

February 1, 2017

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

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Federal Energy Regulatory Commission's ("Commission" or "FERC") Regulations under the Federal Power Act (18 C.F.R. § 35.13), Southern California Edison Company ("SCE") submits proposed changes to SCE's formula transmission rate ("Formula Rate") set forth in Appendix IX¹ of SCE's Transmission Owner Tariff, FERC Electric Tariff, Third Revised Volume No. 6 ("TO Tariff") in order to eliminate any redundancy in calculating a component of Accumulated Deferred Income Taxes ("ADIT") included in Rate Base² when SCE experiences a tax net operating loss ("NOL") that cannot be monetized.

In this filing, SCE is proposing to delete only certain line items in Schedule 9 (ADIT) of the Formula Spreadsheet that were used to calculate the net operating loss accumulated deferred tax asset ("NOL/DTA") and that are now no longer needed because of the inclusion of the accounting change identified in SCE's TO11 Draft Annual Update posted on June 15, 2016 that included the ADIT line-item that reflected the appropriate NOL/DTA amount. The proposed changes will prevent double counting of the NOL/DTA adjustment in the TO12

¹ Attachment 1 to Appendix IX are the Formula Protocols, and Attachment 2 is the Formula Spreadsheet that calculates SCE's Transmission Revenue Requirement ("TRR") and associated rates.

² ADIT is calculated in Schedule 9 of SCE's Formula Spreadsheet.

and future Annual Updates. The changes proposed in this filing will not revise SCE's Base Transmission Revenue Requirement ("Base TRR") or associated retail and wholesale rates for 2017, as filed in Docket No. ER11-3697 on November 30, 2016 pursuant to SCE's currently-effective Formula Rate tariff. If the Commission accepts SCE's proposed tariff Revisions effective April 3, 2017, SCE will use the revised tariff to reflect any applicable NOL/DTA component of ADIT required by the tax rules to be included in the Rate Base of SCE's TO12 Annual Update.³

The documents submitted with this filing consist of this letter of transmittal, and the revisions to the TO Tariff in both clean and redline format.

I. BACKGROUND

On June 3, 2011, in Docket No. ER11-3697-001, SCE submitted its original Formula Rate to the Commission. The Commission accepted the filing on August 2, 2011, subject to refund and hearing and settlement judge procedures, with an effective date of January 1, 2012. After extensive settlement discussions, SCE filed an Offer of Settlement on August 26, 2013, which was approved by the Commission on November 5, 2013. Pursuant to the procedures set forth in the Formula Rate Protocols, SCE is required to submit an Annual Update by December 1 of each year, with a determination of retail and wholesale Base TRRs and associated retail and wholesale transmission rates to become effective the

³ SCE's TO12 Annual Update will include a calculation of SCE's actual Base TRR costs for 2016 (the "True Up TRR") that will be posted on SCE's website by June 15, 2017 and filed by October 31, 2017. Pursuant to the settlement of SCE's Formula Rate, SCE must file a replacement Base TRR mechanism by October 31, 2017 seeking an effective date of January 1, 2018, and contemporaneously file the TO12 Annual Update. If the Commission accepts SCE's replacement Base TRR mechanism effective on January 1, 2018, the tariff revisions that SCE is proposing herein will only apply to the calculation of the True Up TRRs for 2016 and 2017 pursuant to SCE's current formula rate annual update procedures, utilizing the formula spreadsheet as revised by this filing.

following January 1. Most recently, SCE filed its TO11 Annual Update on November 30, 2016, which determined the Base TRR and associated retail and wholesale transmission rates for the 2017 Rate Year.

SCE's Formula Rate determination of Rate Base⁴ includes an adjustment for ADIT which represents the accumulation of income tax expense already collected in rates that will be paid to tax authorities in future years.⁵ As such, ADIT is typically a liability balance that reduces rate base for ratemaking purposes. However, the tax normalization rules of the Internal Revenue Code and related regulations require the ADIT liability to be reduced by an NOL/DTA if any portion of the ADIT liability is unable to be monetized⁶ because of the limited NOL carryback provisions of the Internal Revenue Code. On June 12, 2014, SCE received a private letter ruling from the Internal Revenue Service concluding that the tax normalization rules require SCE's ADIT liability balance to be reduced by the NOL/DTA when SCE was limited in its ability to carry back the NOL.

Included in Schedule 9 of the Formula Spreadsheet in the determination of the ADIT liability used to reduce Rate Base is a section that recognizes that in

⁴ Rate Base represents the total company investment in FERC-jurisdictional transmission assets. The major components of Rate Base are Gross Transmission Plant (original investment in transmission plant), Accumulated Depreciation, and ADIT.

⁵ Consistent with Commission policy, SCE's Formula Rate, like others, calculates income tax expense on a "normalized" basis, so that the amount of income tax expense collected in rates reflects the income tax on the equity rate of return portion on rate base, while the amount of income tax actually paid is a function of required income recognition and allowable deductions permitted by the tax rules. The difference between income taxes collected in rates and income taxes currently paid to tax authorities typically represents a deferred tax obligation, with the accumulated deferred obligation reflected in ADIT. The ADIT component of Rate Base is generally negative. For example, in SCE's recent November 30 TO11 formula rate Annual Update filed in ER11-3697, ADIT is negative \$1.3 Billion (see Schedule 9, Line 5).

⁶ ADIT is unable to be "monetized" if the tax deduction related to any portion of the ADIT balance used to reduce rate base has not been utilized to reduce past or current taxable income, as will occur when an NOL can only be carried forward.

years for which SCE owes negative income taxes,⁷ there is not an immediate full realization of the benefit of deferred taxes. Lines 800 to 805 of Schedule 9 (the “IRC Section 168(i)(9) Normalization Adjustment”, or “IRC Adjustment”) calculates the NOL/DTA by including any negative amount included in Federal Income Tax Payable Account 236 of FERC Form 1, page 263 charged to account 409.1 or 408.1 in Column (i). That amount is then included in the ADIT calculation in Line 4 of Schedule 9. For example, in the TO10 Annual Update, the NOL/DTA adjustment was \$1,940,842, resulting in total ADIT liability amount of \$1,268,182,635 (without the NOL/DTA adjustment, the ADIT would have been a larger liability amount of \$1,270,123,477). In SCE’s TO11 Annual Update, Lines 4 and 805 to 809 of the “IRC Section 168(i)(9) Normalization Adjustment” sections were not utilized because the amount included in Federal Income Tax Payable Account 236 of FERC Form 1, page 263 charged to account 409.1 or 408.1 in Column (i) was not a negative amount.

In 2015, SCE implemented an internal accounting change that resulted in the cumulative FERC jurisdictional amount of the NOL/DTA adjustment being separately identified and included as a separate line item in SCE’s FERC Form 1 ADIT amounts.⁸ As a result of this accounting change, the IRC Section 168(i)(9) Normalization Adjustment section of Schedule 9 (Lines 4 and 805 to 809) is no longer necessary, and would be redundant in the event that SCE experienced a Federal Income Tax loss in a given year. On a going forward basis, SCE’s

⁷ SCE has experienced federal income tax losses in recent years, so that taxes owed were negative, due primarily to bonus tax depreciation, which permits corporations, including SCE, to deduct in the first year for tax purposes an additional 50% of qualifying investment costs. In years for which there is an income tax loss, corporations pay \$0, and do not receive a refund from the IRS if the NOLs cannot be utilized in a carryback period, but may offset the payments against income taxes owed in future years.

⁸ The accounting change was identified as a “Material Accounting Change” in SCE’s TO11 Draft Annual Update posted on June 15, 2016, as required by SCE’s Formula Rate Protocols. See SCE’s 2015 FERC Form 1, page 234, Line 2, footnote showing “Net Operating Losses DTA” in the amount of \$39,349,904. That amount was included in SCE’s TO11 Annual Update on Schedule 9, Line 121

Formula Rate will simply include the amount of the FERC Form 1 ADIT line item as a component of the ADIT calculation, as SCE has done for the TO11 Annual Update.⁹

Schedule 9 of the Formula Rate tariff requires revision in order to prevent double counting of the NOL/DTA adjustment in the TO12 and future Annual Updates. Section II below describes the required Formula Rate tariff changes.

II. PROPOSED REVISIONS TO THE FORMULA RATE TARIFF

As described in Section I above, revisions to Schedule 9 (“ADIT”) of the Formula Spreadsheet tariff are necessary to properly reflect the ADIT component of Rate Base in the event that SCE experiences an NOL that cannot be monetized, beginning with the TO12 Annual Update that will be filed by October 31, 2017 that will affect transmission rates in 2018. There will be no impact on 2017 transmission rates.

The revisions that SCE is proposing are to delete Section 5 of Schedule 9 “Normalization Adjustment for Unused Bonus Depreciation”, which includes Lines 800 through 805 of Schedule 9, as well as Notes 1-3 that are associated only with these lines, and Line 4, which is the line that includes the IRC Adjustment in the total ADIT amount shown on Line 5. Additionally, due to renumbering of line numbers on Schedule 9, references on Schedule 1, Line 13 and Schedule 4, Line 13 are revised to refer to the correct line number on Schedule 9.

SCE has submitted several revisions to the Formula Rate tariff since the Offer of Settlement was approved by the Commission.¹⁰ In the most recent tariff

⁹ Note that in the TO11 Annual Update, since SCE did have positive Income Taxes owed, Lines 800-805 were not filled out pursuant to the Formula Rate Note 1, which requires that the section be filled out only if SCE has negative Federal Income Taxes owed. Since this section was not filled out, there was no ADIT calculation redundancy with the FERC Form 1 page 234 line item “Net Operating Loss DTA”, and the TO11 ADIT amount was properly calculated.

filing that revised SCE's Authorized PBOPs Expense Amounts (Docket No. ER16-2433), the Commission approved a Formula Rate Spreadsheet tariff to be in effect for 2017, and one with a different Authorized PBOPs Expense Amount to become effective January 1, 2018. Since there are currently two Formula Spreadsheets on file (with effective dates for January 1, 2017, and January 1, 2018), SCE is submitting in this filing the proposed revision to Schedule 9 for each effective date.

III. PROPOSED EFFECTIVE DATE

SCE requests an effective date of April 3, 2017. An effective date of April 3, 2017 will allow the proposed revisions to be in effect for use in SCE's TO12 Annual Update process.

IV. COMMUNICATIONS

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

¹⁰ See Docket Nos. ER14-2788 (to revise the Authorized PBOPs Expense Amounts), ER15-1449 (to revise the unfunded reserves calculation), ER16-686 (to revise non-transmission depreciation rates), ER16-1292 (to revise the retail rate calculation to reflect an adjustment for Net Energy Metering), ER16-1393 (to revise the retail rate calculation to conform to SCE's 2016 General Rate Case decision), and ER16-2433 (to again revise the Authorized PBOPs Expense Amounts). All of these filings were accepted by the Commission.

Rebecca Furman
Senior Attorney
Southern California Edison Company
P.O. Box 800
Rosemead, CA 91770
Tel. (626) 302-3475
Rebecca.Furman@SCE.com

Karen Koyano
Principal Manager, FERC Rates and Compliance
Southern California Edison Company
P.O. Box 800
Rosemead, CA 91770
Tel. (626) 302-3627

V. SERVICE

Copies of this filing have been served on all parties to Docket No. ER11-3697.

VI. OTHER FILING REQUIREMENTS

There are no forecast changes in revenues resulting from the revisions to the Formula Rate proposed in this filing, since SCE is not proposing to revise current retail transmission rates as determined in SCE's TO11 Annual Update for the 2017 Rate Year.

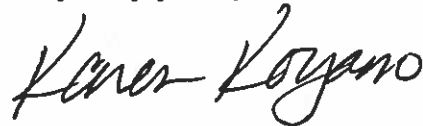
No expenses or costs included in the rates tendered herein have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative or unnecessary costs that are demonstrably the product of discriminatory employment practices.

SCE believes that the information contained in this filing provides a sufficient basis upon which to accept this filing; however, to the extent necessary, SCE further requests that the Commission waive its filing requirements contained

in Section 35 of its regulations to the extent necessary in order to permit this filing to be made effective as requested.

SCE believes that this filing conforms to any rule of general applicability and to any Commission order specifically applicable to SCE, and has made copies of this filing available for public inspection in SCE's principal office located in Rosemead, California. SCE has provided copies of this filing to those persons whose names appear on the enclosed mailing list.

Very truly yours,

A handwritten signature in black ink that reads "Karen Koyano". The signature is written in a cursive, flowing style.

Karen Koyano