Application No.:	07-07-
Exhibit No.:	SCE-5
Witnesses:	R. Fisher L. Letizia

SOUTHERN CALIFORNIA EDISON

An *EDISON INTERNATIONAL* Company

(U 338-E)

EDISON SMARTCONNECT™ DEPLOYMENT FUNDING AND COST RECOVERY

Volume 5: Cost Recovery Proposal

Before the

Public Utilities Commission of the State of California

Rosemead, California

July 31, 2007

LAW #1388033

EDISON SMARTCONNECT™ DEPLOYMENT FUNDING AND COST RECOVERY

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I.

DEPLOYMENT PERIOD COST RECOVERY PROPOSAL

A. Introduction

This exhibit presents SCE's cost recovery proposal for Phase III "Deployment" of Edison SmartConnect™, SCE's advanced metering infrastructure program. SCE requests approval to recover the revenue requirement associated with the costs of Phase III activities described in Exhibit SCE-2. These costs are estimated at approximately $384.2 million in O&M and $1,330.7 million in capital expenditures over the 2008 through 2012 deployment period.[1]

SCE proposes to establish an Edison SmartConnect™ balancing account mechanism to provide for recovery of the deployment period revenue requirement, which will include the recognition of operational benefits in the form of offsets to the Phase III costs.[2] This forecast revenue requirement will be recovered in distribution rates from 2009 through 2012 based on the estimated O&M expenses, depreciation, taxes, and authorized return on rate base amounts as derived from the estimated capital expenditures and the estimated operational benefits as set forth in this application. Beginning in 2009, the forecast Phase III revenue requirement for 2009 and any undercollection in the Base Revenue Requirement Balancing Account (BRRBA) arising from deployment activities in 2007 and 2008 will be reflected in SCE's total distribution rates. However, the proposed operation of the Edison SmartConnect™ balancing account mechanism (*i.e.*, the actual revenue requirement recorded in the Edison SmartConnect™ balancing account will be transferred to the BRRBA each month) will ensure that no more and no less than the reasonable revenue requirement associated with Phase III activities is ultimately collected from customers.

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[1] These amounts include $8 million of capital expenditures and O&M expense that will be incurred in 2007 associated with Phase II activities that did not receive authorization for recovery in the Commission's Phase II Decision No. 07-07-042. In addition, SCE will include in the Edison SmartConnect™ revenue requirement $14.1 million of capital expenditures (plus $0.4 million of AFUDC) approved in D.07-07-042, but not allowed rate base treatment.

[2] As discussed later in this testimony, SCE proposes to flow back all Phase III capital-related benefits outside of the SmartConnect™ balancing account mechanism.

Assuming the Commission approves the scope of activities proposed by SCE and the forecast Phase III costs in this application, SCE's incurred costs that are consistent with the scope and within the cost levels adopted by the Commission should not be subject to an after-the-fact reasonableness review. If actual costs exceed the forecast, or if the scope of activities differs from what the Commission has approved, then SCE would file an application, or other appropriate procedural vehicle, to request approval of the activities and recovery of the additional costs subject to a traditional after-the-fact reasonableness review.

B. Interaction with Other Proceedings

1. Advanced Metering Infrastructure (AMI) Phase I and II (A.05-03-026 and A.06-12-026)

On December 1, 2005, the Commission issued Decision (D.) 05-12-001, "Decision Adopting Settlement For Funding Of Southern California Edison Company's Advanced Integrated Meter Project." The adopted Settlement set forth the scope, timing, and funding for Phase I AMI activities. Pursuant to D.05-12-001, SCE established the Advanced Metering Infrastructure Balancing Account (AMIBA) to provide for the recovery of up to $12 million over an 18-month period for costs related to SCE's Phase I AMI activities.[3] The AMIBA also may be expanded by Commission decisions to include the recorded costs associated with later phases of SCE's AMI project.

SCE initially projected that the Phase I AMI activities would occur over an 18-month time frame, from December 2005 through May 2007. Later, it became apparent that SCE would complete all Phase I AMI activities by year-end 2006. In order to be able to expedite Phase II activities, SCE requested authority in Advice No. 2063-E to establish a memorandum account to track all costs associated with SCE's AMI Phase II pre-deployment activities prior to a Commission decision in that proceeding. The Advanced Metering Infrastructure Memorandum Account for Phase II activities (AMIMA) became effective on December 22, 2006.[4]

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[3] The AMIBA was established through SCE Advice Filing No. 1937-E filed on December 6, 2005.

[4] SCE plans to file an advice letter in the third quarter of 2007 requesting the expansion of the AMIMA to record Phase III costs prior to a Commission decision on this Application.

In A.06-12-026, SCE's AMI Phase II application, SCE proposed to modify the current AMIBA to also record, in addition to Phase I AMI costs, up to $63.7 million in costs associated with Phase II AMI pre-deployment activities, from the effective date of a Commission decision in that proceeding through the completion of Phase II. Two sub-accounts within the existing AMIBA would separately record Phase I and Phase II AMI costs. In D.07-07-042, the Commission substantially adopted SCE's ratemaking proposal and set an authorized Phase II expenditure level of $45.220 million. This decision also allowed the continued use of the AMIMA to record costs of any SCE proposed Phase II activities that were not pre-approved by the Commission. SCE expects to record the revenue requirement of approximately $8 million in 2007 to the AMIMA for Phase II activities that were found to be deployment-related activities and thus were not pre-approved for recovery in D.07-07-042. Consistent with the Commission's direction in D.07-07-042 that it would be more appropriate to review Phase II costs that the Commission considers to be deployment-related costs in SCE's deployment application, SCE is requesting cost recovery of this $8 million in this application and has included the amount in the forecast revenue requirements presented in this exhibit.[5]

2. 2009 General Rate Case

SCE expects to file its 2009 GRC application later in 2007.[6] This application is being prepared on a "stand alone" basis; that is, the 2009 GRC application will not reflect the costs or benefits associated with the Edison SmartConnect™ project. All incremental costs and benefits (or decremental costs) from the Edison SmartConnect™ project for the full deployment period of 2008 through 2012 will be addressed in this application so that neither the costs nor benefits of the Edison SmartConnect™ project will be double-counted.

SCE currently anticipates that the financial impacts of the Edison SmartConnect™ project will be incorporated into its 2012 GRC application; however, due to the overlap between the last

[5] In addition, SCE will include in the Edison SmartConnect™ revenue requirement $14.1 million of capital expenditures (plus $0.4 million of AFUDC) approved in D.07-07-042, but not allowed rate base treatment. D.07-07-042 did allow $5.6 million of Phase II costs to be treated as rate base beginning in 2007 and those associated revenue requirements will be recorded into the existing AMIBA account.

[6] SCE's 2009 GRC Notice of Intent was tendered on July 23, 2007.

year of Edison SmartConnect™ deployment of 2012 and the 2012 GRC test year, SCE may need to seek modifications to the SmartConnect™ balancing account mechanism in its 2012 GRC application.

II.

EDISON SMARTCONNECT™ BALANCING ACCOUNT PROPOSAL

SCE proposes the establishment of a new balancing account — the SmartConnect™ Balancing Account (SmartConnect BA) — to record the revenue requirement reflecting all capital and O&M costs and to capture the operational benefits associated with SCE's full deployment of advanced meters effective with a Commission decision in this proceeding. As described in more detail below, each month, SCE will record into the SmartConnect BA:

1. Capital-related revenue requirements (debit), calculated on actual rate base amounts;
2. Actual incremental O&M costs (debit), calculated on recorded expenses; and
3. Calculated operational O&M benefits (credit).[7]

SCE proposes to transfer the balance in the SmartConnect BA on a monthly basis to the distribution sub-account of the BRRBA. In accord with current ratemaking practices, the December 31st balance recorded in the BRRBA is consolidated into rate levels, on, or soon after, January 1st of each subsequent year as part of SCE's annual Energy Resources Recovery Account (ERRA) Forecast and Consolidation proceeding.

As discussed in Chapter III of this Exhibit, beginning in 2009, SCE also requests authority to include in distribution rate levels the forecast Phase III revenue requirements for each year of the deployment period.[8] Any difference between the forecast Phase III revenue requirement included in rate levels and the actual recorded SmartConnect™ revenue requirement based on recorded costs (*i.e.,* over or under-collection) from 2009 through 2012 will be recorded in the BRRBA. This proposed ratemaking will ensure that no more and no less than the reasonable revenue requirement associated with the Edison SmartConnect™ project is ultimately collected from customers.

Appendix B contains the proposed SmartConnect BA preliminary statement.

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[7] As discussed later in this section, SCE proposes to flow back all Phase III capital-related benefits outside of the SmartConnect BA mechanism.

[8] For example, SCE will consolidate an estimated 2009 SmartConnect™ revenue requirement in 2009 distribution rate levels.

A. Costs

SCE is requesting authorization to incur forecast costs of $384.2 million in incremental O&M expenses and $1,330.7 million in capital expenditures, for a total Phase III funding level of $1,714.9 million. Each month, SCE will record its actual capital-related revenue requirement and the actual incremental O&M costs in the SmartConnect BA. The recorded O&M costs will be based on actual recorded incremental O&M expenses associated with the SmartConnect™ activities authorized by the Commission in this proceeding. The capital-related revenue requirement will consist of depreciation, taxes and authorized return based on actual recorded rate base, including plant additions, accumulated depreciation reserve and accumulated deferred taxes, associated with the SmartConnect™ activities authorized by the Commission in this proceeding.

All recorded incremental costs will include provisions for overhead loadings on direct labor dollars, to account for items such as benefits and payroll taxes.[9] However, SCE will not record labor-related pensions and Post-Retirement Benefits Other Than Pensions (PBOPs) costs in the SmartConnect BA, nor incorporate them into the flow-back of benefits, due to the current establishment of separate ratemaking accounts for the recovery of pensions and PBOPs costs.[10] Recovery of all current actual SCE employee pensions and PBOPs costs occur through separate balancing accounts. SCE proposes to also record the pensions and PBOPs costs associated with incremental Phase III SCE employees in these stand-alone balancing accounts, and not in the SmartConnect BA, to prevent double-recovery, and to provide ease of administration and review.[11] Also in SCE's 2006 GRC, the Commission approved full ratepayer funding of SCE's Results Sharing program, but ordered SCE to track in a one-way memorandum account the authorized and recorded Results Sharing costs. Since this memorandum account is one-way (that is, it compares a GRC authorized level to actual recorded and only credits back

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[9] Overhead loading factors will be based on actual recorded or, if recorded is unavailable, authorized rates.

[10] In its decision in SCE's 2006 GRC (D.06-06-016), the Commission authorized the establishment of a Pension's balancing account and a PBOPs balancing account through 2008. SCE will propose the continuation of these two balancing accounts in its 2009 GRC application.

[11] Also, ratepayers will see the benefits of reduced pensions and PBOPs costs (as a result of reductions in SCE's labor force due to Phase III activities) through the operation of the stand-alone pensions and PBOPs balancing accounts.

to ratepayers any over-collection), Results Sharing costs associated with incremental Phase III SCE employees are properly recovered in the Phase III revenue requirements because the costs associated with these incremental employees were not included in the 2006 GRC, nor will they be included in SCE's 2009 GRC.[12] However, the Results Sharing benefits from labor reductions associated with Edison SmartConnect™ will flow through the operation of the one-way Results Sharing memorandum account, and therefore will not be reflected in the Phase III revenue requirements.

B. Benefits

1. Operational O&M Benefits

Exhibit SCE-3 details the benefits (or cost reductions) SCE forecasts for Phase III of the Edison SmartConnect™ project. Since the majority of the operational O&M benefits forecast by SCE are proportional to the number of meters installed and activated, SCE proposes to recognize all of the operational O&M benefits resulting from the Edison SmartConnect™ project monthly, as meters are activated. By crediting forecast O&M benefits as meters are activated, customers are assured of benefits as the project is implemented.[13]

For the Phase III deployment period of 2008 through 2012, the accrual of O&M benefits in proportion to meter activation average $1.3601 per activated meter per month as shown in Table II-1.[14] For Phase III, SCE will calculate the monthly O&M benefits to be recorded in the SmartConnect BA by multiplying the actual number of activated meters by $1.3601.[15]

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[12] SCE will propose the elimination of the Results Sharing memorandum account in its 2009 GRC application. Regardless of the outcome of this proposal in SCE's 2009 GRC Results Sharing costs associated with incremental Phase III SCE employees will be recovered through the operation of the SmartConnect BA through the full deployment period.

[13] As discussed in Exhibit SCE-2, SCE is requesting the ability to utilize project contingency for any unanticipated SmartConnect™ deployment costs, whether the unanticipated costs arise from increases in estimated costs, or from unanticipated delays in realizing benefits from the meter deployment.

[14] As discussed in the previous section, the O&M benefits are net of pensions and PBOPs benefits due to the establishment of separate ratemaking mechanisms for these costs and also net of Results Sharing benefits since these benefits will be returned to ratepayers through the operation of the GRC-authorized Results Sharing memorandum account.

[15] The SmartConnect™ benefits are estimated to begin an average of four months following the physical meter installation: two months to confirm meter-network connectivity, and an average of two months to realize the labor-related benefits. Under the deployment schedule outlined in Exhibit SCE-2, SCE projects a total of nearly 122 million "activated meter-months" between 2008 and 2012.

Table II-1
Development of Average O&M Benefit per Active Meter Month
2008 – 2012

Line No.	Item	Total
1.	O&M Benefits as set forth in SCE-2	$188,382,728
2.	O&M Benefits net of pensions, PBOPs, & Results Sharing	$165,836,646
3.	Total Sum of Active Meter Months	121,929,279
4.	Avg. O&M Benefit per Active Meter Month	$1.3601
	(Line 4 = Line 2 divided by Line 3)	

2. Operational Capital Benefits

Exhibit SCE-2 details the capital benefits SCE forecasts to result from the Edison SmartConnect™ project. As discussed in Exhibit SCE-2, the capital benefits are primarily related to: (1) avoided cost of electro-mechanical meters, (2) deferred projects (load control and price response projects), and (3) computers. All of these capital projects are, or will be, included in the Authorized Distribution Base Revenue Requirement (ADBRR) adopted in SCE's GRCs (2006 GRC for 2008, and 2009 GRC for 2009 – 2011), and the revenue requirement for each project will be credited back to customers based on the actual amounts associated with each and reflected in rates.

Therefore, SCE proposes to recognize all of the capital benefits resulting from the Edison SmartConnect™ project on an annual basis, through reductions to its ADBRR. SCE's current estimate for the capital-related revenue requirement reductions is $0.8 million, $4.9 million and $9.3 million for 2009, 2010 and 2011, respectively. SCE will include the ADBRR reductions based on the specific capital projects as set forth in this application, and included in SCE's GRCs, in annual advice letter filings, filed pursuant to SCE's Post-Test Year Ratemaking Mechanism.[16]

[16] SCE currently expects that all of the Phase III costs and benefits, as adopted in a decision in this proceeding, will be incorporated into its 2012 GRC forecast; and therefore a separate ADBRR reduction for 2012 Phase III capital benefits may not be necessary.

As noted in Exhibit SCE-4, demand response-related benefits (*e.g.* avoided procurement costs) are not included in SCE's net revenue requirements since these benefits are dependent on customer behavior and should not be viewed as utility cost savings unless they materialize in the future.

SCE currently anticipates that it will address the operational benefit savings achieved after 2012 in its 2012 GRC.

C. Reasonableness Review

Assuming the Commission approves the scope of activities proposed by SCE and the forecast Phase III costs in this application, SCE's incurred costs that are consistent with the scope and within the cost levels adopted by the Commission should not be subject to an after-the-fact reasonableness review. If actual costs exceed the forecast, or if the scope of activities differs from what the Commission has approved, then SCE would file an application, or use other appropriate procedural vehicles, to request approval of the activities and recovery of the additional costs through a traditional after-the-fact reasonableness review.

Pursuant to the Commission-adopted process for reviewing other SCE balancing accounts, including the current AMIBA review procedures, SCE proposes that the recorded operation of the SmartConnect BA be reviewed by the Commission in SCE's annual ERRA reasonableness applications. This review of the SmartConnect BA will ensure that all entries to the account are stated correctly and are consistent with Commission decisions. Similar to the adopted Commission review procedures for Phase I and Phase II AMI costs, Commission review procedures for Phase III Edison SmartConnect™ costs should continue to be limited to ensuring that all recorded costs are associated with Phase III activities as defined and within the cost levels adopted by the Commission in this proceeding, in addition to ensuring that benefits are being captured according to the Commission-adopted methodology.

III.

FORECAST OF EDISON SMARTCONNECT™ REVENUE REQUIREMENTS

The Edison SmartConnect™ Phase III 2008 – 2012 revenue requirements include all capital-related costs and incremental O&M expenses, net of forecast operational benefits, needed from customers to recover the cost of the Edison SmartConnect™ project. SCE's forecast Edison SmartConnect™ revenue requirement reflects Phase III funding of $384.2 million in O&M expenses and $1,330.7 million in capital expenditures over the period commencing January 1, 2008 through December 31, 2012.[17] This revenue requirement is incremental to the revenue requirement reflected in either SCE's 2006 GRC or in SCE's 2009 GRC to be filed later in 2007.

The 2008 through 2012 Edison SmartConnect™ revenue requirements are based on the projection of O&M expenses, capital expenditures, and operational benefits (both O&M and capital-related) as shown in Exhibit SCE-2. However, as discussed in the preceding section, due to the current establishment of separate ratemaking accounts for the recovery of pensions, PBOPs and Results Sharing costs, SCE must adjust pensions and PBOPs costs out of the Phase III forecast O&M expenses and capital expenditures, and adjust pensions, PBOPs and Results Sharing benefits out of the Phase III forecast operational benefits, as shown in Exhibit SCE-2, before calculating the Phase III revenue requirements.

Table III-2 below provides, at the aggregate level, the Phase III capital expenditures, incremental O&M expenses, and operational benefits (cost reductions) as set forth in Exhibit SCE-2. Table III-3 below provides, at the aggregate level, the Phase III capital expenditures, incremental O&M expenses, and operational benefits (cost reductions) that are reflected in the Phase III revenue requirements for 2008 through 2012, adjusted for pensions, PBOPs and Results Sharing amounts.

[17] All costs and revenue requirements presented herein include the $8 million of costs forecast to be recorded to the AMIMA in 2007. In addition, SCE will include in the Edison SmartConnect™ revenue requirement $14.1 million of capital expenditures (plus $0.4 million of AFUDC) approved in D. 07-07-042, but not allowed rate base treatment.

Table III-2
Summary of Edison SmartConnect™ Capital Expenditures,
O&M Expenses and Operating Benefits
(millions of nominal dollars)

Line No.	Item	2007	2008	2009	2010	2011	2012	Total
1.	Capital							
2.	Costs	6.7	114.0	332.2	372.2	351.3	154.3	1,330.7
3.	Operational Benefits		(4.7)	(22.2)	(26.0)	(38.3)	(70.4)	(161.6)
4.	Costs – Phase II 1/	14.5						14.5
5.	O&M							
6.	Costs	1.4	37.0	72.9	88.4	96.6	87.9	384.2
7.	Operational Benefits		(1.2)	(8.2)	(29.0)	(60.7)	(89.3)	(188.4)
	1/ Includes $0.4 million AFUDC							

Table III-3
Summary of Edison SmartConnect™ Capital Expenditures
O&M Expenses and Operating Benefits, Adjusted for Pensions,
PBOPs and Results Sharing
(millions of nominal dollars)

Line No.	Item	2007	2008	2009	2010	2011	2012	Total
1.	Capital							
2.	Costs	21.2	112.4	326.9	366.4	346.1	152.0	1,325.0
3.	Operational Benefits		(4.6)	(22.0)	(25.7)	(37.6)	(69.1)	(159.0)
4.	O&M							
5.	Costs	1.4	36.0	71.1	86.2	94.2	85.7	374.6
6.	Operational Benefits		(0.2)	(4.9)	(28.1)	(54.2)	(78.5)	(165.9)

Based on the capital expenditures, incremental O&M expenses and operating benefits shown above, SCE's forecasted 2008 – 2012 Edison SmartConnect™ revenue requirements were calculated, and are summarized in Table III-4 below. The capital-related revenue requirements include depreciation, taxes and return. The plant-in-service additions to rate base are discussed in Chapter IV of this exhibit and include AFUDC.

Table III-4
Summary of Edison SmartConnect™ Revenue Requirements
(O&M and Capital Costs, net of operating benefits)
Thousands of Dollars

Line No.	Item	2007	2008	2009	2010	2011	2012
1.	**Operating Revenues 1/**	**1,403**	**39,576**	**104,204**	**163,304**	**214,595**	**231,522**
2.	**Operating Expenses:**						
3.	O&M Expense	1,354	36,000	71,149	86,216	94,173	85,725
4.	O&M Benefits	-	(167)	(4,929)	(28,113)	(54,173)	(78,455)
5.	Uncollectible Expense	3	89	234	367	483	521
6.	Franchise Requirements	13	353	931	1,458	1,916	2,067
7.	Depreciation	631	7,659	23,867	44,705	65,586	79,904
8.	Taxes Other than Income	-	10	321	2,120	5,381	8,780
9.	Taxes Based on Income	(921)	(9,751)	(9,600)	8,686	28,040	44,514
10.	Total Operating Expenses	1,080	34,194	81,974	115,439	141,407	143,056
11.	**Net Operating Revenue**	**323**	**5,382**	**22,230**	**47,865**	**73,188**	**88,466**
12.	**Rate Base (Average)**	3,680	61,369	253,481	545,782	834,531	1,008,737
13.	**Rate of Return**	8.77%	8.77%	8.77%	8.77%	8.77%	8.77%

1/ Includes $14.1 million of approved Phase II capital expenditures not allowed rate base treament.

Upon Commission approval of this application, SCE will file an advice letter to implement changes to its preliminary statements and to include in distribution rates, effective January 1, 2009: (1) the forecast Edison SmartConnect™ 2009 revenue requirement of $104.2 million, (2) any undercollection in the BRRBA arising from deployment activities in 2008, (3) 2007 and 2008 recorded amounts in the AMIMA associated with the $8 million of costs that will be incurred in 2007 associated with Phase II activities that did not receive authorization for recovery in D.07-07-042, and (4) 2007 and 2008 recorded amounts in the AMIMA associated with the $14.1 million of capital expenditures (plus $0.4 million of AFUDC) approved in D.07-07-042 but not allowed rate base treatment. The total of these deployment revenue requirements is estimated to be $145.183 million. These revenue changes would be consolidated and made when all other previously authorized revenue changes are reflected in rates, consistent with the practice adopted for SCE's ERRA applications.

SCE will provide revised January 1, 2009 through 2012 SmartConnect™ revenue requirements to the Commission for approval at least 60 days in advance of the January 1 effective dates by Advice Letter.[18] In the annual advice filings, SCE will update the 2009 through 2012 SmartConnect™ revenue requirements to reflect the most recently adopted rate of return on rate base, franchise fees and uncollectible rates, and tax rates. SCE would then consolidate the changes in its distribution rates to reflect these updated SmartConnect™ revenue requirements in conjunction with other rate level changes in its annual August ERRA applications.

[18] SCE currently expects that all of the Phase III costs and benefits, as adopted in a decision in this proceeding, will be incorporated into its 2012 GRC forecast; and therefore a separate rate change for the 2012 Phase III revenue requirement may not be necessary.

IV.

EDISON SMARTCONNECT™ PLANT, DEPRECIATION AND RATE BASE FORECAST

This Chapter summarizes SCE's expected average Plant-In-Service[19] balances for the estimated years 2007 through 2012 for Edison SmartConnect™ deployment capital costs. This Chapter also summarizes SCE's plant work order closing process and its approach to converting capital expenditures to Plant-In-Service. This testimony, combined with the other testimony on SCE's capital expenditures in Edison SmartConnect™ filing, demonstrates that SCE's Plant-In-Service estimates are reasonable and should be approved for recovery from ratepayers.

A. Electric Plant-In-Service

Table IV-5 shows Plant-In-Service on a weighted average basis for the 2007-2012 period.[20] The Plant Balances are summarized by FERC class of plant.

Table IV-5
Summary of Electric Plant
Average Balances
(Systems Basis, Nominal $000)

Line No.	Class of Plant	2007	2008	2009	2010	2011	2012
1.	Telecommunications	-	10,667	39,554	79,843	121,528	146,146
2.	Computers	969	5,933	12,023	16,587	21,678	25,289
3.	Meters	-	6,958	120,189	361,319	632,645	838,826
4.	Cap Soft 7yr	3,059	37,020	83,943	111,455	126,559	132,200
5.	General Buildings	-	4,993	12,622	15,474	15,707	15,868
6.	Total	4,029	65,571	268,332	584,678	918,117	1,158,329

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[19] Electric Plant-In-Service includes FERC Account 101 (Electric Plant-in-Service), and FERC Account 106 (Completed Construction Not Classified).

[20] For purposes of this filing, SCE calculated a simple average of Plant-In-Service (*i.e.,* the sum of the plant balance at the beginning-of-year and end-of-year divided by two).

1. Forecasting Capital Additions

All estimated capital additions shown are derived from forecast capital expenditures included in Exhibit SCE-2. To determine the plant balance included in Rate Base, it is necessary to first convert the capital expenditures into plant additions.

a) Direct Expenditures

Exhibit SCE-2 contains estimated 2008 through 2012 direct capital expenditures. Direct expenditures include costs for materials, direct labor, costs for removal, and divisional overheads.

b) Costs For Removal

Costs for removal, also called Cost of Removal ("COR"), are the costs for removal and disposal of a plant asset. The costs SCE expects to incur for the removal of assets are included in capital expenditures since it represents a cash flow associated with capital. Costs for removal are not capitalized to Plant-In-Service but are instead recorded as a debit (decrease) to SCE's accumulated depreciation reserve.

The COR embedded in the capital expenditures is not the same as the COR recovered through depreciation accrual.[21] The former represents the *cash* outlay that will be made during 2007-2012 for the assets expected to retire in those years; the latter is the *accrual* for the future removal of all existing assets. In accounting terms, the accrual for COR credits (increases) accumulated depreciation reserve to make a provision for *future* removal cost. The cash outlay, on the other hand, debits (decreases) the accumulated depreciation reserve. That is, the cash outlay offsets the previously accrued provision for removal cost.

SCE will incur removal costs associated with the replacement of the existing meters. The 2007 and 2008 depreciation accrual for meter removal cost is included in SCE's authorized depreciation rates[22] and depreciation accrual for years 2009 and forward is addressed in SCE's 2009

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[21] The COR accounted for in depreciation accrual is embedded in the current authorized depreciation rates for SCE's existing meters. Recovery of the costs associated with removal of existing meters is addressed in SCE's 2009 GRC NOI tendered July 23, 2007.

[22] D.06-05-016.

GRC Notice of Intent tendered July 23, 2007.[23] The cash outlay for removal costs, however, has an incremental rate base effect (by lowering accumulated depreciation) that is reflected in this filing. The balance forecast for removal costs are shown in Table IV-6.

Table IV-6
Cost of Removal Reduction to Accumulated Depreciation
Average Balance
(System Basis, Nominal $000)

Line No.	Class of Plant	2007	2008	2009	2010	2011	2012
1.	Meters	-	925	10,570	30,261	52,465	69,891

c) Corporate Overheads

Capitalized Corporate Overheads are similar to capitalized divisional overheads, in that they support all SCE capital projects, rather than a particular project. Corporate Overhead costs are charged monthly to CWIP through work order cost accounts. Capitalized corporate overheads typically consist of costs for Corporate Administrative & General (A&G),[24] Pensions & Benefits (P&B), Payroll Taxes, Property Taxes, and Injuries & Damages. Only capitalized overheads associated with the incremental capitalized P&B and results sharing for Edison SmartConnect™ deployment have been included in this filing.

d) Allowance for Funds Used During Construction (AFUDC)

Accruing for AFUDC is the generally accepted regulatory accounting procedure to capitalize the cost of debt and equity funds used to finance capital additions during construction.[25] The annual estimated AFUDC rates are developed from estimates of costs of debt and equity required to fund the forecasted construction estimates. The estimated amount of AFUDC to include in the estimated plant additions is determined by applying the estimated AFUDC rates to the accumulated costs, similar to a compounding monthly interest calculation.

[23] SCE's 2009 NOI, SCE-11, Volume 3.

[24] Beginning in 2009, SCE has proposed in its 2009 GRC NOI, to include results sharing in corporate A&G.

[25] FERC 18 Code of Federal Regulation, Electric Plant Instruction 3 - Components of Construction Cost, sub-paragraph 17 - Allowance for Funds Used During Construction.

e) The Date Construction Costs Are Estimated to Close to Plant-In-Service

SCE's plant addition forecast does not apply construction costs as plant additions until the date the assets are estimated to be in service.[26] Correctly forecasting the *level* of plant additions to close each year is contingent upon when construction costs are expected to be in service. We use planned deployment specific information to estimate when the Edison SmartConnect™ capital costs should be included in Plant-In-Service.

The capital spending for Edison SmartConnect™ deployment is separated into two closing categories, determined by the type of construction work each budget item represents and how the work orders will most likely be processed.

(1) Specifics

Specific type budget items represent a single construction effort in which all of the estimated costs will close to Plant-In-Service when the asset is reported as in service. An in-service date is used to estimate the year the total accumulated construction costs will close to Plant-In-Service.

(2) Blankets

Blankets represent capital expenditures for assets that are closed to Plant-In-Service upon purchase. Meters are an example of blanket capital. Charges to blanket work orders are recorded to Plant-In-Service one month after the money is spent. For example, expenditures forecast in January will close to Plant-In-Service in February.

2. Forecasting Retirements

SCE does not expect any material retirements of the new assets as part of the Edison SmartConnect™ deployment to occur in the period 2007 through 2012. The retirement of existing assets as a result of the Edison SmartConnect™ is addressed in SCE's 2009 General Rate Case. Cost of

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[26] SCE adheres to the Code of Federal Regulations 18 Part 101 (FERC Uniform System of Accounts) when determining the transition of costs from General Ledger account 107 (Construction Work in Progress) to General Ledger accounts 101 (Electric plant in service) and 106 (Completed construction not classified).

removal incurred as a result of the Edison SmartConnect™ deployment is addressed in "Costs for Removal" section of this Chapter.

B. Forecast Depreciation Expense and Accumulated Depreciation

The costs of the fixed capital investment are allocated over the life of the capital investment. Depreciation expense is the means by which those capital investment costs are allocated.

1. Annual Depreciation Expense

The annual depreciation expense for forecast years 2007 through 2012 is presented in Table IV-7.

Table IV-7
Depreciation And Amortization Expense
(System Basis, Nominal $000)

Line No.	Class of Plant	2007	2008	2009	2010	2011	2012
1.	Telecommunications	-	711	2,637	5,323	8,102	9,743
2.	Computers	194	1,187	2,405	3,317	4,336	4,864
3.	Meters	-	383	6,610	19,873	34,795	46,135
4.	Cap Soft 7yr	437	5,289	11,992	15,922	18,080	18,886
5.	General Buildings	-	90	223	270	273	276
6.	Total	631	7,659	23,867	44,705	65,586	79,904

2. Accumulated Depreciation

The average accumulated depreciation balances for forecast years 2007 through 2012 are presented in Table IV-8.[27]

[27] For purposes of this filing, SCE calculated a simple average of Accumulated Depreciation balances (*i.e.,* the sum of the plan balance at the beginning-of-year and end-of-year divided by two).

Table IV-8
Average Accumulated Depreciation Reserve And Amortization
(System Basis, Nominal $000)

Line No.	Class of Plant	2007	2008	2009	2010	2011	2012
1.	Telecommunications	-	356	2,030	6,009	12,722	21,644
2.	Computers	97	787	2,583	5,444	9,270	13,870
3.	Meters	-	(733)	(6,882)	(13,331)	(8,202)	14,837
4.	Cap Soft 7yr	219	3,081	11,722	25,679	42,680	61,162
5.	General Buildings	-	45	202	449	720	995
6.	Total	315	3,536	9,654	24,249	57,190	112,509

3. Depreciation Calculation

The depreciation rates used to forecast annual depreciation expense are determined consistent with this Commission's prescribed STANDARD PRACTICE U-4, DETERMINATION OF STRAIGHT-LINE REMAINING LIFE DEPRECIATION ACCRUALS. As the full title of the STANDARD PRACTICE U-4 indicates, the Commission has specified certain aspects of the depreciation procedure – namely the straight-line *method* and the remaining life *technique*.

Table IV-9 below shows annual depreciation rates proposed for years 2007-2012 for Plant-In-Service estimated in this filing:

Table IV-9
Annual Depreciation Rates by Class of Plant

Line No.	Class of Plant	2007-2008	2009-2012
1.	Telecommunications	6.67%	6.67%
2.	Computers	20.00%	20.00%
3.	Meters	5.50%	5.50%
4.	Cap Soft 7yr	14.30%	14.30%
5.	General Buildings	1.81%	1.62%

For telecommunication (15-year telecommunication equipment in FERC plant account 397) and computers (portions of FERC plant account 391), SCE proposes no change from rates authorized in SCE's 2006 GRC.[28] For General Buildings (FERC plant account 390) SCE's depreciation rate authorized in SCE's 2006 GRC for years 2007 and 2008,[29] and SCE's proposed depreciation rate in its 2009 GRC NOI for years 2009 through 2012. For capitalized software, SCE had three life groups previously: 5-, 10-, and 15-years. SCE has added a 7-year group for recent investments in capitalized software. For the new Edison SmartConnect™ meters, SCE proposes a new depreciation rate based a change to 20-year average service life and authorized levels of future net salvage, which is discussed in the following sections.[30]

a) Average Service Life of Edison SmartConnect™ Meters

In SCE's 2006 GRC, the Commission authorized SCE's proposed R2 retirement dispersion and 30-year average service life for meters. SCE proposed continued use of the R2 retirement dispersion, but proposes a new average service life of 20 years, consistent with the life of the new Edison SmartConnect™ meters.[31]

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[28] D.06-05-016.

[29] *Id.*

[30] The 5.5% depreciation rate is the quotient of 100% less net salvage of -10% and 20 years. 5.5% = [100% - (-10%)]/20.

[31] *See* Exhibit SCE-1.

b) Future Net Salvage of Edison SmartConnect™ Meters

Net Salvage is equal to the gross salvage less the removal cost associated with a plant retirement. For example, when a meter is placed into service the company applies an estimate of the future salvage value (*e.g.*, scrap value) expected at the end of its service life. This salvage value is netted against the cost to remove the meter. Net salvage can either be expressed as a dollar amount or as percent of the original plant cost. In either case, STANDARD PRACTICE U-4 includes net salvage in the determination of depreciation expense.[32] In recent years removal cost has generally exceeded the gross salvage resulting in a negative net salvage. Because the amount to be depreciated is the difference between original cost and salvage value, a negative net salvage value will increased depreciation rates. DEPRECIATION SYSTEMS instructs:

> The original cost less net salvage is called the *depreciable base*. It represents the capital consumed during the life of the unit and the amount to be recovered through depreciation. If the net salvage is positive, then the capital consumed is less than the original cost. If the net salvage is negative, the capital is greater than the original cost.[33]

NARUC states that, "most regulatory commissions have required that both gross salvage and cost of removal be reflected in depreciation rates."[34] Although a few jurisdictions have chosen to ignore them (apparently in an attempt to lower revenue requirements by shifting net salvage cost recovery to future periods), NARUC points out that there are sound principles for the requirement "that the estimated [gross salvage and] cost of removal of plant be recovered over its life."[35] Those principles include "the accounting principle that revenues be matched with costs and the regulatory principle that utility customers who benefit from the consumption of plant pay for the cost of that plant, no more, no less."[36]

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32 STANDARD PRACTICE U-4, pp. 8, 12.

33 DEPRECIATION SYSTEMS, W. C. Fitch and Frank K. Wolf, 1994, p. 51.

34 PUBLIC UTILITY DEPRECIATION PRACTICES, NARUC, 1996, p. 157.

35 *Id.*

36 *Id.*

The current authorized future net salvage for meters is -10% (0% gross salvage less 10% cost of removal). SCE proposes retaining the current authorized net salvage for meters. Removal cost for meters is largely attributable to labor, a factor that is not expected to be different from existing meters. Additionally, the future gross salvage value of the new meters is not expected to be materially different from SCE's existing meters.

C. Rate Base

Rate Base is computed on an original cost basis and is presented as an average of year-end balances to reflect the changes in investment levels throughout the year. The average for this filing is the sum of the beginning-of-year and end-of-year balances divided by 2. The average accumulated deferred tax rate base component has been computed in accordance with the pro-ration requirements of the Federal tax law.

Fixed capital forecasts are based on the forecast capital spending required for Edison SmartConnect™ deployment. Table IV-10 below shows annual average rate base.

Table IV-10
Summary Edison SmartConnect™ Rate Base
(System Basis, Nominal $000)

Line No.	Description	2007	2008	2009	2010	2011	2012
1.	Fixed Capital	4,029	65,571	268,332	584,678	918,117	1,158,329
2.	Less: Accumulated Depreciation and Amortization	315	3,536	9,654	24,249	57,190	112,509
3.	Less: Deferred Taxes	34	666	5,197	14,647	26,396	37,083
5.	Total Rate Base	3,679	61,369	253,481	545,782	834,531	1,008,737

1. Plant-In-Service and Intangibles

Electric Plant-In-Service consists of balance sheet Accounts 101-*Electric Plant-In-Service*, and 106–*Completed Construction not Classified*. This information is drawn from Table II-1 in this Chapter.

2. Accumulated Depreciation and Amortization

Accumulated Depreciation is the total depreciation accrual charges adjusted for cost of removal. The accumulated depreciation used in the Rate Base calculation is listed by class of plant in Table IV-8 of this Chapter.

3. Accumulated Deferred Taxes–Plant

Accumulated Deferred Taxes – Plant reflects a reserve component based on previously adopted Commission decisions and tax law provisions applicable to the Economic Recovery Tax Act of 1981 and incorporating the tax law modifications imposed by the Tax Reform Act of 1986. The Internal Revenue Code requires that deferred taxes be incorporated into rate base computations if the Company wishes to avail itself of the favorable accelerated tax depreciation methods provided by the Modified Accelerated Cost Recovery System (MACRS) tax depreciation rules. The computation of deferred taxes included in rate base has been performed in accordance with the Internal Revenue Code rules applicable to public utilities, including the use of the pro-ration method.[37]

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[37] Currently, for Federal tax deprecation purposes, Edison SmartConnect™ meters are classified as distribution property eligible for 20-year MACRS depreciation. There is legislation before the U.S. Congress which proposed to change the life of new meters with certain attributes to a 5-year MACRS property. If this favorable legislation is enacted, and the Edison SmartConnect™ meters qualify for this accelerated depreciation treatment, the benefits will be included in the computation of rate base and tax expense and reflected in the balancing account.

V.

SUMMARY OF COST RECOVERY PROPOSAL

In conclusion, SCE respectfully requests that the Commission:

(1) Authorize SCE to establish the Edison SmartConnect™ Balancing Account (SmartConnect BA) to provide for the recovery of Phase III recorded revenue requirements, which include recorded incremental costs and recognition of forecast operational O&M benefits, effective upon a Commission decision on this application;

(2) Authorize SCE to reduce its Authorized Distribution Base Revenue Requirement (ADBRR), on an annual basis, in order to recognize the Phase III capital benefits related to specific projects as set forth, and as adopted, in this proceeding, through the effective date of SCE's 2012 GRC Decision;

(3) Authorize SCE to transfer the balance in the SmartConnect BA, each month, to the Base Revenue Requirement Balancing Account (BRRBA) to enable recovery, through distribution rate levels, of the actual Edison SmartConnect™-related revenue requirements for Phase III activities beginning on the effective date of a decision in this proceeding and continuing through the effective date of SCE's 2012 GRC Decision;

(4) Authorize SCE to transfer from the AMIMA to the BRRBA 2007 and 2008 recorded revenue requirements associated with costs that will be incurred in 2007 associated with Phase II activities that did not receive authorization for recovery in D.07-07-042 and 2007 and 2008 recorded revenue requirements associated with the $14.1 million of capital expenditures (plus $0.4 million of AFUDC) approved in D.07-07.042 but not allowed rate base treatment;

(5) Authorize rate recovery, through distribution rate levels, of SCE's forecast Edison SmartConnect™ revenue requirements for Phase III activities effective upon a Commission decision on this application and continuing through the effective date of SCE's 2012 GRC Decision; and

(6) Limit reasonableness review of the SmartConnect BA to ensure all recorded costs are associated with Phase III activities as defined and adopted by the Commission in this proceeding.

Appendix A

Witness Qualifications

SOUTHERN CALIFORNIA EDISON COMPANY

QUALIFICATIONS AND PREPARED TESTIMONY

OF RICHARD FISHER

Q. Please state your name and business address for the record.

A. My name is Richard Fisher, and my business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.

A. I am the manager of the Rate Base and Depreciation group in the Capital Recovery Division, responsible for recorded depreciation, nuclear decommissioning, and portions of rate base.

Q. Briefly describe your educational and professional background.

A. I have a Bachelor of Science Degree in Business Administration, with an emphasis in Finance, Real Estate, and Law, from California State Polytechnic University, Pomona. I am currently completing course work towards a Masters degree in Business Administration at the University of Southern California and will be completed by June 2008. I am a member of the Society of Depreciation Professionals and have been qualified as a Certified Depreciation Professional.

Since my employment with Southern California Edison in 1999 I have been with the Capital Recovery Division of the Controllers Department. My responsibilities have included functions involving depreciation and nuclear decommissioning accounting, depreciation studies, and the development of forecasting models for plant additions, rate base, and depreciation expense in direct support of the Company's regulatory proceedings. I have previously testified before the California Public Utilities Commission.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to sponsor those portions of Exhibit SCE-5, as identified in the Tables of Contents herein.

Q. Was this material prepared by you or under your supervision?

A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?

A. Yes, I do.

Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?

A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?

A. Yes, it does.

SOUTHERN CALIFORNIA EDISON COMPANY

QUALIFICATIONS AND PREPARED TESTIMONY

OF LINDA R. LETIZIA

Q. Please state your name and business address for the record.

A. My name is Linda R. Letizia, and my business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company (SCE).

A. I am a Manager of Special Regulatory Projects in the Regulatory Policy and Affairs Department, and have responsibility for the management, development, and presentation of various ratemaking showings before the California Public Utilities Commission.

Q. Briefly describe your educational and professional background.

A. I graduated from the University of California at Davis in 1980 with a Bachelor of Science degree in Mathematics. I have been employed by Southern California Edison Company since 1984. Since joining Edison, I have held various positions in the Regulatory Policy and Affairs Department. My responsibilities have included revenue allocation and rate design, the preparation of pricing studies and analyses, and the development of revenue requirements and ratemaking proposals for numerous regulatory proceedings before the California Public Utilities Commission. I have also been employed in the Capital Recovery Section and Corporate Budgets Section of the Controller's Department. I have previously testified before the California Public Utilities Commission.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to sponsor those portions of Exhibit SCE-5, as identified in the Tables of Contents herein.

Q. Was this material prepared by you or under your supervision?

A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?

A. Yes, I do.

Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?

A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?

A. Yes, it does.

Appendix B

Proposed SmartConnect BA Preliminary Statement

PROPOSED PRELIMINARY STATEMENT

Edison SmartConnect Balancing Account (SmartConnect™ BA)

I. Purpose

The purpose of the Edison SmartConnect Balancing Account (SmartConnect™ BA) is to record all costs incurred by SCE, up to $X.XXX billion, and to capture the operational benefits as set forth herein, associated with the Phase III Edison SmartConnect™ advanced metering deployment activities as authorized by the Commission in Decision No. 08-XX-XXX through the effective date of SCE's 2012 GRC decision.

II. Operation of the SmartConnect™ BA

Entries to the SmartConnect™ BA shall be made monthly as follows:

(1) Recorded, incremental SCE Operation and Maintenance (O&M) expenses associated with Phase III activities (debit); plus

(2) Capital-related revenue requirements (depreciation, income and property taxes and return on rate base), calculated on actual rate base amounts associated with Phase III activities (debit); plus

(3) Operational benefits calculated as set forth below (credit).

The authorized Phase III revenue requirements will be collected in rates as one component of total distribution rates. The SmartConnect™ BA balance shall be transferred on a monthly basis to the distribution sub-account of the Base Revenue Requirement Balancing Account (BRRBA). Interest expense shall not be recorded in the SmartConnect™ BA since the monthly activity is transferred to the BRRBA.

III. SmartConnect™ BA Costs

Phase III incremental O&M and capital-related costs shall be related to one of the following areas:

1. Acquisition of meters and communication network equipment;
2. Installation of meters and communication network equipment;
3. Implementation and operation of new back office systems;

4. Customer tariffs, programs and services;
5. Customer Service Operations;
6. Overall program management;
7. Contingencies for mass meter deployment; and
8. Any other activities as related to Phase III as authorized by the Commission in D. 08-XX-XXX.

All recorded, incremental costs shall include provisions for overhead loadings on direct labor dollars to account for items such as benefits, results sharing and payroll taxes. The overhead loading factors shall be based on actual recorded, or if recorded is unavailable, authorized GRC rates. However, SCE shall not record Pensions and Post-Retirement Other Than Pensions (PBOPs) costs into the SmartConnect™ BA due to the existence of other balancing accounts authorized for Pensions and PBOPs recovery.

IV. SmartConnect™ BA Benefit Calculation

Each month SCE shall calculate the amount of operational O&M benefits to be credited to the SmartConnect™ BA as follows:

1. Recorded total sum of Active Meter Months;
2. Multiplied by $1.3601 of average O&M benefits per active meter month as authorized in D. 08-XX-XXX.

All capital-related benefits shall be returned to customers through the operation of the BRRBA as authorized in D.08-XX-XXX.

V. Review Procedures

The recorded operation of the SmartConnect™ BA for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the SmartConnect™ BA are stated correctly and were incurred for Phase III activities as authorized by the Commission.

SCE shall provide a monthly report showing the activity in the SmartConnect™ BA to the Energy Division within 30 days of the end of each calendar month.