

Decision 89 12 022 DEC 6 1989**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA EDISON COMPANY)
 (U-338-E) for a Certificate that)
 the Present and Future Public)
 Convenience and Necessity Require)
 or Will Require the Construction and)
 Operation of Applicant of a 500 KV)
 Transmission Line Between Palo Verde)
 Switchyard and Devers Substation)
 and Related Appurtenances.)

Application 85-12-012
 (Petition filed
 October 10, 1989)

OPINION MODIFYING DECISION 88-12-030

This order addresses Southern California Edison Company's (SCE) October 10, 1989 petition for modification of Decision (D.) 88-12-030 and companion motion. We approve certain aspects of SCE's request to modify the procedural schedule for reevaluating Devers Palo Verde No. 2 (DPV2) under merger conditions. However, we deny SCE's request for a 13-month extension of time to comply with Ordering Paragraphs 6 and 12 of D.88-12-030. Instead, we grant SCE a 3-month extension until February 1, 1990. Attachment 4 presents the ordering paragraphs of D.88-12-030, as modified by this order.

A. Background

On December 9, 1988, the Commission issued D.88-12-030 and granted SCE a certificate of public convenience and necessity (CPC&N) to construct and operate a second 500 kilovolt transmission line between Devers Substation and Palo Verde Switchyard (DPV2). The CPC&N was granted subject to specified conditions and for an operating date no sooner than June 1993. Three of those conditions are especially relevant to this order and are summarized below:

- (1) If the SCE/San Diego Gas & Electric Company (SDG&E) merger is an active possibility as of January 1, 1990, SCE must, by January 15, 1990, file a report on the status of the merger. In addition, SCE must petition the CPUC for reevaluation of DPV2 in the context of the then merger status and not commence construction of DPV2. (D.88-12-030, Ordering Paragraph 3.)
- (2) SCE must submit, by November 1, 1989 applicable signed agreements implementing benefit enhancement measures and copies of signed contracts for transmission service over DPV1 from 1990-93, over DPV2 and over SCE's existing system west of the Devers Substation, including all final amendments to the SCE/Los Angeles Department of Water and Power Exchange Agreement (Exchange Agreement). (D.88-12-030, Ordering Paragraph 6.)
- (3) SCE must file, by November 1, 1989, an amended cost estimate for DPV2. This estimate should reflect any adjustments in adopted project costs due to (1) anticipated delays in starting the project or inflation, (2) final design criteria and (3) the adopted mitigation measures and mitigation monitoring program. (D.88-12-030, Ordering Paragraph 12.)

On December 15, 1988, SCE filed Application (A.) 88-12-035 for authorization and approval of a merger between SCE and SDG&E. Evidentiary hearings in that proceeding are currently scheduled for April through August 1990.

On July 17, 1989, the Assigned Administrative Law Judges (ALJs) in the DPV2 proceeding (A.85-12-012), the merger proceeding (A.88-12-035) and the Biennial Resource Plan Update (BRPU) proceeding (I.89-07-004) issued a Joint Ruling on Coordination Procedures (Joint Ruling). Among other things, the Joint Ruling established a coordination approach and schedule for reevaluation

of DPV2 in light of potential merger conditions (DPV2 reevaluation). The Joint Ruling linked these related proceedings, and their schedules, as outlined in Attachment 1. Under this schedule, a prehearing conference would be held in January 1990, testimony filed in March and July, workshops held in April, and evidentiary hearings conducted in August 1990; no decision date was scheduled.

On August 8, 1989, SCE appealed the Joint Ruling. The Assigned Commissioners denied SCE's appeal on September 20, 1989, and upheld the schedule set forth in the Joint Ruling (Assigned Commissioners' Ruling). However, the Assigned Commissioners' Ruling outlined an alternative if, for operational or contractual reasons, this schedule proved unworkable for SCE:

"...the only alternative we can see is to allow SCE to present an analysis in a DPV2 proceeding that covers a range of likely outcomes for the merger proceeding. Under this approach, SCE would present a set of reasonable scenarios, with and without DPV2, in order to identify the likely range of project net benefits under merged conditions. In order to comply with the requirements of CEQA, SCE would need to include an evaluation of the no-project alternatives presented in its amended DPV2 application (i.e., the "Infinite Bridge" and the "Expanded Bridge"), under a range of possible merger scenarios. The expected outcome of such an analysis would be a decision by the Commission on SCE's CPC&N under merger conditions. Final cost recovery for DPV2 would await a final decision in the merger proceeding."¹

¹ Assigned Commissioners' Ruling On Appeal Of Coordination Procedures, dated September 20, 1989 (A.85-12-012, et al.).

On October 10, 1989, SCE filed (1) a motion to revise the schedule for reevaluating DPV2 under merger conditions (Motion), and (2) a petition for modification of D. 88-12-030 (Petition).²

Responses to SCE's Motion and Petition were filed by the Division of Ratepayer Advocates (DRA), Southern California Utility Power Pool (SCUPP), the cities of Azusa, Banning, Colton, and Riverside (Southern Cities), the City of Vernon (Vernon), and the California Energy Commission (CEC).³ On November 6, 1989 a prehearing conference was held before Administrative Law Judge Gottstein.⁴

B. SCE's Requested Relief

SCE believes that the schedule set forth in the Joint Ruling is unworkable because it would preclude SCE from timely awarding contracts to material suppliers and thus, from achieving

2 See (1) Motion Of The Southern California Edison Company Requesting That The Administrative Law Judge Adopt A Revised Procedural Schedule, and (2) Petition Requesting the Commission To Extend The Time For Southern California Edison To Comply With Ordering Paragraphs No. 6 and 12 Of Decision No. 88-12-030, dated October 10, 1989. By letter dated November 2, 1989, our Executive Director granted SCE's request for a temporary extension of time to comply with Ordering Paragraphs 6 and 12 of D.88-12-030 until the effective date of this order.

3 SCUPP and the Southern Cities request permission to intervene in this proceeding for the purpose of filing these comments. Their request is granted.

4 As SCE noted in its filings, procedural matters are generally left to the discretion of the ALJ in consultation with the assigned Commissioner. However, it became apparent during the course of the PHC, and from the written responses, that SCE's Motion to revise the procedural schedule raised substantive issues concerning the CPC&N granted in D.88-12-030. For this reason, we are addressing the two filings jointly in this order.

an in-service date of June 1993. Moreover, according to SCE, if it is unable to commence construction prior to June 1990, the Los Angeles Department of Water and Power (LADWP) would have the right to build DPV2 under the terms of the Exchange Agreement, as amended.

Therefore, SCE requests that the procedural schedule be accelerated, so that a final decision on the DPV2 reevaluation can be issued no later than April 4, 1990. To achieve this decision date, SCE proposes to file testimony on December 1, 1989, along with an amended Proponent's Environmental Assessment (PEA). Attachment 2 presents SCE's proposed schedule. As clarified at the November 6, 1989 PHC, SCE intends to base its reevaluation of DPV2 on their merger case-in-chief (CIC), augmented by relevant assumptions from the Joint Study used to evaluate DPV2 on a stand-alone basis.⁵ Attachment 3 outlines the scope of analysis and sensitivities that SCE plans to present in its December filing.

In addition, SCE requests an extension of time to comply with Ordering Paragraphs 6 and 12 of D.88-12-030. (See Section A. above.) SCE states that it has been unable to finalize contracts for benefit enhancement measures and transmission service, as required by Ordering Paragraph 6 of D.88-12-030. Although SCE stipulated to this condition, SCE asserts that it did not anticipate the degree of reluctance on the part of potential purchasers to sign contracts until the DPV2 construction commencement and in-service dates were certain.⁶ In SCE's view, the delay in the CPC&N resulting from the merger condition, coupled

5 The term "stand-alone" refers to the SCE system assuming non-merger conditions.

6 On September 29, 1988, SCE joined DRA in stipulating to this and other conditions to the CPC&N. The ordering paragraphs of D.88-12-030 incorporate the exact language of the stipulation. ✓

with the schedule set forth in the Joint Ruling, has been the major impediment to SCE's finalizing these contracts for a November 1, 1989 submittal.

For similar reasons, SCE states that it is unable to develop an accurate amended cost estimate for DPV2 until a CPC&N under merger conditions is issued, and a revised DPV2 project schedule is determined.

Accordingly, SCE requests that D.88-12-030 be modified to extend the filing dates for the signed agreements and amended cost estimates described in Ordering Paragraphs 6 and 12. Specifically, SCE asks that the deadlines in Ordering Paragraphs 6 and 12 be changed from November 1, 1989 to December 1, 1990.⁷ In SCE's view, these modifications, together with the revised schedule requested in its Motion, will enable it to commence construction by June 1990 for a DPV2 in-service date of June 1993.

C. Position of Respondents

None of the respondents objects to accelerating the pace of the schedule for reevaluating DPV2, so long as the schedule remains workable and does not prejudice the ability of parties to participate meaningfully in this proceeding and the merger. Furthermore, none of the respondents objects to a modest extension of the deadline for SCE to file finalized DPV2 Agreements. However, each respondent raises one or more major objections with regard to the following: (1) the impact of SCE's proposals on the sequence of DPV2 certification requirements, (2) the impact of the proposed schedule on merger-related issues; and/or (3) the type of

⁷ See Petition, Attachment B.

analysis SCE proposes to conduct for reevaluating DPV2 under merger conditions.⁸

1. Change In Sequence Of Certification Events

SCUPP, DRA, and Southern Cities/Vernon point out that, if granted, SCE's Motion and Petition would allow SCE to commence construction of DPV2 prior to submission of any signed DPV2 agreements for benefit enhancements (DPV2 Agreements). They argue that this change constitutes a major modification to the sequence of conditions imposed by D.88-12-030 for the DPV2 stand-alone CPC&N. In their view, the Commission certified DPV2 for a pre-1997 in-service date only if SCE could demonstrate certain benefit enhancements and, accordingly, required SCE to present all DPV2 Agreements prior to commencement of construction. DRA claims that SCE is using a "procedural guise" to change the substantive requirements for stand-alone approval and overturn the Commission's prior orders.

Moreover, Southern Cities/Vernon argue that SCE's request for relief is without merit, alleging that SCE's failure to obtain signed transmission service agreements is due to its own failure to pursue finalization of these contracts.⁹ DRA also argues that SCE's own actions (i.e., its contractual arrangements with LADWP and pursuit of a merger with SDG&E) have painted the company "into a corner" with respect to DPV2. For these reasons, SCUPP, DRA, and Southern Cities/Vernon recommend that the Commission continue to require the filing of these signed agreements prior to commencement of construction.

8 Since Vernon supports and adopts the comments of Southern Cities in their entirety, we refer to these two parties collectively, as "Southern Cities/Vernon".

9 See: Southern Cities Response To Southern California Edison Company's Request For A Revised Procedural Schedule, p. 4; PHC Transcript at 127-129.

SCUPP and Southern Cities/Vernon also point out that, under the current schedule, submission of the DPV2 Agreements would precede the Commission's reevaluation of DPV2 under merger conditions. They urge the Commission to preserve this chronology. Otherwise, they argue, SCE's testimony about the usage of the line would be speculative and critical information will be absent for the decisionmaking process.

2. Impact On Merger-Related Issues

In DRA's view, SCE's procedural recommendations effectively decouple DPV2 from the coordinated three-proceeding schedule set forth in the Joint Ruling. DRA believes this may disadvantage DRA's merger case, particularly if merger-related issues are litigated and decided in the the DPV2 proceeding. Moreover, under SCE's proposed schedule, DRA would be required to develop "likely merger outcome" scenarios for the DPV2 reevaluation at the same time that DRA is developing its testimony in the merger proceeding. Under the current merger schedule, DRA's merger testimony is due January 15. Under SCE's proposed schedule, DRA would be required to file its DPV2 prepared testimony the following day.

If the Commission grants SCE's Motion, DRA requests that the Commission adopt its recommendations on the type of analysis needed for effective decoupling of DPV2 issues from the merger proceeding (see below). In addition, DRA requests leave to file supplemental testimony following the first filing in the merger proceeding.

3. Reevaluation Analysis and Assumptions

Both CEC and DRA object to SCE's proposed approach for reevaluating DPV2 under merger conditions, either in terms of the resource planning assumptions, or scope of analysis. However, as described below, they differ with regard to their recommendations.

CEC recommends that SCE be required to base the DPV2 reevaluation upon the assumptions adopted in CEC's 1988 Electricity Report (ER7).¹⁰ In CEC's view, using the ER7 assumptions would accomplish the Commission's objective of consistency in planning assumptions, as described in the Joint Ruling. In addition, CEC argues that these assumptions are the only ones which have been recently adopted following extensive opportunity for comment and input by all interested parties. Moreover, the ER7 assumptions served as the base case for SCE's recent filing in the BRPU proceeding. Finally, CEC argues that using ER7 assumptions is appropriate because such assumptions represent a "conservative" view of the need for additional resources. In CEC's view, if SCE can justify the need for DPV2 using these ER7 planning assumptions, the PUC can feel comfortable proceeding on an expedited schedule as requested by SCE.

DRA, on the other hand, anticipates that the starting point of resource planning assumptions in the DPV2 reevaluation would be the same as the assumptions used by SCE in their merger filing. DRA and SCE would then vary those assumptions as necessary to determine the vigor of the project under changing conditions. In addition, SCE would be required to analyze DPV2 against a range of merger scenarios, which would be determined by the DRA. The objective of this analysis would be to account for the present level of uncertainty on relevant aspects of a potential merged entity. In DRA's view, to obtain approval for DPV2, SCE must show expected project benefits even in a merger scenario which proves to be a "worst-case" for DPV2.

10 CEC did not address the issues raised in SCE's Petition.

D. Environmental Review

During the PHC, the assigned ALJ raised the issue of how the California Environmental Quality Act (CEQA) requirements were going to be considered. SCE's proposed schedule assumes that an Addendum to the Environmental Impact Report (EIR) would be sufficient for the DPV2 reevaluation. The Commission's Advisory and Compliance Division (CACD) had indicated in a letter to SCE, dated October 11, 1989, that a Supplemental EIR would be required.¹¹ According to CACD, the preparation of a Supplemental EIR would significantly extend the schedule for the DPV2 reevaluation. As of the PHC, SCE and CACD were not in agreement as to what would be required to comply with CEQA, and how to modify the procedural schedule, should a Supplemental EIR be required. CACD plans to wait in making a final determination on these issues until it receives and reviews SCE's PEA.¹²

E. Discussion

Should SCE be authorized to commence construction of DPV2 before complying with Ordering Paragraphs No. 6 and 12 of D.88-12-030? We agree with SCUPP, DRA, and Southern Cities/Vernon that this is the threshold question raised by SCE in its October 10 filings.¹³ Moreover, this issue must be addressed before we can consider the merits and feasibility of SCE's motion to accelerate the schedule for reevaluating DPV2 under merger conditions.

¹¹ Letter from Elaine Russell, CACD, to Mr. Ron Daniels of SCE, dated October 11, 1989.

¹² PHC Transcript at 140-141.

¹³ Although SCE did not originally characterize its requested relief in this way, SCE later acknowledged that the combined impact of its Petition and Motion would be to change the order of CPC&N requirements for DPV2, under both stand-alone and merged conditions. See PHC Transcript at 131-132.

Our first observation is that SCE's request requires major modifications to D.88-12-030. The sequence of certification requirements is an integral condition to the CPC&N itself. As described in the Assigned Commissioners' Ruling, D.88-12-030 authorized SCE to construct DPV2 for a 1997 on-line date. SCE was given the opportunity to operate the line before 1997 only if it could demonstrate enhanced near-term project benefits (e.g., increased transmission service revenues) prior to commencement of construction.

With respect to Ordering Paragraph 12, SCE's request would result in commencement of construction prior to the Commission's final adoption of a cost cap for the project, as required under Public Utilities Code 1005.5. This represents not only a major modification to D.88-12-030, but also a significant departure from our general treatment of costs for transmission projects of this size.

Therefore, SCE's requested relief involves much more than a simple date extension for the filings described in Ordering Paragraphs 6 and 12. The sequence of certification requirements adopted in D.88-12-030 was designed to adequately protect ratepayer interests under a range of possible developments that could render the DPV2 project less desirable than project alternatives. If we change this sequence, and thereby the circumstances under which SCE may commence construction of DPV2, we also need to reevaluate the risks and benefits to ratepayers of certifying the line prior to 1997.

SCE's request also raises major compliance and cost recovery issues that were never contemplated during the proceeding, namely, what to do "after the fact" if SCE cannot achieve the required benefit enhancements. These issues are further complicated by our obligation under CEQA to carefully weigh the level of economic benefits against environmental impacts among project alternatives. For our deliberations in D.88-12-030, the

level of economic benefits attributed to DPV2 were those associated with SCE's full achievement of benefit enhancements.¹⁴

In sum, SCE's Petition proposes modifications to D.88-12-030 that require us to reconsider major elements of a complex decision. In this respect, SCE's Petition is procedurally improper. As we discussed in D.88-01-044, a petition is not the appropriate procedural vehicle for changes of this magnitude; rather, such changes should be by application for rehearing or by a new application.¹⁵ SCE's October 10 filings are inadequate to serve as either a new application or application for rehearing, and untimely as the latter.¹⁶

We also deny SCE's Petition on substantive grounds. SCE offers no compelling reason for us to even consider, let alone implement, changes to the certification requirements requested in its October 10 filings.¹⁷ The contractual and operational factors

¹⁴ The level of benefit enhancements required to make ratepayers indifferent between a 1993 and 1997 on-line date is approximately \$34 million in net present value, in 1990 dollars. See D.88-12-030, Conclusion of Law 5 and Ordering Paragraph 4.

¹⁵ D.88-01-044, mimeo. at pp. 11-12.

¹⁶ Section 1003.5 of the Public Utilities Code (PU Code) outlines the filing requirements for a new CPC&N application. Applications for rehearing must be filed within 30 days after the date of issuance of a Commission's decision. (See PU Code Section 1731(b) and the Commission's Rules of Practice and Procedure, Rule 85.) Furthermore, such applications must set forth specifically the grounds on which the applicant considers the decision to be unlawful or erroneous. (PU Code Section 1732 and Rule 86.1.)

¹⁷ In its October 10 filings, SCE characterized the Assigned Commissioners' Ruling as providing the opportunity for revising these requirements. (See Petition, page 4-5.) While that ruling clearly offered SCE the opportunity to present a proposal for accelerating the DPV2 reevaluation schedule, it in no way suggested that the schedule for complying with Ordering Paragraphs 6 and 12 would also be reconsidered.

that SCE describes in its filings were fully anticipated by the parties to this proceeding and incorporated into the adopted CPC&N conditions. SCE knew as early as September 1988 that it would need to renegotiate the circumstances under which LADWP could build DPV2.¹⁸ SCE also knew at that time that its decision to pursue the merger with SDG&E would trigger a reevaluation of the project, the timing of which could render a mid-1990 construction start date infeasible. As noted in the Assigned Commissioners' Ruling, D.88-12-030 clearly stated that active consideration of the merger would require careful reevaluation of the DPV2 CPC&N, and possibly delay the project well beyond SCE's proposed on-line date.¹⁹

Moreover, based on the response filed by Southern Cities/Vernon, we are unconvinced that SCE's inability to fulfill the requirements of Ordering Paragraph 6 is due solely to uncertainty over the project on-line date. Even if it were, we are unwilling to change the sequence of certification requirements for the reasons stated above. We agree with DRA that SCE has placed itself in the difficult position described in its October 10 filings. Therefore, it is SCE's responsibility to take whatever actions are necessary to minimize this uncertainty and successfully fulfill the CPC&N conditions adopted in D.88-12-030.

With regard to SCE's request to modify Ordering Paragraph 12, we believe that Ordering Paragraph 16 of D.88-12-030 provides SCE with an adequate opportunity to recover costs above the amended cost estimate caused by (1) delays in initial construction and/or (2) unforeseen circumstances.

¹⁸ The need to renegotiate the Exchange Agreement was incorporated into the SCE/DRA stipulated set of conditions to the CPC&N. See Footnote 6 above.

¹⁹ See Assigned Commissioners' Ruling, pp. 3-4.

For the reasons stated above, we deny SCE's Petition on both procedural and substantive grounds. Instead, we grant SCE a 3-month extension of time to file (to February 1, 1990), and modify Ordering Paragraphs 6 and 12 accordingly. Any further delays in obtaining this information could jeopardize our ability to adequately review and consider this information in the DPV2 reevaluation, given the schedule outlined below.²⁰

We now turn to SCE's Motion, and its request to accelerate the schedule for reevaluating DPV2. While we do not accept SCE's operational and contractual reasons as a rationale for modifying D.88-12-030, we do consider them to be sufficient for making procedural adjustments to our schedule. Therefore, we are willing to modify the Joint Ruling schedule for this proceeding, to the extent feasible.

Specifically, we will allow SCE to file its testimony before the Phase 1A determination in I.89-07-004. The analysis included in this testimony shall comply with the direction given in the Assigned Commissioners' Ruling and in this order and any subsequent rulings by the assigned ALJ or Commissioner.²¹ Consistent with SCE's proposal, we will also eliminate the requirement that evidentiary hearings await the ALJ ruling on

²⁰ As noted by SCUPP, we also need adequate opportunity to review the executed contracts to ensure compliance with the CPC&N under stand-alone conditions. Specifically, we need to determine whether or not these transmission service contracts result in the level of enhanced benefits required to place DPV2 in service prior to 1997. This issue can only be addressed once the actual contracts have been executed and filed for our review.

²¹ See Assigned Commissioners' Ruling, pp. 5-6. We also suggest, as did the Assigned Commissioners, that SCE work with DRA to identify the likely scenarios and merger outcomes that would contribute to this analysis.

transmission and system integration in A.88-12-035, the merger proceeding.

However, we do not adopt SCE's specific proposal for accelerating the process, for several reasons. First, as described in Section D above, a final determination on CEQA requirements will not be made until SCE files its application and PEA. Therefore, a final procedural schedule cannot be established until that determination has been made.²²

Second, SCE's proposed schedule for filing testimony assumes that DRA has concurred on scenarios, assumptions, and methodologies for the analysis of DPV2 cost-effectiveness under likely merger outcomes. While there appears to be preliminary concurrence, DRA is still in the process of developing its testimony for the merger proceeding and cannot be expected to identify at this time the final range of merger scenarios it considers appropriate for the DPV2 reevaluation. We will, therefore, afford DRA the opportunity, as it requests, to file supplemental testimony following the first filing in the merger proceeding. This, in turn, may affect the procedural schedule.

Third, as directed above, SCE's filings in response to Ordering Paragraphs 6 and 12 will be filed for our consideration before the DPV2 reevaluation is submitted. Accordingly, the assigned ALJ will need to make adjustments to the schedule, as

²² If it is determined that a Supplemental EIR is required, the Draft Supplemental EIR would need to be issued and available to parties before testimony is filed and prior to evidentiary hearings.

necessary, in order to provide parties an opportunity to respond to those filings.²³

Fourth, SCE's proposed analysis does not accomplish an acceptable degree of consistency across related proceedings. As CEC points out, nothing contained in the Assigned Commissioners' Ruling indicates a departure from the importance of consistency in planning assumptions. We, therefore, direct SCE to augment its analysis with a case (and associated sensitivities) using the ER7 planning assumptions. We agree with CEC that this set of assumptions is the only "common thread" across the three related proceedings until a Phase 1A decision or ruling is issued in the BRPU. SCE should use the SERASYM ER7 case being developed in the merger proceeding for this purpose.²⁴

With the above exceptions noted, we approve SCE's proposal for modifying the coordination approach and procedural schedule adopted in the Joint Ruling. The final timetable for this proceeding will be established by the assigned ALJ. A further prehearing conference should be scheduled following SCE's submittal of testimony and CACD's assessment of CEQA requirements.

We anticipate that the procedural modifications adopted in this order will permit a more expeditious consideration of DPV2 under merger conditions. As DRA points out, however, the outcome of this process may be inconclusive and require further consideration after the merger proceeding is completed. In that

23 We do not agree with SCUPP and Southern Cities/Vernon that SCE's filing of this information must necessarily precede the preparation and filing of intervenor testimony. However, a reasonable opportunity to review and respond to this information should be provided. We leave the specifics to the discretion of the assigned ALJ.

24 Specifically, SCE should use the ELFIN to SERASYM translation of ER7 contained in the second Joint Exhibit. (See Assigned Commissioners' Ruling, Attachment 1, page 6.)

respect, we cannot guarantee a Commission determination prior to the original schedule outlined in the Joint Ruling.

Nor do we guarantee that the schedule can be accelerated to the degree proposed by SCE, given the uncertainty over the specific EIR analysis and documentation that will be required. Rather, we are offering SCE the opportunity to present its case on a schedule that permits our consideration of DPV2 under merger conditions as soon as practicable. To this end, SCE is in the best position to guard against delays in the schedule, by filing a complete PEA and by responding to data requests in a complete and timely manner.

Findings of Fact

1. On October 10, 1989, SCE filed (1) a motion to revise the schedule for reevaluating DPV2 under merger conditions, and (2) a petition for modification of D.88-12-030.

2. In its petition, SCE requests an extension until December 30, 1990 to comply with Ordering Paragraphs 6 and 12 of D.88-12-030.

3. In its motion, SCE requests acceleration of the schedule adopted in the Joint Ruling for reevaluating DPV2, such that SCE can commence construction in June, 1990

4. Several aspects of SCE's petition and motion were opposed by DRA, CEC, SCUPP, Southern Cities and Vernon.

5. In D.88-12-030, the Commission certified DPV2 for a 1993 in-service date, provided that SCE could demonstrate enhanced project benefits equal to approximately \$34 million in net present value (1990 dollars).

6. Ordering Paragraphs 6 and 12 of D.88-12-030 require SCE to submit: (a) proof of benefit enhancements (e.g., transmission service contracts) and (b) amended cost estimates by November 1, 1989, approximately seven months prior to commencement of construction for a 1993 in-service date.

7. SCE's requests change the sequence of certification requirements adopted in D.88-12-030, and would allow SCE to commence construction before either (a) SCE demonstrates that it has enhanced the benefits of the project as required by Ordering Paragraph 4 or (b) the Commission adopts a cost cap for the project, as required under Public Utilities Code 1005.5.

8. SCE's requests would require us to reconsider major elements of D.88-12-030.

9. Under SCE's proposal, DRA would be required to file its DPV2 prepared testimony the day after DRA's merger testimony is due.

10. SCE's proposed schedule presumes that an Addendum to the EIR, rather than a Supplemental EIR, will be required under CEQA.

11. For its DPV2 filing, SCE does not intend to include any scenarios using ER7 assumptions.

12. The Joint Ruling directs SCE to use ER7 assumptions as its base case for the DPV2 reevaluation, if a Phase 1A decision in the BRPU is delayed.

13. The Joint Ruling directs SCE to augment its merger filing with a scenario using ER7 assumptions.

14. SCE's request requires major modifications to D.88-12-030 and raises issues that were not contemplated in that phase of the proceeding.

15. On September 29, 1988, SCE joined DRA in stipulating to the CPC&N conditions adopted in D.88-12-030.

16. SCE knew as early as September 1988 that: (a) it would need to renegotiate the circumstances under which LADWP could build DPV2 and (b) its decision to pursue the merger with SDG&E would trigger a reevaluation of the project, the timing of which could render a mid-1990 construction start date infeasible.

17. Decoupling the DPV2 reevaluation from the merger and BRPU proceedings will permit, but not guarantee, a more expeditious consideration of DPV2 under merger conditions.

Conclusions of Law

1. SCE's petition is procedurally improper.
2. SCE's petition should be denied on substantive grounds.
3. SCE's proposal for accelerating the Joint Ruling schedule is unreasonable, given the present uncertainty over CEQA requirements and other procedural considerations.
4. The procedural modifications described in Section E of this order are reasonable and should be adopted.
5. This order should be effective today so that SCE can begin preparation of its testimony as soon as possible.

ORDER

IT IS ORDERED that:

1. Southern California Utility Power Pool and Southern Cities are granted permission to intervene in this proceeding.
2. The petition of Southern California Edison (SCE) for modification of D.88-12-030, dated October 10, 1989, is denied.
3. The motion of SCE for a revised procedural schedule, dated October 10, 1989, is denied.
4. Ordering Paragraph 6 of D.88-12-030 is modified to read as follows:
 6. By February 1, 1990, SCE shall submit copies of the applicable signed agreements implementing the benefit enhancement measures referenced above, and copies of signed contracts for transmission service over DPV1 from 1990-93, over DPV2, and over SCE's existing system west of Devers Substation, including all final amendments to the SCE/LADWP Exchange Agreement.
5. Ordering Paragraph 12 of D.88-12-030 is modified to read as follows:
 12. By February 1, 1990, SCE shall file an amended cost estimate for the project reflecting:

- (a) Any adjustments in adopted project costs due to anticipated delays in starting the project or inflation;
- (b) Any adjustments in project costs as a result of final design criteria; and
- (c) Additional project costs resulting from the adopted mitigation measures (and mitigation monitoring program).

This filing will be in the form of an advice letter, requesting Commission action on approving or rejecting the amended cost data.

6. The procedural schedule set forth in the Joint Administrative Law Judge Ruling on Coordination Procedures, issued July 17, 1989 in A.85-12-012, A.88-12-035, and I.89-07-004, is modified as follows:

- (a) SCE may file its prepared testimony and Proponent's Environmental Assessment (PEA) reevaluating DPV2 under merger conditions prior to the issuance of a Phase 1A decision in I.89-07-004.
- (b) The purpose of this filing is to analyze, under a set of reasonable scenarios, with and without DPV2, the likely range of project net benefits under merger conditions. ✓
- (c) In its filing, SCE shall include an evaluation of the no-project alternatives presented in its amended DPV2 application (e.g., the "Infinite Bridge" and the "Expanded Bridge"), under a range of possible merger scenarios.
- (d) In its filing, SCE shall include a case using the planning assumptions adopted in the California Energy Commission's Seventh Electricity Report (ER7). For this purpose, SCE should use the SERASYM ER7 data set being developed in A.88-12-035, the merger proceeding.

- (e) In preparation of its filing, SCE shall confer with DRA to identify the likely scenarios and merger outcomes that should contribute to this analysis.
- (f) Evidentiary hearings in the DPV2 reevaluation are not required to await the ALJ ruling on transmission and system integration in the merger proceeding.

The procedural schedule may be modified as needed by subsequent rulings of the assigned ALJ or Commissioner.

7. Following SCE's submittal of testimony and CACD's assessment of CEQA requirements, the assigned Administrative Law Judge shall schedule a further prehearing conference to address scheduling and procedural issues, including those raised in this order.

This order is effective today.

Dated DEC 6 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

- 21 -

Wesley Franklin
WESLEY FRANKLIN, Acting Executive Director
DB

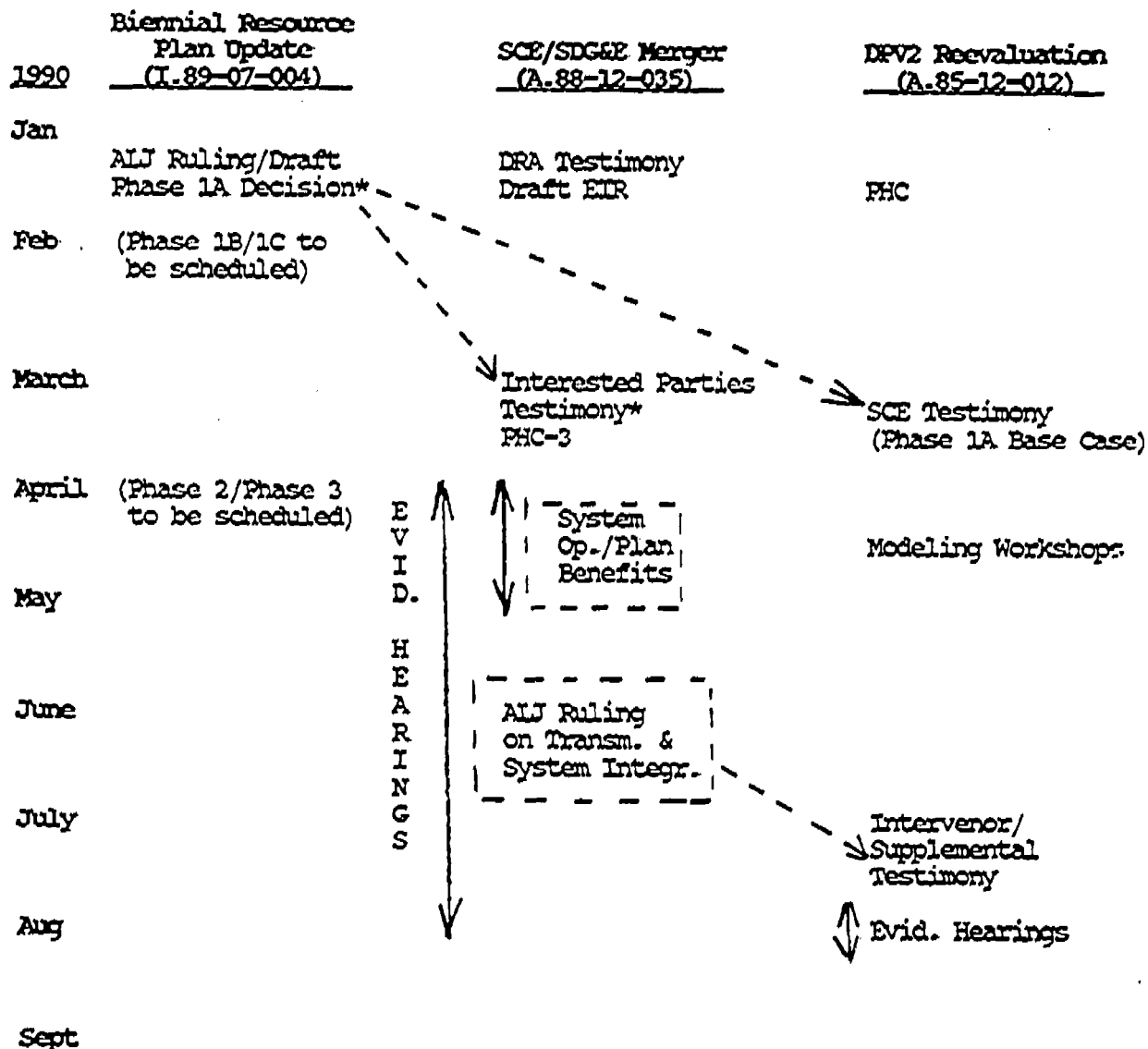
ATTACHMENT 1

Page 1

Procedural Coordination of A.85-12-012,
A.88-12-035, and I.89-07-004

	<u>Biennial Resource Plan Update (I.89-07-004)</u>	<u>SCE/SDG&E Merger (A.88-12-035)</u>	<u>DPV2 Reevaluation (A.85-12-012)</u>
1989			
July	ER-7 Base Case Data Set	SCE/SDG&E Suppl. on Alternatives	
Aug	Utility Phase 1A Testimony		
Sept	Phase 1A Workshops/Report	Suppl. Testimony ER-7 Base Case	
Oct	Intervenor/DRA Phase 1A Testimony	Modeling Workshops	
Nov			
	Phase 1A Hearings		
Dec			

(Continued)

ATTACHMENT 1
Page 2Procedural Coordination of A.85-12-012,
A.88-12-035, and I.89-07-004
(Continued)

*The exact issuance date depends on whether an ALJ Ruling or Interim Decision will be issued. Because of this uncertainty, coupled with the testimony due dates established in the merger proceeding, interested parties may not be able to incorporate the Phase 1A determinations into their merger testimony. If this is the case, we will expect parties to use the CEC ER-7 assumptions as their base case scenario.

(END OF ATTACHMENT 1)

ATTACHMENT 2

A. 85-12-012

EDISON'S PROPOSED PROCEDURAL SCHEDULE

10/27/89	Prehearing conference to adopt a procedural schedule and to obtain concurrence on scenarios, assumptions and methodologies for the analysis of DPV2 cost effectiveness under likely merger outcomes, with and without DPV2
12/1/89	Edison files prepared testimony on reevaluation of DPV2 in the context of the merger and satisfies Ordering Paragraph No. 3 of D. 88-12-030. Edison submits revised amended Proponent's Environmental Assessment.
1/18/89	DRA and other parties submit prepared testimony
1/29-1/31/90	Hearings (3 days estimated) Addendum to Environmental Impact Report ("EIR") made available to parties*
2/12/90	Concurrent briefs filed
3/5/90	ALJ Decision issued with EIR Addendum attached
4/4/90	CPUC Decision issued with EIR Addendum attached
12/31/90	Compliance filings on contracts for benefit enhancement measures and relevant transmission service as well as on the amended DPV2 cost estimate
6/1/93	DPV2 scheduled in-service date**

* If the CPUC determines that a supplemental EIR is needed, this schedule could be modified to accommodate CEQA requirements without otherwise modifying this schedule.

** It should be noted that Edison would also make the appropriate cost recovery filings (e.g., Major Addition Adjustment Clause ("MAAC") procedure and reasonableness showings).

(END OF ATTACHMENT 2)

Application No. 85-12-012

Devers-Palo Verde No. 2 Transmission Line

Identification of Proposed Cases

1. Edison's Merger Case In Chief (CIC)
2. CPCN Case
(CIC Without 250 MW Merger LT FTS* Revenues)
3. Infinite Bridge Alternative
4. No Project Alternative - Reference
5. Operating Date Sensitivities
 - a. June 1997
 - b. June 1995
6. Revenue Enhancement Sensitivities
7. California-Oregon Transmission Project-Out Sensitivity
8. Possible Merger Sensitivities
 - a. No 250 MW Merger LT FTS after 6/93
 - 1) With Devers-Palo Verde No. 2
 - 2) With Infinite Bridge
 - b. 350 MW Merger LT FTS after 6/93
 - 1) With Devers-Palo Verde No. 2
 - 2) With Infinite Bridge

* LT FTS: Long-Term, Firm Transmission Service

(END OF ATTACHMENT 3)

11/6/89

ATTACHMENT 4

Page 1

Ordering Paragraphs in D.88-12-030,
as Modified by This Decision*

INTERIM ORDER

IT IS ORDERED that:

1. A certificate of public convenience and necessity (CPC&N) is granted, subject to the conditions set forth in this order, to Southern California Edison Company (SCE) to construct and operate a second 500 kilovolt (KV) transmission line between its Devers substation and the Palo Verde Nuclear Generating Stations in Arizona (DPV2).

2. This certificate is granted for an operating date of no sooner than June 1, 1993.

3. By January 15, 1990 SCE shall submit a report to the Commission describing the status of the efforts of SCEcorp (SCE's parent company) to merge with San Diego Gas & Electric Company (SDG&E). This report will indicate, as of January 1, 1990, whether (a) a merger agreement has been entered into by SCEcorp or SCE and SDG&E, (b) SCEcorp or SCE has commenced and is continuing a solicitation of SDG&E shareholders for the purpose of a merger, and (c) SCEcorp or SCE has a public merger offer with SDG&E outstanding. If one or more of these conditions exist as of January 1, 1990, or if a merger is consummated prior to this date, SCE (1) shall not commence construction of DPV2 and (2) shall petition the Commission for reevaluation of DPV2 in the context of the then status of the merger activity. To protect DPV2 project dates, SCE may solicit bids from material suppliers prior to January 1, 1990, but may not award any contracts for the purchase of material.

*Changes/additions are noted by underlined sections.

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Page 2

4. By July 1, 1989 SCE shall submit to the Commission a statement of its plans to enhance the net benefits attributable to DPV2 in the early years by measures such as increased transmission service revenues, transmission capacity layoffs, or other measures. This report shall include an analysis, including a production costing analysis, of the net benefits that would be derived from implementation of such plan, and showing that the enhanced benefits could not be realized without having DPV2 in service prior to 1997. The goal in implementing these benefit enhancements will be to generate additional net benefits to enhance the near-term benefits so that the impact on the ratepayers during the 1993-97 time period will not be substantially different than under DRA's 1997 in-service date case (Case W(97) in Exh. 32).

5. By July 1, 1989 SCE shall submit to the Commission a study on the likelihood and potential impact of a simultaneous outage of both the DPV1 and DPV2 lines. This study shall assess alternative measures for mitigating the impacts of such a simultaneous outage, and the effectiveness, cost, reliability, and feasibility of these measures.

6. By February 1, 1990, SCE shall submit copies of the applicable signed agreements implementing the benefit enhancement measures referenced above, and copies of signed contracts for transmission service over DPV1 from 1990-93, over DPV2, and over SCE's existing system west of the Devers Substation, including all final amendments to the SCE/LADWP Exchange Agreement.

7. By November 1, 1989, SCE shall submit to the Commission a report analyzing the failures of the DPV1 line which occurred on August 21, 1986 and October 29, 1987 due to wind loading. This report will include responses to the following questions related to the vulnerability of the Devers substation to seismic events:

ATTACHMENT 4
Page 3

1. What level seismic shaking ("G" forces) is incorporated in design of foundations and in specifications for equipment.
2. What provisions for equipment movement from dislocation or ground displacement have been made.
3. What is the estimated availability and mean time to repair damaged equipment.
4. How much damage could be sustained and what level of service maintained at Devers.
5. What capacity exists to serve Palm Springs and the SCE system in general if Devers is out of service due to temporary repairs.
(Final EIR at p. 19.)

SCE shall provide a copy of its responses to these questions to the City of Palm Springs.

8. As soon as SCE can do so with a reasonable degree of certainty, it shall describe in writing what it believes will be the final provisions of the amendment to the "Los Angeles-Edison Exchange Agreement Between the Department of Water and Power of the City of Los Angeles and Southern California Edison Company," which is presently being negotiated to provide, among other things, for the Department of Water and Power to receive transmission service over DPV1 from June 1, 1990 until the earlier of (1) the date when DPV2 commences commercial operation or (2) June 1, 1993.

9. SCE shall implement the mitigation measures contained in the Draft and the Final Environmental Impact Reports and Addendum (EIR).

10. All reasonable costs related to the mitigation monitoring program shall be considered as construction expenses related to this project.

ATTACHMENT 4

Page 4

11. Within 90 days, the Executive Director shall prepare and present to the Commission a recommended mitigation monitoring program consistent with the discussion in this decision. The recommendation shall include an estimated cost for the program.

12. By February 1, 1990, SCE shall file an amended cost estimate for the project, reflecting:

- (a) Any adjustments in adopted project costs due to anticipated delays in starting the project or inflation;
- (b) Any adjustments in project costs as a result of final design criteria; and
- (c) Additional project costs resulting from the adopted mitigation measures (and mitigation monitoring program).

This filing will be in the form of an advice letter, requesting Commission action on approving or rejecting the amended cost data.

13. No later than six months prior to the project in-service date, SCE shall report the firm summer rating of DPV2. If this rating is finally determined to be below 1140 MW, SCE shall include in an advice letter filing the per-megawatt costs of the project and a recommendation for Commission action on adjusting the final cost cap.

14. Except as otherwise provided for in this order, SCE's share of total project costs subject to ratebasing shall not exceed the lesser of (1) \$172,400,000 or (2) SCE's final ownership interest times the total cost of jointly owned facilities, plus 100% of the 220 kV Devers substation costs and 100% of right-of-way acquisition costs. After considering the information filed on the actual firm summer rating, per Ordering Paragraph 13 above, the Commission may make further adjustments to the cost cap.

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Page 5

15. During construction SCE shall file quarterly reports for the project which contain:

- (a) A period cost report reflecting:
 - 1. Monthly budgeted expenses
 - 2. Actual monthly expenses
 - 3. Budgeted total cost to date
 - 4. Actual total cost to date
 - 5. Total committed costs to date
 - 6. Total budgeted costs for the project at completion
 - 7. Forecasted total costs for the project at completion
- (b) S-curve graphs showing budgeted and actual project costs by month, and year-to-date.
- (c) An exhibit showing the major milestones of scheduling for each major phase of the project.
- (d) A narrative explanation of the major accomplishments and problems occurring since the last report with special emphasis on any variance from budgeted expenses or construction schedules, and a description of SCE's progress toward the major milestone including an estimate of whether those milestone will be achieved within budgeted costs and on schedule.

16. SCE shall not apply for cost recovery of any amount above the amended cost estimate, pursuant to Ordering Paragraphs 12 and 13, except that SCE may apply for reasonable costs caused by delay in initial construction in an amount equal to the adopted cost of the project times the increase in the Producer Price Index for Industrial Commodities, subgroup 10 "Metals and Metal Products," as

ATTACHMENT 4
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published by the U.S. Bureau of Labor Statistics for each month the initial construction is delayed past June 1, 1993. SCE may apply for added adjustments only with a showing of unforeseen circumstances as approved by the Commission after advice letter filing.

17. Unless otherwise indicated, SCE shall make all filings ordered above as compliance filings with an original and 12 conformed copies, and serve all parties of record with either the filing or notice that the filing has been made and when a copy can be obtained from SCE. The filings shall comply with the applicable rules in Article 2 of the Rules of Practice and Procedure and shall have attached a certificate showing service by mail on all parties. The compliance filings shall be part of the public record for this proceeding. In addition, two copies of each filing shall be sent to the Commission Advisory and Compliance Division with a transmittal letter stating the proceeding and decision numbers.

18. Consistent with the discussion in this decision, DRA shall conduct a study on power-pooling/coordination arrangements among California utilities, including a compilation of information on power-pooling/coordination arrangements in other regions of the county. This study shall include a case analysis of SCE's power transfers with other utilities. DRA shall submit a proposal and schedules to the Executive Director for completing this study by June 1, 1989. A final report shall be filed no later than twenty-four (24) months from the effective date of this order.

19. Consistent with the discussion in this decision, a draft OIR for modifying GO 131-C to incorporate a joint study pre-application phase for CPC&N proceedings shall be prepared for Commission consideration.

ATTACHMENT 4
Page 7

20. The Executive Director of the Commission shall file a Notice of Determination for the project, as set forth in Appendix F to this decision, with the Secretary of Resources.

This order is effective today.

Dated December 9, 1988, at San Francisco, California. ✓

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

(END OF ATTACHMENT 4)

an in-service date of June 1993. Moreover, according to SCE, if it is unable to commence construction prior to June 1990, the Los Angeles Department of Water and Power (LADWP) would have the right to build DPV2 under the terms of the Exchange Agreement, as amended.

Therefore, SCE requests that the procedural schedule be accelerated, so that a final decision on the DPV2 reevaluation can be issued no later than April 4, 1990. To achieve this decision date, SCE proposes to file testimony on December 1, 1989, along with an amended Proponent's Environmental Assessment (PEA). Attachment 2 presents SCE's proposed schedule. As clarified at the November 6, 1989 PHC, SCE intends to base its reevaluation of DPV2 on their merger case-in-chief (CIC), augmented by relevant assumptions from the Joint Study used to evaluate DPV2 on a stand-alone basis.⁵ Attachment 3 outlines the scope of analysis and sensitivities that SCE plans to present in its December filing.

In addition, SCE requests an extension of time to comply with Ordering Paragraphs 6 and 12 of D.88-12-030. (See Section A. above.) SCE states that it has been unable to finalize contracts for benefit enhancement measures and transmission service, as required by Ordering Paragraph 6 of D.88-12-030. Although SCE stipulated to this condition, SCE asserts that it did not anticipate the degree of reluctance on the part of potential purchasers to sign contracts until the DPV2 construction commencement and in-service dates were certain.⁶ In SCE's view, the delay in the CPC&N resulting from the merger condition, coupled

⁵ The term "stand-alone" refers to the SCE system assuming non-merger conditions.

⁶ On September 29, 1988, SCE joined DRA in stipulating to this and other conditions to the CPC&N. The ordering paragraphs of D.88-12-030 incorporate the exact language of the stipulation.

- (a) Any adjustments in adopted project costs due to anticipated delays in starting the project or inflation;
- (b) Any adjustments in project costs as a result of final design criteria; and
- (c) Additional project costs resulting from the adopted mitigation measures (and mitigation monitoring program).

This filing will be in the form of an advice letter, requesting Commission action on approving or rejecting the amended cost data.

6. The procedural schedule set forth in the Joint Administrative Law Judge Ruling on Coordination Procedures, issued July 17, 1989 in A.85-12-012, A.88-12-035, and I.89-07-004, is modified as follows:

- (a) SCE may file its prepared testimony and Proponent's Environmental Assessment (PEA) reevaluating DPV2 under merger conditions prior to the issuance of a Phase 1A decision in I.89-07-004.
- (b) The purpose of this filing is to analysis, under a set of reasonable scenarios, with and without DPV2, the likely range of project net benefits under merger conditions.
- (c) In its filing, SCE shall include an evaluation of the no-project alternatives presented in its amended DPV2 application (e.g., the "Infinite Bridge" and the "Expanded Bridge"), under a range of possible merger scenarios.
- (d) In its filing, SCE shall include a case using the planning assumptions adopted in the California Energy Commission's Seventh Electricity Report (ER7). For this purpose, SCE should use the SERASYM ER7 data set being developed in A.88-12-035, the merger proceeding.

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20. The Executive Director of the Commission shall file a Notice of Determination for the project, as set forth in Appendix F to this decision, with the Secretary of Resources.

This order is effective today.

Dated December 6, 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

(END OF ATTACHMENT 4)