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 2019 and 2020 in accordance with D.19-05-020.

The most current California Public Utilities Commission-authorized revenue requirements are located in Preliminary Statement YY, Base Revenue Requirement Balancing Account (BRRBA), Preliminary Statement RR, New System Generation Balancing Account (NSGBA) and Preliminary Statement WW, Portfolio Allocation Balancing Account (PABA).

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 2019 and 2020, unless extended by Commission order.

3. Definitions:

a. Capital Additions

Post-test year capital additions are escalated as follows in accordance with D.19-05-020. The test year 2018 authorized CPUC gross capital additions of $2.990 billion are escalated by 2.49% for 2019 and 2.49% for 2020. The authorized gross capital additions for 2019 and 2020 shall be $3.065 billion and $3.141 billion respectively.
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 2019 and
   2020 Operation and Maintenance (O&M) expense adjustments adopted in
   D.19-05-020 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 the 2018 GRC decision date (June 1) for 2019 and
       December 1, 2019 for 2020, and collective bargaining agreements ratified
       prior to the 2018 GRC update;

   (2) Adjustments of labor expenses related to disability programs, executive
       benefits, and 401(k), are based on escalation rates from IHS as of the
       2018 GRC decision (June 1);

   (3) For the second attrition year of 2020, SCE shall use the latest Global
       Insight escalation rates to escalate 2018 authorized level of O&M
       expenses to 2019 and 2020 levels, but the 2019 authorized level of O&M
       expenses will not be trued up to reflect the actual escalation factor for
       2019; and

   (4) 2019 and 2020 medical programs expenses, including Post-Employment
       Benefits Other Than pensions (PBOPs), are calculated using an seven
       percent (7%) 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.19-05-020;

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 California Public Advocates (Cal Advocates). The Commission shall be notified of all Potential 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 Cal Advocates. For all Potential Z-Factors identified by the Cal Advocates, copies of the 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.