive recovery of a Z-Factor, SCE shall include its request for recovery of the revenue requirement associated with the Potential Z-Factor in an Advice Filing.

c. Z-Factor Threshold:

SCE will bear the risk of all potential Z-Factors which do not have a financial impact on SCE 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 SCE is seeking Z-Factor recovery.

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