

PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco CA 94102-3298



Southern California Edison Company
ELC (Corp ID 338)
Status of Advice Letter 5267E
As of May 19, 2024

Subject: Recovery of the 110 Percent Reasonableness Threshold Undercollection in the Wildfire Risk Mitigation Balancing Account

Division Assigned: Energy

Date Filed: 04-05-2024

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Effective Date:	05-05-2024

Resolution Required: No

Resolution Number: None

Commission Meeting Date: None

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PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
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To: Energy Company Filing Advice Letter

From: Energy Division PAL Coordinator

Subject: Your Advice Letter Filing

The Energy Division of the California Public Utilities Commission has processed your recent Advice Letter (AL) filing and is returning an AL status certificate for your records.

The AL status certificate indicates:

- Advice Letter Number
- Name of Filer
- CPUC Corporate ID number of Filer
- Subject of Filing
- Date Filed
- Disposition of Filing (Accepted, Rejected, Withdrawn, etc.)
- Effective Date of Filing
- Other Miscellaneous Information (e.g., Resolution, if applicable, etc.)

The Energy Division has made no changes to your copy of the Advice Letter Filing; please review your Advice Letter Filing with the information contained in the AL status certificate, and update your Advice Letter and tariff records accordingly.

All inquiries to the California Public Utilities Commission on the status of your Advice Letter Filing will be answered by Energy Division staff based on the information contained in the Energy Division's PAL database from which the AL status certificate is generated. If you have any questions on this matter please contact the:

Energy Division's Tariff Unit by e-mail to
edtariffunit@cpuc.ca.gov

April 5, 2024

ADVICE 5267-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Recovery of the 110 Percent Reasonableness Threshold
Undercollection in the Wildfire Risk Mitigation Balancing
Account

PURPOSE

In accordance with Ordering Paragraph (OP) 15 of California Public Utilities Commission (Commission) Decision (D.)21-08-036 (or the Decision) and Preliminary Statement Part CCCC of Southern California Edison Company's (SCE) tariffs, SCE submits this advice letter to recover the undercollection associated with the 110 percent reasonableness threshold (Track 1 Reasonableness Threshold) adopted for SCE's Wildfire Covered Conductor Program (WCCP)-related capital expenditures over the 2019 to 2023 period (Track 1 period) that are eligible for recovery via the Wildfire Risk Mitigation Balancing Account (WRMBA). Upon approval of this advice letter, SCE will transfer the initial undercollection associated with the Track 1 Reasonableness Threshold amounts from the WRMBA to the distribution subaccount of the Base Revenue Requirement Balancing Account (BRRBA-D) for recovery in customers' distribution rates. SCE will also annually transfer the ongoing undercollection revenue requirement,¹ as of December 31 of each year, associated with the Track 1 Reasonableness Threshold amount from the WRMBA to BRRBA-D until the ongoing capital-related revenue requirements are included in SCE's General Rate Case (GRC) base rates.

¹ The ongoing undercollection revenue requirement results from the recording of the ongoing capital-related revenue requirements and interest expense associated with the Track 1 WCCP-related capital expenditures up to the Track 1 Reasonableness Threshold in the WRMBA.

BACKGROUND

On August 19, 2021, the Commission adopted D.21-08-036, which, in pertinent part, authorized the establishment of the two-way WRMBA to record the difference between (1) the WCCP capital expenditures authorized for the Track 1 period and (2) SCE’s actual (recorded) WCCP capital expenditures incurred over the Track 1 period. In accordance with OP 15 of the Decision and Preliminary Statement Part CCCC, recovery of any undercollection that is associated with up to 110 percent of the authorized Track 1 capital expenditure amount is to be submitted via a Tier 2 advice letter. Recovery of the revenue requirements associated with Track 1 WCCP capital expenditures in excess of 110 percent of the Track 1 authorized amount must be requested via an application.²

TRACK 1 WCCP REASONABLENESS THRESHOLD

As shown in Section 2.a of Preliminary Statement Part CCCC, WRMBA, the Track 1 Authorized Level of WCCP Expenditures was \$2,501.488 million. To calculate the Track 1 Reasonableness Threshold, the Track 1 Authorized Level of WCCP Expenditures of \$2,501.488 million is multiplied by 110 percent. The product of that calculation is \$2,751.637 million (Track 1 Reasonableness Threshold).

RECORDED TRACK 1 WCCP CAPITAL EXPENDITURES (2019-2023)

Over the Track 1 period, SCE recorded WCCP-related capital expenditures totaling \$3,337.425 million, as shown in Table 1 below, which is above the Track 1 authorized amount (i.e., \$2,501.488 million) and the Track 1 Reasonableness Threshold amount (i.e., \$2,751.637 million).

**Table 1
SCE’s Recorded Track 1 WCCP Capital Expenditures (\$000)**

	2019	2020	2021	2022	2023	Total
Total Recorded	247,366	552,549	921,691	808,598	807,222	3,337,425

*Numbers may not sum exactly due to rounding.

As shown in Table 2 below, approximately \$57.053 million of the capital expenditures included in the \$2,751.637 million were in construction-work-in-progress (CWIP) status as of January 31, 2024.³

² SCE is filing this application concurrently with the submittal of this advice letter – on April 5, 2024.

³ There is a one-month lag between when assets close to plant and when their associated revenue requirements begin recording in the WRMBA.

Table 2
Track 1 WCCP Capital Expenditures in CWIP Status as of January 31, 2024 (\$000)

Line No.	Capital Expenditures	WRMBA AB 1054	Non-AB 1054	
			WRMBA (≤110%)	WRMBA (>110%)
1.	Covered Conductor	971,877	1,721,550	573,734
2.	Tree Attachment Remediations	23,972	33,988	12,065
3.	Vibration Dampers	-	252	(11)
4.	Total - Capital Expenditures	995,848	1,755,789	585,788
	Plant-In-Service	WRMBA AB 1054	WRMBA (≤110%)	WRMBA (>110%)
5.	Covered Conductor	971,877	1,665,673	486,420
6.	Tree Attachment Remediations	23,972	32,915	11,678
7.	Vibration Dampers	-	149	7
8.	Total - Plant-In-Service	995,848	1,698,736	498,105
	CWIP	WRMBA AB 1054	WRMBA (≤110%)	WRMBA (>110%)
9.	Covered Conductor	-	55,877	87,313
10.	Tree Attachment Remediations	-	1,073	387
11.	Vibration Dampers	-	103	(18)
12.	Total - CWIP	-	57,053	87,683

Not all of the numbers sum exactly due to rounding.

This means that even though SCE has incurred these capital expenditures during the Track 1 period, the assets have not yet been placed into service and a revenue requirement has not been calculated or recorded in the WRMBA for these amounts. However, when the assets are placed in-service, the calculation of the capital-related revenue requirement that will record in the WRMBA is formulaic in nature. SCE provides the calculation methodology in Attachment A.

RECORDED UNDERCOLLECTION AS OF FEBRUARY 29, 2024⁴

Pursuant to the Decision, SCE is authorized to recover the undercollection associated with the Track 1 Reasonableness Threshold amount via a Tier 2 advice letter. Table 3 below sets forth the undercollection, as of February 29, 2024, that has recorded in the WRMBA associated with the Track 1 Reasonableness Threshold amount.⁵

⁴ Workpapers demonstrating the calculation of the recorded undercollection as of February 29, 2024 are available upon request.

⁵ The undercollection sought for recovery herein is solely for amounts recorded in the “Track 1 WCCP Costs Not Subject to AB 1054” subaccount of the WRMBA.

Table 3
Track 1 Reasonableness Threshold Undercollection as of February 29, 2024
(\$000)

	2021	2022	2023	2024	Total
Track 1 Authorized Revenue Requirement (a)	(10,516)	(50,945)	(135,974)	(39,341)	(236,776)
Track 1 Recorded Capital-Related Revenue Requirement					
Depreciation	7,313	35,020	63,354	11,485	117,172
Income Taxes	(28,470)	(12,073)	21,838	6,079	(12,626)
Property Taxes	672	4,831	13,037	3,119	21,658
Return	16,989	75,572	117,740	21,740	232,041
Total Recorded (b)	(3,496)	103,349	215,970	42,423	358,246
Interest (c)	(1)	263	3,643	1,098	5,004
Total (Over)/Undercollection (d = a+b+c)	(14,013)	52,668	83,638	4,181	126,474

Numbers may not sum exactly due to rounding.

As shown on line (a) of Table 3, the total Track 1 Authorized Revenue Requirement for 2021 through February 2024 is \$236.776 million. This is the amount that is already included in customers' GRC base rates, which is why it is recorded as a credit entry in the WRMBA.

- In the WRMBA tariff, the Track 1 Authorized Revenue Requirements for 2021 and 2022 are \$10.531 million and \$50.930 million, respectively. The reason the amounts in Table 3 differ by \$0.015 million across the two years is because SCE recorded an adjustment to the 2021 Authorized Revenue Requirement in January 2022 in the amount of (\$0.015) million to ensure the Track 1 Authorized Revenue Requirements recorded in the WRMBA closing sheet were accurate and not understated by \$0.015 million.⁶
- The 2024 Authorized Revenue Requirement included in the WRMBA tariff is \$235.234 million. This 2024 Authorized Revenue Requirement includes both the ongoing capital-related revenue requirement associated with the Track 1 WCCP-related capital expenditures (for capital expenditures up to the Track 1 authorized amount) and the capital-related revenue requirement associated with Track 4 WCCP-related capital expenditures authorized in D.23-11-096.⁷ The Track 1 portion of this 2024 revenue requirement is \$242.843 million. The reason it is higher than the amount shown in the tariff is because the Track 4 portion of this 2024 revenue requirement is a credit of (\$7.608) million due to tax benefits that

⁶ In 2021, SCE inadvertently recorded authorized revenue in an amount that was off by \$0.015 million. That is the reason the adjustment was needed in 2022.

⁷ SCE is not seeking recovery of any amounts associated with the Track 4 WCCP-related capital expenditures in this advice letter.

record in year 1 for the Track 4 capital associated with cost of removal and tax depreciation. Taken together, \$242.843 million plus a credit of (\$7.608) million equals the \$235.234 million amount shown in the WRMBA tariff.⁸ To calculate the \$39.341 million shown in Table 3 above for the Track 1 portion of the Authorized Revenue Requirement for 2024 as of February 29, 2024, the January and February Monthly Distribution Percentages (MDPs) of 8.60 percent and 7.60 percent, respectively,⁹ are applied to the \$242.843 million (i.e., \$242.843 million * 8.60% = \$20.884 million; \$242.843 million * 7.60% = \$18.456 million; \$20.884 million + \$18.456 million = \$39.341 million).¹⁰

As shown on line (b) of Table 3, the recorded capital-related revenue requirement associated with the Track 1 Reasonableness Threshold amount as of February 29, 2024 is \$358.246 million.¹¹ This recorded amount reflects both the actual capital-related revenue requirements recorded for Track 1 WCCP-related capital expenditures up to 100 percent of the authorized amount and the incremental capital-related revenue requirements associated with Track 1 WCCP-related capital expenditures between 100 and 110 percent of the authorized amount. The interest expense associated with the average of the beginning and monthly ending balances in the WRMBA associated with the Track 1 Reasonableness Threshold amount from January 1, 2021 through February 29, 2024 is \$5.004 million (line (c)). Lines (a), (b) and (c) are then summed together to calculate the \$126.474 million undercollection associated with the Track 1 Reasonableness Threshold amount as of February 29, 2024.

Upon approval of this advice letter, SCE will transfer the undercollection recorded in the WRMBA associated with the Track 1 Reasonableness Threshold amount (plus the ongoing capital-related revenue requirements and interest expense that will record to the Track 1 WRMBA associated with the Track 1 Reasonableness Threshold amount during the review period for this advice letter) to BRRBA-D for recovery from customers in distribution rate levels.¹² On each December 31 thereafter, SCE will transfer the ongoing undercollection revenue requirement that will record in the Track 1 WRMBA associated with the Track 1 Reasonableness Threshold amount to BRRBA-D until the ongoing capital-related revenue requirements are fully included in SCE's GRC base rates.

⁸ The math is slightly off in the last digit shown due to rounding.

⁹ The MDPs are included in Section 2.i of SCE's tariffed Preliminary Statement Part YY, BRRBA.

¹⁰ The math is slightly off in the last digit shown due to rounding.

¹¹ As explained above, this does not include any recorded revenue requirements associated with the \$57.053 million of CWIP capital expenditures.

¹² A gross-up for FF&U will be added to the revenue requirements when put into customer rate levels.

RATE AND BILL IMPACTS

Table 4 provides illustrative average rate and bill impacts associated with the recovery of the initial undercollection (i.e., \$126.474 million) set forth herein over the standard 12-month recovery period.¹³

Table 4 – Illustrative Rate and Bill Impacts

Bundled Average Rates (¢/kWh)						
Customer Group	Current Rates		Proposed Change	Proposed Rates		% Change
Residential		33.77	0.21		33.98	0.6%
Lighting - Small and Medium Power		30.05	0.18		30.23	0.6%
Large Power		20.51	0.12		20.63	0.6%
Agricultural and Pumping		23.99	0.15		24.13	0.6%
Street and Area Lighting		36.46	0.16		36.63	0.4%
Standby		17.00	0.03		17.03	0.2%
Total		28.47	0.17		28.64	0.6%

Residential Bill Impact (\$/Month)							
Description	Current		Proposed Change		Proposed	% Change	
Non-CARE Residential Bill	\$	180.40	\$	1.08	\$	181.49	0.6%
CARE Residential Bill	\$	122.12	\$	0.73	\$	122.86	0.6%

As shown in Table 4, a typical non-CARE residential customer using 500 kWh per month could see a monthly bill increase of \$1.08 (an increase of approximately 0.6 percent). A typical CARE residential customer using 500 kWh per month could see a monthly bill increase of \$0.73 (an increase of approximately 0.6 percent).

This advice letter will not cause the withdrawal of service or conflict with any other schedule or rule.

TIER DESIGNATION

Pursuant to OP 15 of the Decision, this advice letter is submitted with a Tier 2 designation.

EFFECTIVE DATE

This advice letter will become effective on May 5, 2024, which is 30 calendar days after the date of this advice letter.

NOTICE

Anyone wishing to protest this advice letter may do so only electronically. Protests must be received no later than 20 days after the date of this advice letter. Protests should be submitted to the CPUC Energy Division at:

¹³ This analysis uses SCE’s March 1, 2024 rates as the starting point (“current rates”) and excludes any impact from greenhouse gas (GHG) credits.

E-mail: EDTariffUnit@cpuc.ca.gov

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

Connor Flanigan
Managing Director, State Regulatory Operations
Southern California Edison Company
E-mail: AdviceTariffManager@sce.com

and

Adam Smith
Director, Regulatory Relations
Southern California Edison Company
c/o Karyn Gansecki
E-mail: Karyn.Gansecki@sce.com

There are no restrictions on who may submit a protest, but the protest shall set forth specifically the grounds upon which it is based and must be received by the deadline shown above.

In accordance with General Rule 4 of GO 96-B, SCE is serving copies of this advice letter to the interested parties shown on the attached GO 96-B and A.19-08-013 service lists. Address change requests to the GO 96-B service list should be directed by electronic mail to AdviceTariffManager@sce.com or at (626) 302-6838. For changes to all other service lists, please contact the Commission's Process Office at (415) 703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

To view other SCE advice letters submitted with the Commission, log on to SCE's web site at <https://www.sce.com/wps/portal/home/regulatory/advice-letters>.

For questions, please contact Erin Pulgar at (626) 302-2509 or by electronic mail at Erin.Pulgar@sce.com.

Southern California Edison Company

/s/ Connor Flanigan
Connor Flanigan

CF:ep:bs
Enclosures



ADVICE LETTER SUMMARY

ENERGY UTILITY



MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.:

Utility type:

ELC GAS WATER
 PLC HEAT

Contact Person:

Phone #:
E-mail:
E-mail Disposition Notice to:

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas WATER = Water
PLC = Pipeline HEAT = Heat

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #:

Tier Designation:

Subject of AL:

Keywords (choose from CPUC listing):

AL Type: Monthly Quarterly Annual One-Time Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL:

Summarize differences between the AL and the prior withdrawn or rejected AL:

Confidential treatment requested? Yes No

If yes, specification of confidential information:

Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? Yes No

Requested effective date:

No. of tariff sheets:

Estimated system annual revenue effect (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed¹:

Pending advice letters that revise the same tariff sheets:

¹Discuss in AL if more space is needed.

Protests and correspondence regarding this AL are to be sent via email and are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

California Public Utilities Commission
Energy Division Tariff Unit Email:
EDTariffUnit@cpuc.ca.gov

Contact Name:
Title:
Utility/Entity Name:

Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:

Contact Name:
Title:
Utility/Entity Name:

Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:

CPUC
Energy Division Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

ENERGY Advice Letter Keywords

Affiliate	Direct Access	Preliminary Statement
Agreements	Disconnect Service	Procurement
Agriculture	ECAC / Energy Cost Adjustment	Qualifying Facility
Avoided Cost	EOR / Enhanced Oil Recovery	Rebates
Balancing Account	Energy Charge	Refunds
Baseline	Energy Efficiency	Reliability
Bilingual	Establish Service	Re-MAT/Bio-MAT
Billings	Expand Service Area	Revenue Allocation
Bioenergy	Forms	Rule 21
Brokerage Fees	Franchise Fee / User Tax	Rules
CARE	G.O. 131-D	Section 851
CPUC Reimbursement Fee	GRC / General Rate Case	Self Generation
Capacity	Hazardous Waste	Service Area Map
Cogeneration	Increase Rates	Service Outage
Compliance	Interruptible Service	Solar
Conditions of Service	Interutility Transportation	Standby Service
Connection	LIEE / Low-Income Energy Efficiency	Storage
Conservation	LIRA / Low-Income Ratepayer Assistance	Street Lights
Consolidate Tariffs	Late Payment Charge	Surcharges
Contracts	Line Extensions	Tariffs
Core	Memorandum Account	Taxes
Credit	Metered Energy Efficiency	Text Changes
Curtable Service	Metering	Transformer
Customer Charge	Mobile Home Parks	Transition Cost
Customer Owned Generation	Name Change	Transmission Lines
Decrease Rates	Non-Core	Transportation Electrification
Demand Charge	Non-firm Service Contracts	Transportation Rates
Demand Side Fund	Nuclear	Undergrounding
Demand Side Management	Oil Pipelines	Voltage Discount
Demand Side Response	PBR / Performance Based Ratemaking	Wind Power
Deposits	Portfolio	Withdrawal of Service
Depreciation	Power Lines	

Attachment A
Calculation of the Capital-Related
Revenue Requirements for WCCP
Capital Expenditures

Attachment A

Calculation of the Capital-Related Revenue Requirements for WCCP Capital Expenditures

A. Capital-Related Revenue Requirement

The capital-related revenue requirement recorded in the Wildfire Risk Mitigation Balancing Account (WRMBA), which is based on Plant-In-Service, includes depreciation expense, applicable taxes, SCE's applicable return associated with SCE's capital expenditures, and interest.

1. Capital Additions and Plant-In-Service

Capital expenditures are not included in rate base until the assets are ready for service. The accounting for this is prescribed by the Federal Energy Regulatory Commission (FERC). When incurred, capital expenditures record to FERC Account 107, CWIP.¹ While in CWIP, costs typically accrue capitalized financing costs, referred to as AFUDC,² at rates based on a prescribed formula in the FERC Uniform System of Account (USOA). Once the assets are ready for service, cumulative costs, including both corporate overheads and AFUDC, are transferred from CWIP to Plant-In-Service as Capital Additions. At this same time, AFUDC accruals are stopped, the cumulative balance is included in rate base, and depreciation expense begins.

a) Depreciation Expense

To provide service to its customers, SCE incurs expenses and makes capital expenditures. Generally Accepted Accounting Principles (GAAP) and the application of FERC USOA govern whether a particular cost should be capitalized or expensed. While SCE earns a return on its capital assets by applying an authorized rate of return to its rate base, SCE's return of investors' capital occurs through depreciation expense. Depreciation expense, recorded in the WRMBA, is accrued at depreciation rates authorized in SCE's applicable General Rate Case (GRC). Depreciation provides

¹ "CWIP" stands for "Construction-Work-In-Progress."

² "AFUDC" stands for "Allowance for Funds Used During Construction."

a mechanism for the recovery of the original cost of the capital expenditures, and the future cost to retire those assets over their useful life. Depreciation expense is calculated, starting from the date Capital Additions are recorded as Plant-In-Service. The recorded Plant-In-Service is the base to which the annual depreciation rate is applied.

b) Income Taxes

The recovery of costs recorded in SCE's WRMBA includes the related income tax expense. For ratemaking purposes, income tax expense is a function of revenue requirement, cost-of-service amounts, and capital expenditures, as adjusted to comply with income tax rules. Total income tax expense is equal to the current federal and state income tax expense plus the deferred income tax expense.

Current income tax expense is computed by multiplying taxable income by the applicable income tax rate. Taxable income is computed by applying Income Tax Adjustments to book net operating revenue to conform to federal and state tax rules.

To compute the deferred income tax expense, Income Tax Adjustment amounts that are subject to the tax normalization method of accounting treatment required by Internal Revenue Code (IRC) Section 168(i)(9) or that are authorized by the Commission to be normalized (hereinafter simply referred to as "normalization") are multiplied by the applicable income tax rate. The tax normalization rules of the IRC and related guidance state that, for ratemaking purposes, if the depreciation method permitted by the IRC differs from the book depreciation method used for cost-of-service purposes, then a taxpayer is required to credit the resulting amount of taxes deferred to a reserve for deferred taxes, i.e., to an accumulated deferred income tax (ADIT) balance sheet account that is included in the adjustment to rate base.

Income Tax Adjustments not subject to normalization are accorded “flow-through” tax treatment. Under flow-through treatment, any tax benefit or detriment associated with Income Tax Adjustments flow directly into rates without any offsetting deferred income tax expense or benefit. Only the current income tax expense would be affected by these Income Tax Adjustments. Accordingly, under flow-through ratemaking, tax positions that reduce current income tax expense benefit current ratepayers as SCE claims these accelerated tax deductions.

Primarily, there are three types of Income Tax Adjustments used to derive income tax expense for purposes of calculating WRMBA-related revenue requirements: tax depreciation, tax repairs deduction, and cost of removal.

(1) Tax Depreciation

For Federal income tax purposes, assets placed in service after 1980 are depreciated using either the Accelerated Cost Recovery System (ACRS) or the Modified Accelerated Cost Recovery System (MACRS) under IRC Section 168. ACRS and MACRS generally provide greater annual depreciation deductions in the early years of an asset’s life than typically allowed for financial reporting (i.e., “book”) purposes. SCE utilizes ACRS/MACRS depreciation to the extent permitted by the IRC and has reflected these depreciation amounts in this proceeding. Differences between tax depreciation under IRC Section 168 and depreciation expenses for ratemaking and book purposes are subject to normalization.

California has never adopted ACRS/MACRS depreciation and instead permits the asset depreciation range (ADR) methodology, which typically includes straight-line, the sum of the years-digit, or other acceptable declining balance approach over its depreciation period. The ADR rules are not subject to the normalization requirements of IRC Section 168(i)(9). Therefore, flow-through tax treatment applies to these state tax depreciation differences, and also to pre-1981 (i.e., pre-MACRS/ACRS) federal tax depreciation adjustments.

(2) Tax Repairs Deduction

This Income Tax Adjustment reflects the book-tax difference for expenditures that are deductible as repairs for tax purposes when incurred but capitalized for book purposes. For tax purposes, SCE applies the repair deduction guidance in IRS Revenue Procedures 2011-43 and 2013-24. The notable feature of these revenue procedures is these procedures define “units of property” more broadly than the applicable regulatory accounting guidance. These more expansive unit of property definitions generally result in the deduction of expenditures for tax purposes that typically are capitalized for book purposes. The IRC does not require repair deductions be normalized. Therefore, SCE utilizes flow-through tax treatment for these differences.

(3) Cost of Removal

Removal costs are deductible for income tax purposes when they are incurred. For book purposes, removal costs are estimated and accrued over the life of the asset as a component of book depreciation expense. Removal costs associated with assets depreciable under IRC Section 168 are accorded normalization treatment, whereas removal costs associated with assets not depreciable under IRC Section 168 are generally accorded flow-through tax treatment.

c) Property Taxes

SCE has an obligation to pay ad valorem (property) taxes to the taxing authorities of each state in which taxable property is located. Taxable property is derived from the capital expenditures, net of accumulated depreciation and deferred taxes and adjusted by an assessment value ratio. Property tax expense is a function of taxable property and the applicable property tax rate.

d) Return on Rate Base

SCE calculated the rate of return on rate base, using the currently authorized rate of return of 7.87 percent, as approved in Decision (D.)22-12-031 (as

corrected in D.23-01-002) and Advice 5120-E. On a recorded basis, SCE will update its rate of return on rate base to be consistent with the then-current authorized rate of return.

e) **Interest**

The balance recorded in the WRMBA accrues monthly interest, using the three-month non-financial commercial paper rate, as specified in SCE's Commission-approved WRMBA tariff.