

September 17, 2018

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Dear Ms. Bose:

Pursuant to Section 205(d) of the Federal Power Act, 16 U.S.C. § 824d (2018), and Section 35.13 of the Federal Energy Regulatory Commission (“FERC” or the “Commission”)’s regulations, 18 C.F.R § 35.13 (2018), Southern California Edison Company (“SCE”) tenders for filing revisions to its Transmission Owner Tariff (“TO Tariff”), FERC Electric Tariff, Volume No. 6. The proposed revisions will incorporate changes to the Federal Internal Revenue Code from the recently enacted Federal Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act (“TCJA”), into SCE’s Transmission Formula Rate (“Formula Rate”). This filing includes a revised Formula Rate tariff that incorporates these changes, Exhibit SCE-1 (the Declaration of Alfred L. Lopez), and Exhibit SCE-2 (the Declaration of Berton J. Hansen). SCE requests an effective date of November 16, 2018 for the proposed Formula Rate tariff revisions in order to appropriately reflect these changes in SCE’s Base Transmission Revenue Requirement (“Base TRR”) beginning with SCE’s TO2019 Annual Update that will be

filed by December 1, 2018.

I. BACKGROUND

A. Tax Law Change

The TCJA, which was signed into law on December 22, 2017, includes a provision that reduces the federal corporate income tax rate (“FIT Rate”) to 21% from 35%, effective for taxable years beginning after December 31, 2017. The lower FIT Rate will reduce a corporation’s federal income tax expense, as well as its accumulated deferred federal income tax (“ADFIT”) balance. To the extent a corporation’s net ADFIT balance is a liability (*i.e.*, federal deductions historically exceeded book expenses), the lower FIT Rate will result in excess deferred income taxes (“EDIT”).

The TCJA requires the use of the normalization method of accounting for EDIT associated with applicable deductions. Although the reduced FIT Rate is not effective until 2018, generally accepted accounting principles (“GAAP”) require ADFIT balances to be reflected for financial reporting purposes at the lower rate of 21% as of December 31, 2017. SCE has followed GAAP and has therefore reflected its entire ADFIT balances at the lower FIT Rate of 21% as of December 31, 2017.

The Commission has issued an inquiry on the ratemaking effects from TCJA, but has not yet issued a final ruling on the ratemaking treatment of EDIT as a result of the TCJA.¹ SCE’s proposed position at this time is that all FERC-related EDIT will be

¹ See *Inquiry Regarding the Effect of the Tax Cuts and Jobs Act on Commission-Jurisdictional Rates*, 162 FERC ¶61,223 (2018).

returned to ratepayers consistent with the tax normalization requirements and FERC protocol. As such, SCE has recorded the EDIT balance at December 31, 2017 in “Other Regulatory Liability FERC Account 254.” In the end, the ratemaking implications from the lower FIT Rate, EDIT, and normalization requirements will result in a reduction to SCE’s Base TRR calculated pursuant to SCE’s Formula Rate.² A thorough discussion and explanation of ADFIT, EDIT, normalization requirements, and their related ratemaking implications are provided in Exhibits SCE-1 and SCE-2, attached hereto.

The TCJA also includes provisions that change the tax bonus depreciation rules for regulated electric utility companies such as SCE. Previously, bonus depreciation had not been set to expire until after 2019. The TCJA amended the tax depreciation rules for these companies, however, to eliminate bonus depreciation for most assets placed in service after December 31, 2017. The elimination of bonus depreciation for most assets placed in service after December 31, 2017 and before January 1, 2020 will result in smaller differences between book depreciation and tax depreciation which, in turn, will result in lower ADFIT amounts over that period of time. A thorough discussion and explanation of tax depreciation changes and their related ratemaking implications are provided in Exhibit SCE-1, attached hereto.

² SCE’s Formula Rate consists of the Formula Rate Protocols (Attachment 1 to Appendix IX of SCE’s TO Tariff) and the Formula Rate Spreadsheet (Attachment 2 to Appendix IX of SCE’s TO Tariff). The Formula Rate Spreadsheet calculates SCE’s Base TRR and associated transmission rates.

B. SCE's Formula Rate

SCE's currently-effective Formula Rate was filed on October 27, 2017 in FERC Docket No. ER18-169.³ The Commission accepted SCE's proposed Formula Rate in an Order issued on December 29, 2017, subject to refund, and established settlement and hearing procedures.⁴ SCE's Formula Rate is currently in settlement discussions.⁵ Included in SCE's filed Formula Rate was a proposed Base TRR for the 2018 year (*i.e.*, the "Rate Year") of \$1,169,306,623 (the "TO2018" filing, representing transmission owner rates for 2018).⁶

In SCE's Formula Rate, the Base TRR is derived as the summation of the: (1) Prior Year Transmission Revenue Requirement ("Prior Year TRR"), (2) Incremental Forecast Period Transmission Revenue Requirement ("IFPTRR"), and (3) True-Up Adjustment. The Prior Year TRR represents calculated annual revenue requirement

³ See *Southern Cal. Edison Co.*, Docket No. ER18-169, Transmission Owner Tariff Transmission Rate Filing (TO2018) (Oct. 27, 2017); see also *Southern Cal. Edison Co.*, Docket No. ER11-3697, Transmission Owner Tariff Transmission Rate Filing (June 3, 2011) (setting forth SCE's first Formula Rate (the "Original Formula Rate"), which was in place from January 1, 2012 through December 31, 2017).

⁴ *Southern Cal. Edison Co.*, 161 FERC ¶ 61,309 (Dec. 29, 2017).

⁵ In addition, SCE's Formula Rate is the subject of the Commission's Section 206 proceedings in EL18-164. See *Ameren Illinois Co.*, 163 FERC ¶ 61,200 (2018). SCE has submitted an initial brief in that proceeding, and a decision has yet to be issued. If further tariff revisions to address the issues from that proceeding are found to be necessary, SCE will separately file those revisions.

⁶ See *Southern Cal. Edison Co.*, Docket No. ER18-169, Transmission Owner Tariff Transmission Rate Filing (TO2018) (Oct. 27, 2017) at Ex. SCE-4 (the populated Formula Spreadsheet), Schedule 1, Line 86. Pursuant to the Commission's acceptance of the filing, the TO2018 Base TRR and associated transmission rates were placed in effect on January 1, 2018.

based on recorded FERC-related costs from SCE's most recent year prior to the filing of the annual update ("Prior Year"), with rate base items measured at the end of the year, as reflected in SCE's FERC Form 1. For example, in the TO2018 that was filed with FERC in 2017, the Prior Year is 2016. The IFPTRR represents calculated revenue requirements based on forecasted incremental costs incurred after the Prior Year and through the Rate Year. For example, in TO2018, the IFPTRR represents forecasted 2018 costs based on projected capital expenditures to be incurred during 2017 and 2018. The combination of the Prior Year TRR and the IFPTRR represents the total forecasted revenue requirement for the Rate Year. Finally, the True-Up Adjustment represents the difference between revenue requirement based on actual costs incurred by SCE in the Prior Year and the actual transmission revenue received by SCE during the Prior Year. For TO2018, the True-Up Adjustment represents the difference between the revenue requirement based on actual 2016 costs and transmission revenue actually received in 2016.

Income Tax Expense, which is a cost of service component of SCE's Base TRR, is calculated in SCE's Formula Rate based on a formula that utilizes corporate income tax rates, including the FIT Rate, applicable to the Prior Year. These corporate income tax rates are reflected in the income tax formula as inputs that can be changed to match the statutory rates for a year. For example, the FIT Rate used to calculate the Income Tax Expense in SCE's TO2018 was the tax rate applicable to the Prior Year (*i.e.*, 2016), which was 35%. Thus, SCE's Formula Rate, which allows for (1) the change of income tax rates to match the applicable statutory rates for the year, and (2) a true-up revenue

requirement mechanism that reflects actual costs for the applicable year, provides the flexibility to calculate Income Tax Expense in an accurate manner consistent with SCE's TO Tariff.⁷

ADFIT is a component of total (*i.e.*, federal and state) accumulated deferred income taxes ("ADIT") used in SCE's Formula Rate to adjust Rate Base. The calculation of ADIT in SCE's Formula Rate entails pulling all ADIT balances in FERC Accounts 190 (Accumulated Deferred Income Taxes), 282 (Accumulated Deferred Income Taxes – Other Property), and 283 (Accumulated Deferred Income Taxes - Other) from the Prior Year FERC Form 1, and then allocating each of those line-items between FERC and non-FERC. FERC-related Prior Year ADIT ending balances are used in the calculation of Prior Year TRR. FERC-related Prior Year ADIT average ending balances are used in the calculation of the True-Up TRR. For example, in SCE's TO2018, FERC-related 2016 ending balances were used in the calculation of Prior Year TRR as a component for Rate Year 2018 revenue requirement; and FERC-related 2016 average ending balances were used in the calculation of the True-Up TRR for Prior Year 2016.

⁷ SCE's formula rate was not the subject of the Commission's Order to Show Cause, *see Alcoa Power Generating Inc.*, 162 FERC ¶ 61,224 (2018), since SCE's formula provides for income tax rates to change, rather than to be unchangeable stated values. SCE's Formula Rate would determine the cost of service correctly through the True-Up Adjustment mechanism solely as it relates to the FIT Rate change impact on Income Tax Expense. However, this filing, if accepted by the Commission, will result in SCE's Base TRR being reduced one year sooner to reflect the lower FIT Rate (in 2019) than if SCE did not seek to revise the formula rate (in 2020). Additionally, the revisions that SCE is proposing relating to ADIT are necessary in order for the Formula Rate to correctly calculate the cost of service beginning with the TO2019 Annual Update setting 2019 rates.

II. RELEVANT IMPACTS OF TCJA ON BASE TRR CALCULATIONS IN SCE'S FORMULA RATE SPREADSHEET

The net ratemaking implications as a result of TCJA will be a reduction to SCE's Base TRR. The relevant implications of TCJA to the various components of SCE's Base TRR calculations in its Formula Rate spreadsheet include the following:

- 1) The lower FIT Rate will reduce Income Tax Expense.
- 2) The lower Income Tax Expense in Prior Year TRR will reduce the Annual Fixed Charge Rate; and the lower FIT Rate will reduce the Annual Fixed Charge Rate for CWIP.⁸ The resulting lower Annual Fixed Charge Rate and Annual Fixed Charge Rate for CWIP will reduce the IFPTRR.
- 3) ADIT used to adjust FERC-related Rate Base will now also include FERC-related EDIT as reflected in FERC Account 254.
- 4) EDIT will be amortized in rates over its appropriate period as a reduction to Income Tax Expense.
- 5) The lower FIT Rate will increase the proposed after-tax amount of Unamortized Loss of Reacquired Debt (FERC Account 189), which will decrease Long Term Debt Amount and the related debt percentage and, ultimately, reduce revenue requirement.
- 6) The lower FIT rate will reduce deferred income taxes generated after 2017,

⁸ CWIP is "Construction Work in Progress", and the Annual Fixed Charge Rate for CWIP is a fixed charge rate applied to CWIP balances in the Formula Rate.

which will increase Rate Base relative to had the FIT rate not changed; and the amortization of EDIT will reduce the EDIT adjustment to Rate Base over time, as well as reducing the annual income tax expense.

These implications as a result of TCJA are explained in more detail in attached Exhibits SCE-1 (the Declaration of Alfred L. Lopez) and SCE-2 (the Declaration of Berton J. Hansen).

III. PROPOSED REVISIONS TO SCE'S FORMULA RATE TARIFF

The proposed revisions to SCE's Formula Rate Tariff to reflect the impact of the TCJA are as follows:

- 1) Inputs for the FIT Rate and California State Income Tax Rate on Lines 1 and 8 of Schedule 26 (Tax Rates) will now reflect the statutory tax rates applicable to the Rate Year instead of the Prior Year.
- 2) Schedule 26 (Tax Rates) will now include a new Note 4 describing that if the statutory income tax rates for the Prior Year are different than the Rate Year, the True-Up TRR will be calculated based on the applicable statutory income tax rates for the Prior Year.
- 3) The input for Amortization for Excess Deferred Tax Liability used in the formula calculation of Income Tax Expense in Schedules 1 (Base TRR) and 4 (TUTRR) will now be a yellow-shaded input that will include the Prior Year amortization amount associated with FERC-related EDIT as a result of TCJA (*see* Schedule 1, Line 60).

- 4) Schedule 9 (ADIT) that includes FERC-related ADIT used to adjust FERC-related Rate Base will now also include any unamortized FERC-related EDIT balance (*see* Schedule 9, new Line 4).
- 5) A paragraph has been added to the Formula Rate Protocols stating that the unamortized EDIT balance will be included in the calculation of the Schedule 9 ADIT amount used to adjust Rate Base in Schedule 4 for the purpose of calculating the True Up TRR using the Original Formula Rate for the 2017 year (*see* Section 6 of the Protocols).

These proposed revisions are described and explained in greater detail in Exhibit SCE-2, the Declaration of Berton J. Hansen.

IV. EFFECTIVE DATE

SCE requests the Commission accept the proposed Formula Rate tariff revisions effective November 16, 2018 so that the revisions can be in place for SCE's TO2019 Annual Update to be filed by December 1, 2018. It is essential that the Commission accept the revisions beginning in SCE's TO2019 Annual Update; otherwise the 2017 True-Up TRR used in the TO2019 Annual Update will be incorrect (the actual costs for 2017 would be too high) because it would be missing the EDIT balance used to reduce Rate Base and, accordingly, reduce revenue requirement.⁹

⁹ Note that the proposed revisions are not required to be effective beginning with SCE's TO2018 because: (1) the 2016 ADIT FERC Accounts 190, 282 and 283 balances in Schedule 9 of TO2018 are at the full 35% FIT Rate and, as such, the Prior Year TRR and True-Up Adjustment include the correct ADIT adjustment to rate base; (2) the True-Up TRR for 2016 in TO2018

V. CONTENTS OF THIS FILING

The documents submitted with this filing consist of this letter of transmittal and the following documents:

1. A revised clean version of SCE's TO Tariff sheets reflecting the proposed Formula Rate;
2. A red-lined version of the revised TO Tariff sheets reflecting the proposed Formula Rate;
3. Exhibit No. SCE-1, the Declaration of Alfred L. Lopez; and
4. Exhibit No. SCE-2, the Declaration of Berton J. Hansen.

VI. COMMUNICATIONS

SCE requests that all correspondence, pleadings and other communications concerning this filing be served upon:¹⁰

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includes the correct FIT Rate of 35% applicable to 2016; and (3) the 35% FIT Rate used in the computation of Prior Year TRR for Rate Year 2018 will be corrected, with interest, in the eventual True-Up Adjustment that will reflect the appropriate FIT Rate of 21% for 2018 in TO2020.

¹⁰ SCE respectfully requests waiver of 18 C.F.R. § 203(b)(3) to permit more than two persons to be listed on the official service list.

Hon. Kimberly D. Bose
September 17, 2018

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VII. OTHER FILING REQUIREMENTS

No expenses or costs included in the cost of service statements tendered herein have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative or unnecessary costs that are demonstrably the product of discriminatory employment practices.

SCE believes this filing conforms to any rule of general applicability and to any Commission order specifically applicable to SCE, and has made copies of this letter and all enclosures available for public inspection in SCE's principal office located in Rosemead, California. SCE has e-mailed a link to this filing to those persons who are on the official service list for Docket No. ER18-169.

Very truly yours

/s/ Jeffrey L. Nelson

Jeffrey L. Nelson

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