**PBOPs Formula Rate Issue Description**

**Issue:** There are issues in the PBOPs mechanism[[1]](#footnote-1) that if not addressed will cause the PBOPs mechanism to not operate as intended. The intention of the PBOPs mechanism is that it operate in the same manner as a balancing account, so that if SCE has over- or under-recovered its PBOPs costs during a specified period the mechanism resets the stated Authorized PBOPs Expense Amount to line up with SCE’s latest forecast of PBOPs costs and to include any past over- or under-recovery of PBOPs costs in the new authorized PBOP expense amount(s). There are two separate issues with the mechanism as it currently exists:

1. SCE’s PBOPs formula does not provide for any over- or under-recovery in the Prior PBOPs Recovery Period (called the Cumulative PBOPs Recovery Difference) to be carried forward so that it is actually recovered from or returned to transmission customers. In essence, it forgets about it in resetting the new Authorized PBOPs Recovery Amount and the associated Cumulative PBOPs Recovery Difference.
2. There is a timing misalignment in the mechanism so that an over- or under-recovery from the most recent calendar year (the Prior Year) could in fact not be realized because the new authorized PBOPs expense amount would “overwrite” the amount assumed in determining the “Prior PBOPs Recovery Difference”.

**Description of Issue #1: No Carry-Forward of the Cumulative PBOPs Recovery Difference**

The root cause of Issue #1 is the formula does not reflect that a portion of the “Authorized PBOPs Recovery” beginning in the second two-year interval (in this case, 2014 and 2015) includes the over- or under-recovery from the first two-year interval (in this case 2012 and 2013). However, when the third two-year interval arrives (2016 and 2017), any over- or under-recovery is calculated ignoring the over or under-recovery from the first two-year interval.

The reason why this occurs is that in determining the “Authorized PBOPs Expense Amount” for the third two-year interval, the comparison is between the previous period (second two-year interval) “Authorized PBOPs Recovery Amount” and actual PBOPs expenses. This comparison should include a correction to the “Authorized PBOPs Recovery Amount” to reflect that a portion of it is in fact the over- or under-recovery from the first two-year interval.

**Solution to Issue #1:**

Revise the formula to correct for the over- or under-recovery. See proposed revisions to Schedule 35, Note 1 “Calculation of Cumulative PBOPs Recovery Difference” with the insertion of the cumulative over- or under-recovery in column 3, used to derive an “Adjusted PBOPs Recovery” amount in Column 4. This “Adjusted PBOPs Recovery” is then used in determining the over- or under-recovery for those years, which then feeds back into the new “Filing PBOPs Expense” on Lines 5 and 6.

**Issue #2: Misalignment of Years in Mechanism**

The current protocols state that if the conditions to make a filing are met (i.e., the PBOPs actual recovery is straying too far from the PBOPs actual costs), then the authorized PBOPs Expense Amount for the “current Rate Year and the Rate Year immediately succeeding the Current Rate Year” will be revised:

“If the absolute value of the sum of the Cumulative PBOP Recovery Difference and the Future PBOP Recovery Difference is greater than twenty (20) percent of the sum of SCE’s forecast PBOP expense for the then-current Rate Year and the immediately succeeding Rate Year, SCE will make a single-issue Section 205 filing to adjust the Authorized PBOPs Expense Amount. **In such filing, (a) the Authorized PBOP Expense Amount for the current Rate Year and the Rate Year immediately succeeding the Current Rate Year will be set equal to the forecast PBOP expense level for each such Rate Year plus one-half of the Cumulative PBOP Recovery Difference, and (b) the Authorized PBOPs Expense Amount for the second succeeding Rate Year (i.e., the Rate Year two years after the current Rate Year) and thereafter will be set equal to the average forecast PBOP expense level for the second, third and fourth succeeding Rate Years.**  Neither SCE nor any party may raise in connection with such filing any issue affecting the Formula Rate other than the level of Authorized PBOPs Expense Amount.” (from Protocol Section 8b, emphasis added)

The issue here is created by the fact that the “Current Rate Year” is actually the current year;[[2]](#footnote-2) and that the Authorized PBOPs Expense Amount in the formula is applied to the Prior Year (i.e., the year previous to the Annual Update filing) for the calculation of both the Prior Year TRR and the True Up TRR (because the formula calculates both on the Prior Year costs). If SCE makes a filing to revise the Authorized PBOPs Recovery Amount for the “Current Rate Year”, the True Up TRR for the “Prior Year” (previous to the “Current Rate Year”) would be based on the new Authorized PBOPs Recovery Amount.

This creates an internal inconsistency in the formula between the amount assumed in calculating the “Cumulative PBOP Recovery Difference” on Line 1 of Schedule 35 (the old stated Authorized PBOPs Expense Amount), and the amount used in determining the True Up TRR (the new stated Authorized PBOPs Expense Amount).

**Solution to Issue #2:**

The PBOPs mechanism must be modified so that the Authorized PBOPs Expense Amount will apply to the True Up TRR for the current calendar year, not the True Up TRR for the previous calendar year. This can be accomplished by:

1. Submitting the Section 205 filing in mid-summer of the year the Draft Annual Update determines that a filing is needed, requesting an effective date of January 1 of that year.
2. Make revisions to the Schedule 4 (True Up TRR) of the formula to ensure that the correct “Authorized PBOPs Recovery Amount” is applied to the calculation of the True Up TRR. This can be accomplished utilizing a new “PBOPs True Up TRR Adjustment” calculated in Schedule 35 (new lines 10-14) that determines the adjustment to the True Up TRR necessary for the True Up TRR to be calculated using the stated Authorized PBOPs Expense Amount that was actually in effect for that year. This new “PBOPs True Up TRR Adjustment” is then included in determination of the True Up TRR in Schedule 4 as new line 27a.

The calculation of the PBOPs True Up TRR Adjustment in Schedule 35 is as follows for the TO9 filing, to be applied to the True Up TRR for 2013:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Calculation of PBOPs True Up TRR Adjustment (See Note 3): | | | | | |
| **Line** | |  |  |  |  | **Amount** |
| **10** |  |  |  |  | Authorized PBOPS Expense Amount for Prior Year: | $52,707,000 |
| **11** |  |  |  |  | Current Authorized PBOPs Expense Amount: | -$7,105,091 |
| **12** |  |  |  |  | Reduction from previous year: | $59,812,091 |
| **13** |  |  |  |  | Wages and Salaries Allocation Factor: | 4.2451% |
| **14** |  |  |  |  | PBOPs True Up TRR Adjustment: | $2,539,083 |

**Proposed Revisions to Protocol Section 8b**

**Note:** These revisions are to:

1. Correct the timing of when the revised “Authorized PBOPs Expense Amounts” are effective to address issue #2 above. See added sentence near the end “In the single issue filing …”, and the sentence regarding the new “PBOPs True Up TRR Adjustment” to be included in the True Up TRR each Annual Update.
2. Specify that the over- or under-recovery embedded within the previous “Authorized PBOPs Expense Amounts” is adjusted out of the determination of the new over or under recovery. See the insertion: “(adjusted to remove any amounts related to a PBOPs over- or under-recovery determined in a previous Annual Update for that same Prior PBOPs Recovery Period)”.
3. Also, the use of the term Rate Year in the protocols is incorrect in some instances in the current protocol language, since the Rate Year for a given Annual Update refers to the following calendar year, not the current year in which an Annual Update is being made. Consequently, Rate Year is replaced with “calendar year” or “year” in many instances.

Redline Revisions to 8b:

8b) With respect to Post-Retirement Benefits Other than Pensions (“PBOPs”), the Formula Rate identifies an Authorized PBOPs Expense Amount in Note 3 on Schedule 20 (Administrative and General Expenses), which is initially stated as $52,707,000. Beginning with the Draft Annual Update and Annual Update filing submitted in 2014 (for the Rate Year beginning on January 1, 2015), and every two years thereafter, SCE shall include in its Draft Annual Update and Annual Update filing an independently prepared actuarial report that includes (a) a calculation of the cumulative over-recovery or under-recovery of SCE’s actual PBOPs expense during the period beginning on the date the currently-effective Authorized PBOPs Expense Amounts became effective and ending on December 31 of the Prior Year (“Prior PBOPs Recovery Period”) and (b) a forecast of SCE’s annual PBOPs expense for the five-year period beginning January 1 of the current calendar year. The cumulative over-recovery or under-recovery of SCE’s actual PBOPs expense for the Prior PBOPs Recovery Period shall be determined by subtracting SCE’s Authorized PBOPs Expense Amount (adjusted to remove any amounts related to a PBOPs over- or under-recovery determined in a previous Annual Update for that same Prior PBOPs Recovery Period) recovered under its Formula Rate from SCE’s PBOPs expense as recorded on its books and records for each year in the Prior PBOPs Recovery Period, and shall be referred to as the “Cumulative PBOPs Recovery Difference.” Interest shall not be added to the Cumulative PBOPs Recovery Difference. SCE shall also calculate the Future PBOPs Recovery Difference for the current calendar year and the upcoming Rate Year. The Future PBOPs Recovery Difference shall be equal to (a) the sum of SCE’s forecast PBOPs expense for the current calendar Year and the upcoming Rate Year minus (b) the sum of SCE’s Authorized PBOPs Expense Amount to be recovered under its Formula Rate for the current calendar year and the upcoming Rate Year. If the absolute value of the sum of the Cumulative PBOPs Recovery Difference and the Future PBOPs Recovery Difference is greater than twenty (20) percent of the sum of SCE’s forecast PBOPs expense for the current calendar year and the upcoming Rate Year, SCE will make a single-issue Section 205 filing to adjust the Authorized PBOPs Expense Amounts. The need for such filing shall be assessed in the Draft Annual Update, and the filing shall be made prior to the Annual Update filing. In such filing, (a) the Authorized PBOPs Expense Amount for the current calendar year and the upcoming Rate Year will be set equal to the forecast PBOPs expense level for each such year plus one-half of the Cumulative PBOPs Recovery Difference, and (b) the Authorized PBOPs Expense Amount for the year following the Rate Year (i.e., the second year following the current calendar year) and thereafter will be set equal to the average forecast PBOPs expense level for the three years beginning with the year following the Rate Year. In the single issue filing, SCE shall seek to make the revised Authorized PBOPs Expense Amounts effective beginning on January 1 of the current year (i.e., year before the Rate Year associated with that Annual Update). Neither SCE nor any party may raise in connection with such filing any issue affecting the Formula Rate other than the level of the Authorized PBOPs Expense Amount. SCE will additionally include in each Annual Update a PBOPs True Up TRR Adjustment in the calculation of the True Up TRR for the Prior Year, as calculated in Schedule 35, which will ensure that the True Up TRR for the Prior Year will be based on the Authorized PBOPs Expense Amount in effect during that year. Illustrative examples showing the operation of this provision are attached as Exhibit B.

Clean version of 8b:

8b) With respect to Post-Retirement Benefits Other than Pensions (“PBOPs”), the Formula Rate identifies an Authorized PBOPs Expense Amount in Note 3 on Schedule 20 (Administrative and General Expenses), which is initially stated as $52,707,000. Beginning with the Draft Annual Update and Annual Update filing submitted in 2014 (for the Rate Year beginning on January 1, 2015), and every two years thereafter, SCE shall include in its Draft Annual Update and Annual Update filing an independently prepared actuarial report that includes (a) a calculation of the cumulative over-recovery or under-recovery of SCE’s actual PBOPs expense during the period beginning on the date the currently-effective Authorized PBOPs Expense Amounts became effective and ending on December 31 of the Prior Year (“Prior PBOPs Recovery Period”) and (b) a forecast of SCE’s annual PBOPs expense for the five-year period beginning January 1 of the current calendar year. The cumulative over-recovery or under-recovery of SCE’s actual PBOPs expense for the Prior PBOPs Recovery Period shall be determined by subtracting SCE’s Authorized PBOPs Expense Amount (adjusted to remove any amounts related to a PBOPs over- or under-recovery determined in a previous Annual Update for that same Prior PBOPs Recovery Period) recovered under its Formula Rate from SCE’s PBOPs expense as recorded on its books and records for each year in the Prior PBOPs Recovery Period, and shall be referred to as the “Cumulative PBOPs Recovery Difference.” Interest shall not be added to the Cumulative PBOPs Recovery Difference. SCE shall also calculate the Future PBOPs Recovery Difference for the current calendar year and the upcoming Rate Year. The Future PBOPs Recovery Difference shall be equal to (a) the sum of SCE’s forecast PBOPs expense for the current calendar year and the upcoming Rate Year minus (b) the sum of SCE’s Authorized PBOPs Expense Amount to be recovered under its Formula Rate for the current calendar year and the upcoming Rate Year. If the absolute value of the sum of the Cumulative PBOPs Recovery Difference and the Future PBOPs Recovery Difference is greater than twenty (20) percent of the sum of SCE’s forecast PBOPs expense for the current calendar year and the upcoming Rate Year, SCE will make a single-issue Section 205 filing to adjust the Authorized PBOPs Expense Amounts. The need for such filing shall be assessed in the Draft Annual Update, and the filing shall be made prior to the Annual Update filing. In such filing, (a) the Authorized PBOPs Expense Amount for the current calendar year and the upcoming Rate Year will be set equal to the forecast PBOPs expense level for each such year plus one-half of the Cumulative PBOPs Recovery Difference, and (b) the Authorized PBOPs Expense Amount for the year following the Rate Year (i.e., the second year following the current calendar year) and thereafter will be set equal to the average forecast PBOPs expense level for the three years beginning with the year following the Rate Year. In the single issue filing, SCE shall seek to make the revised Authorized PBOPs Expense Amounts effective beginning on January 1 of the current year (i.e., year before the Rate Year associated with that Annual Update). Neither SCE nor any party may raise in connection with such filing any issue affecting the Formula Rate other than the level of the Authorized PBOPs Expense Amount. SCE will additionally include in each Annual Update a PBOPs True Up TRR Adjustment in the calculation of the True Up TRR for the Prior Year, as calculated in Schedule 35, which will ensure that the True Up TRR for the Prior Year will be based on the Authorized PBOPs Expense Amount in effect during that year. Illustrative examples showing the operation of this provision are attached as Exhibit B.

1. Protocol language 8b, Exhibit B to the protocols, and Schedule 35 itself. [↑](#footnote-ref-1)
2. This is clear from the context as well as Exhibit B of the protocols that says that the “Current Rate Year” is the “Current Calendar Year”. [↑](#footnote-ref-2)