ORIGINAL

Decision 92-10-028 October 6, 1992

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 Requires or Will Require Edison to Construct and Operate a 220 kV Double-Curcuit Transmission Line Between the Kramer Substation and the Victor Substation in San Bernardino County, California.	Application 89-03-026 (Filed March 20, 1989)

ORDER MODIFYING DECISION 92-04-059 AND DENYING APPLICATION FOR REHEARING

California Energy Company, Inc. (CalEnergy) has filed an application for rehearing of Decision (D.) 92-04-059 (the Phase II or April 22nd Decision), in which we allocated the costs of certain transmission line facilities between the ratepayers of Southern California Edison Company (Edison) and CalEnergy. Edison has filed a response in opposition to CalEnergy's application for rehearing, and CalEnergy has filed a "Motion to Strike" Edison's response.

As explained below, we have determined that sufficient grounds for granting rehearing have not been shown, but that our Phase II Decision should be modified. We are therefore attaching to this order a complete version of D.92-04-059 as modified today (the Modified Decision).

Much of CalEnergy's application for rehearing is based on the notion that the Commission somehow erred by revising the Proposed Decision of the Administrative Law Judge (ALJ).

However, Public Utilities (P.U.) Code § 311(d) specifically provides, inter alia, that "[t]he commission may, in issuing its decision, adopt, modify, or set aside the proposed decision or any part of the decision." As the California Supreme Court has stated: "The commission need not accept any finding made by the ALJ". (Camp Meeker Water System, Inc. v. Public Utilities Commission (1990) 51 Cal. 3d 845, 863, n.15.)

CalEnergy further contends that the Commission erred by conforming the Phase II Decision "to the Phase I Decision [D.90-09-059] in order to be consistent with the legal conclusions contained therein." (App./reh. at 17.) It then argues that this was "retaliatory" (app./reh. at 21) and that the Commission "improperly considered" a lawsuit CalEnergy filed in federal court against the Commission (app./reh. at 16-21). CalEnergy's unsubstantiated allegation of "retaliation" does not require any extended discussion; our Phase II Decision as modified today speaks for itself. We simply note that a degree of consistency between decisions in two phases of the same proceeding might be considered more of a virtue than a vice. Indeed, in its comments on the proposed decision, the Division of Ratepayer Advocates (DRA) argued that the Phase II Decision's treatment of the Lugo transformers should be more consistent with the Phase I Decision.

CalEnergy objects to the brief mention in our April 22nd decision of the financial difficulties of Luz International Ltd. (Luz) and the effect those difficulties may have on the completion of the 220 kV Kramer-Victor line authorized in our

Phase I Decision.[1] Arguing that there was no record evidence concerning Luz's financial condition, CalEnergy contends that consideration of Luz's financial condition led the Commission to conclude that the overall effect of the 115 kV rebuild will be to increase line losses. (App./reh. at 9-11, 18-19.) Edison's response to the application for rehearing notes that the brief discussion of Luz's financial condition and its possible impact on the 220 kV line is unnecessary to the decision, and suggests that it be deleted. We agree.

As Edison points out, CalEnergy's application for rehearing ignores the real basis for the Commission's finding concerning line losses and the 115kV line: Edison introduced evidence of very substantial increases in line losses during the period after the 115 kV line was placed in service and before the Kramer-Victor 220 kV line was scheduled to begin operation. According to Edison's testimony, those increased line losses were so much larger than the small reduction in line losses expected after the 220 kV line is placed in service that, on balance over the life of the project, there will be an increase in line losses. Our April 22nd Decision clearly relies on this testimony in analyzing the line losses relating to the 115 kV line. The Modified Decision attached to this order provides a more extensive exposition of our analysis of the line loss issue.

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1. The transmission facilities that are the subject of this proceeding were intended to accommodate QF (qualifying facility) power generated by both Luz and CalEnergy. Phase I allocated the cost of certain facilities, including the Kramer-Victor 220 kV line, among Luz, CalEnergy, and Edison's ratepayers. Our Phase I Decision, by approving a settlement between Edison and Luz, also determined Luz's share of rebuilding a 115 kV line between Kramer and Victor. This 115 kV line was rebuilt in order to carry power generated by Luz and CalEnergy prior to construction of the 220 kV line. Our Phase I Decision did not determine CalEnergy's share of the cost of rebuilding the 115 kV line; that is one of the subjects of Phase II of this proceeding.

Although not mentioned in the title of CalEnergy's pleading, its application for rehearing contains an alternative request for the Commission to reopen the Phase I and II proceedings, under P.U. Code § 1708. (App./reh. at 6, 13-14.) For the most part, this request is based on the April 22nd Decision's brief discussion of Luz's financial condition. However, we are deleting that brief discussion from the Modified Decision that we approve today.

In its request for reopening, CalEnergy also alleges that due to Luz's financial difficulties "material facts assumed by the Commission have changed dramatically" since the issuance of the Phase I Decision. (App./reh. at 13.) CalEnergy also states that "[i]f Luz will no longer be able to develop these projects or provide further payment toward its costs, the Commission should [reopen the proceedings]." (App./reh. at 13-14, emphasis added.) CalEnergy's request, however, does not specify what it expects to prove if the proceedings are reopened, and does not specify the relief it wants or why the Commission should be concerned with any changed circumstances.[2] The Commission's authority to reopen proceedings under section 1708 is discretionary. (See PGE&E Co., D.92058 (1980) 4 Cal. P.U.C. 2d 139, 149.) In light of CalEnergy's meager showing, we conclude that we should exercise our discretion by not granting its request to reopen. (Compare PG&E Co., supra.)

As noted above, Edison filed a response in opposition to CalEnergy's application for rehearing. More than two months

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2. In an earlier opposition to a similar CalEnergy request, Edison alleged that it had suspended construction activity and substantially limited the expenditure of funds on the Kramer-Victor 220 kV project. (Edison Response to CalEnergy's Motions of September 20, 1991 at 5.) CalEnergy's current request does not explain why there is any need to reopen the proceedings now in light of that prior allegation.

after Edison filed its response, CalEnergy filed its "Motion to Strike Southern California Edison Company's Response". According to CalEnergy's pleading, in opposing the request to reopen Edison attached material not in the record of this proceeding that contradicts Edison testimony in another proceeding. CalEnergy's request to reopen was based on an allegation of changed circumstances. Therefore, it was not improper for Edison to rely on material not in the record of this proceeding to argue that circumstances had not changed all that much. In any event, in deciding not to reopen the proceedings, we have not relied on the material Edison attached to its response nor on Edison's related argument (which CalEnergy claims is contradicted by the testimony CalEnergy has attached to its pleading). Rather, as explained above, we have decided that CalEnergy has not shown sufficient reason for us to exercise our discretion to reopen.

The remainder of CalEnergy's "Motion to Strike" is basically just a reply to Edison's response to CalEnergy's application for rehearing. We do not ordinarily allow an applicant for rehearing to file a reply to a response opposing its application for rehearing.[3] If this pleading had been titled a reply to Edison's response to CalEnergy's application for rehearing, our Docket Office would have rejected it. Accordingly, we will not discuss this pleading further.

Our Phase II Decision allocated to CalEnergy 23.8% of the cost of upgrading the Lugo transformers. In its application for rehearing, CalEnergy argues that it should have been ordered to pay only 12.1%. However, CalEnergy's own witness testified that

> If there were to be any cost responsibility for the [Lugo] transformers imposed upon

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3. Compare P.U. Code § 1732, requiring the application for rehearing to specifically set forth the grounds on which the applicant considers the decision to be unlawful.

> [CalEnergy], surely the most reasonable approach consistent with the CPUC Phase I decision would be the 23% figure recommended in Edison's Phase II testimony.

We will further discuss the reasons for adopting the 23.8% figure in the Modified Decision. All we need note here is that CalEnergy's argument that it should pay a lower percentage essentially rests on the notion that Edison upgraded the Lugo transformers more than the amount necessary to serve Luz and CalEnergy. As such, it is an argument about the reasonableness of the costs incurred by Edison. As the ALJ previously ruled and as noted in the Modified Decision, the reasonableness of Edison's costs are outside the scope of Phase II, but are an appropriate subject for a complaint by CalEnergy against Edison. The Modified Decision determines only the percentage of costs to be allocated to CalEnergy, not the dollar figure to which that percentage is to be applied.

In its application for rehearing, CalEnergy further argues that it is unfairly discriminatory for the Commission to require it to pay 23.8% of the cost of upgrading the Lugo transformers. CalEnergy contends that it should not pay 23.8% of the cost of upgrading those transformers since Luz, pursuant to the settlement agreement approved in the Phase I Decision, is not paying any of that cost. In making this argument, CalEnergy cites the federal Public Utility Regulatory Policies Act (PURPA), 16 U.S.C. § 824a-3, and the implementing regulations found at 18 C.F.R. § 292.306. 16 U.S.C. § 824a-3(b) provides, in pertinent part, that under the implementing rules the rates utilities pay for purchasing electric energy from a qualifying facility

> (1) shall be just and reasonable to the electric consumers of the electric utility and in the public interest, and
> (2) shall not discriminate against qualifying cogenerators or qualifying small power producers.

18 C.F.R. § 292.306(a) states:

> Each qualifying facility shall be obligated to pay any interconnection costs which the State regulatory authority (with respect to any electric utility over which it has ratemaking authority) . . . may assess against the qualifying facility on a nondiscriminatory basis with respect to other customers with similar load characteristics.

CalEnergy argues that these regulations specifically prohibit the Commission from allocating CalEnergy 23.8% of the cost of the Lugo upgrades when, pursuant to the settlement approved in Phase I, Luz is not paying for that particular interconnection facility. However, the Federal Regulatory Commission (FERC) Order adopting these regulations makes it clear that they do not cover allegations of discrimination <u>between</u> qualifying facilities (QFs).[4] In its section-by-section analysis, FERC Order No. 69 says the following about §292.306:

> The Commission finds merit in those comments which suggested that the basis of comparison for nondiscriminatory practices in the <u>proposed</u> rule to "any other customer" was too broad, and that the correct reference for nondiscrimination is the practice of the utility in relation to customers in the same class who do <u>not</u> generate electricity. (45 Fed. Reg. 12229-30 (February 25, 1980) emphasis added.)

In short, the cited regulation deals with discrimination against QFs (who do generate electricity) as compared with "customers in

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4. Both CalEnergy and Luz have developed QFs in the Mohave Desert that are selling energy to Edison. This proceeding concerns, inter alia, the allocation of costs for the interconnection facilities necessary for these QFs to deliver power to Edison.

the same class who do not generate electricity." CalEnergy is alleging discrimination against one QF as compared with another QF. The regulation simply does not cover that situation.

In any event, we do not find any discrimination here. Luz entered into a comprehensive agreement with Edison covering its interconnection costs. As part of that settlement Luz agreed to make substantial payments for a number of the interconnection facilities, but was not allocated any of the cost of this specific facility, i.e., the upgrading of the Lugo transformers. In approving the agreement in our Phase I Decision, we noted that Luz had colorable arguments that it should have been relieved of costs because there were system-wide benefits. (37 Cal. P.U.C. 2d 413 at 446.) Rather than litigating those arguments, Luz chose to settle. None of the parties objected to the settlement, and we approved the overall settlement as reasonable. (37 Cal. P.U.C. 2d at 446, 461-62 (Conclusion of Law No. 13, Ordering Paragraph No. 2).) CalEnergy did not settle with Edison; CalEnergy chose to litigate its claim that, because there were system-wide benefits, it should not have to pay for the facilities that have been the subject of Phase I and Phase II of this proceeding. Having lost its claim that it should be relieved of cost responsibility, CalEnergy now seeks to benefit from a settlement that it did not make. Indeed, it seeks to rely on one of the most favorable aspects of the Luz/Edison settlement agreement, the lack of any cost allocation to Luz for the Lugo transformer upgrade. As we earlier noted with regard to other aspects of the settlement agreement, that agreement was the product of negotiation and "reasonable <u>when taken as a whole</u>." (37 Cal. P.U.C. 2d at 447 (emphasis added).)

As a general matter, there is no unlawful discrimination where different prices are justified by different factual circumstances. Moreover, in order to show discrimination one generally must show an undue preference. Here, there is no undue preference and circumstances are different. The benefits that Luz has obtained are the result of a negotiated settlement agreement that the Commission has approved as reasonable when taken as a whole. Thus, any benefits that Luz has obtained are not undue. In any event, the fact that Luz settled with Edison, while CalEnergy chose to litigate, constitutes a significant factual difference justifying the different contributions the two QFs must make to the cost of upgrading the Lugo transformers.

As we explained in our Phase I Decision, we are neither increasing nor decreasing CalEnergy's share of the costs based on the fact that Luz has settled. Thus, we are not discriminating against CalEnergy. (See 37 Cal. P.U.C. 2d at 447.) Rather, we have determined, based on the record before us, what CalEnergy's fair share of the costs of upgrading the Lugo transformers should be. To allocate to CalEnergy less than that fair share and give it the benefit of a settlement that it did not make could undermine one of the incentives for parties to settle, and thus undercut the public policies encouraging reasonable settlements. (Compare 37 Cal. P.U.C. 2d at 445-46.)

CalEnergy further argues that the Phase II Decision errs in the allocation of the costs of the Lugo transformer upgrades because it "contradicts the intent of the Commission's order". (App./reh. at 14.) To determine "the intent of the Commission's order", CalEnergy relies on a <u>newsletter</u> report of remarks made by one of the Commissioners at the April 22nd meeting at which the Commission approved the Phase II Decision. As we said above, our decision speaks for itself.

We have carefully considered all of the issues and arguments raised in CalEnergy's application for rehearing. No other arguments raised in that application require further discussion here. We will, however, modify the Phase II Decision to better explain the reasons for our order. Given these modifications, we are of the opinion that sufficient grounds for granting rehearing have not been shown.

Findings of Fact

1. Luz has not been granted any undue preference with regard to the Lugo transformers; the benefits that Luz has obtained are the result of a comprehensive negotiated settlement agreement concerning interconnection costs that the Commission has approved as reasonable when taken as a whole.

2. The fact that Luz chose to settle while CalEnergy chose to litigate constitutes a significant factual difference justifying the different contributions the two QFs must make to the cost of upgrading the Lugo transformers.

3. CalEnergy is only being required to pay its fair share of the costs of the Lugo upgrade; its share has been neither increased nor decreased as a result of the Luz settlement.

Conclusions of Law

1. Under Public Utilities Code § 311(d), the Commission need not accept any finding made by the ALJ, and may modify or set aside the ALJ's proposed decision or any part of it.

2. The Commission should not grant CalEnergy's request to reopen the proceedings; CalEnergy's showing was insufficient to justify reopening.

3. The federal regulation found at 18 C.F.R. §292.306 does not apply to allegations of discrimination against one qualifying facility (QF) as compared with another QF.

4. In any event, requiring CalEnergy to pay 23.8% of the cost of upgrading the Lugo transformers (even though Luz is not paying any of those particular costs) does not discriminate against CalEnergy.

THEREFORE, good cause appearing,

IT IS ORDERED that:

1. D.92-04-059 as approved on April 22, 1992 is modified and replaced by modified D.92-04-059, Attachment 1 hereto.

2. Rehearing of D.92-04-059 as thus modified is denied.

This order is effective today.

Dated October 6, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director

Decision 92-04-059
as modified by Decision 92-10-028 on October 6, 1992

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 Requires or Will Require Edison to Construct and Operate a 220 kV Double-Curcuit Transmission Line Between the Kramer Substation and the Victor Substation in San Bernardino County, California.	Application 89-03-026 (Filed March 20, 1989)

(Appearances are listed in Appendix A.)

O P I N I O N

This decision resolves outstanding issues in Phase II of this proceeding by allocating the costs of certain transmission line facilities between the ratepayers of Southern California Edison Company (Edison) and California Energy Company (CalEnergy). CalEnergy is a qualifying facility (QF) which requires the interconnection facilities for its operations in the Mohave Desert. We find that CalEnergy should pay for 23.8% of the costs of certain capacitors and transformers and 100% of the unallocated costs of other subject facilities.

I. Background

Edison filed this application seeking a certificate of public convenience and necessity for construction of transmission facilities between the Kramer and Victor Substations in the Mohave Desert. The facilities were planned to interconnect generating plants owned by CalEnergy and Luz International Ltd. (Luz) to Edison's system.

We have already issued Decision (D.) 90-09-059 in Phase I of this proceeding, allocating slightly over half of the transmission line costs between Edison's ratepayers, CalEnergy, and Luz. D.90-09-059 approved a settlement reached between Edison and Luz which resolved all cost allocation issues as they pertain to Luz. The Commission allocated to CalEnergy a proportional share of the total costs of the Kramer-Victor 220 kV line, about 24%; we allocated to ratepayers all costs which were not allocated to CalEnergy or Luz, about 31%.

In D.90-09-059, we stated our intent to determine, in a second phase of this proceeding, remaining allocation issues as they pertain to CalEnergy. In this part of the proceeding, we address transmission facilities which are ancillary to the main 220 kV line. The ancillary facilities include a 115 kV temporary transmission line between the Kramer and Victor Substations ("115 kV rebuild"), 500/220 kV 1120 MVA transformers installed at the Lugo Substation ("Lugo transformers"), and the Inyokern-Kramer 220 kV line.

Pursuant to a ruling of the assigned administrative law judge, hearings in this proceeding did not consider the reasonableness of costs incurred by Edison. Accordingly, this decision determines the allocation of costs but not the reasonableness of them. Division of Ratepayer Advocates (DRA) has stated its intent to consider reasonableness at a later time. CalEnergy has stated its intent to file a complaint against Edison regarding the appropriateness of the facilities it installed and their costs.

II. Standards for Determining Cost Allocation of the Facilities

A major issue in this proceeding has been the standard under which the Commission will determine how to allocate costs. In Phase I of this proceeding, the issue was hotly litigated. The Commission initially considered the issue of who should pay for transmission upgrades associated with new QF developments in D.85-09-058. In that decision, we found generally that facilities which do not provide benefits to ratepayers (or "system-wide benefits") should not be paid for by ratepayers but by the QFs who require them to interconnect to the utility system. Ratepayers would pay for facilities which provided system-wide benefits. We affirmed this policy in D.90-09-059 in Phase I of this proceeding.

DRA recommends in this proceeding that where ratepayers receive only a partial benefit from a facility, costs be allocated according to that benefit. CalEnergy objects to DRA's proposal. DRA's proposal has considerable conceptual appeal. However, D.90-09-059 rejected a strict cost-benefit approach on the basis that we have not defined parameters for undertaking cost-benefit analysis and would therefore await a determination in long-run avoided cost proceedings.

CalEnergy raises the issue of burden of proof. It argues that Edison, as the applicant, must carry that burden with respect to obtaining the relief it seeks. We agree. It is Edison's burden to demonstrate the reasonableness of its proposals in the first instance. Once it has provided reasonable support for its proposals, however, it is up to opposing parties to demonstrate the superiority of their own proposals or provide evidence which rebuts the applicant's position. This is consistent with our finding in Phase I of this proceeding in which we found that parties who asserted that the 220 kV line provided system-wide benefits had not met their burden to "clearly demonstrate that the proposed project will provide system-wide benefits." Therefore, consistent with D.85-09-058 and D.90-09-059, we will allocate CalEnergy its share of costs where there is no clear demonstration of system-wide benefits.

III. Positions of the Parties and Discussion

Edison and DRA argue that the facilities which are the subject of this part of this proceeding provide no system-wide benefits. Both believe all of the facilities were constructed solely for the purpose of interconnecting projects owned by Luz and CalEnergy. Consequently, Edison and DRA recommend that all associated costs be borne by Luz and CalEnergy. Because D.90-09-059 resolved all cost allocation issues for Luz, Edison and DRA recommend that CalEnergy bear all remaining costs of the subject facilities. Edison initially proposed certain costs be allocated to ratepayers, as discussed below.

CalEnergy argues that all of the subject facilities provide system-wide benefits and that, therefore, ratepayers should bear the costs of the facilities.

The parties' positions on each facility are discussed below.

A. The 115 kV Rebuild

1. Reduction of Line Losses

When power travels between two points on an electrical transmission line, a portion of the power is lost primarily due to the heating of the line. Line losses are proportional to the resistance of a line and to the square of the current flowing in the line.

CalEnergy claims that the 115 kV rebuild reduces line losses. Edison and DRA argue that any system-wide benefits from reduced line losses are already recognized in avoided cost payments. Recognizing the reduced line losses again, therefore, would be double-counting the benefit. DRA points to D.82-12-120 which states that the Commission would not make individual line loss adjustments for remote QFs and would instead aggregate line losses for all QFs.

Edison adds that net line losses will actually increase over its system by $3-6 million per year prior to the completion of the 220 kV Kramer-Victor line because of the new QF generation. According to both Edison and CalEnergy, line loss savings for all years after completion of the 220 kV Kramer-Victor line total less than $1 million (net present value).

CalEnergy states that DRA and Edison misconstrue the Commission's treatment of line losses in avoided cost calculations. According to CalEnergy, line loss savings attributable to QFs and those attributable to a specific line rebuild are distinguishable. It believes the line loss savings in this case are not attributable to the QF but to the 115 kV rebuild itself. CalEnergy comments that these reduced line losses would accrue to Edison's ratepayers whether the rebuild had been constructed to accommodate a QF project or one of Edison's own projects. CalEnergy believes, therefore, that ratepayers receive system-wide benefits from the rebuild that are not recognized already in avoided cost payments.

2. <u>Other Potential System-wide Benefits</u>

CalEnergy believes ratepayers will realize system-wide benefits other than line loss savings from the 115 kV rebuild. First, CalEnergy believes that load growth in the Kramer-Victor area would have required the construction of the 115 kV rebuild by 2008. On this basis, CalEnergy estimates the net present value of benefits to ratepayers from the line to be about $4 million. Edison does not agree, arguing that regional growth will not require the additional transmission facility within the forseeable future. Edison rejects CalEnergy's assumption of 17% annual load growth in the area as excessive.

Second, CalEnergy argues that the construction of the 115 kV rebuild allows Edison to defer installation of a third transformer bank at Victor Substation, saving ratepayers about $2.6 million. These transformer banks would convert 220 kV power to 115 kV power which, in this case, is required in order to serve regional load when back-up power is needed. Instead of converting 220 kV power, the utility may simply use power over a 115 kV line, such as the subject 115 kV rebuild. CalEnergy states the 115 kV rebuild will displace an additional transformer bank. Edison takes issue with CalEnergy's assessment. Edison states that it has several alternative sources of 115 kV power if it requires back-up power in the area. Edison also argues that it will require a transformer upgrade at Victor when load in the area hits 559 megawatts (MW) with or without the 115 kV rebuild.

Third, CalEnergy states the construction of the 115 kV rebuild increases the amount of capacity that can be delivered from the area north of Kramer to Edison's system. CalEnergy believes a change made to Edison's remedial action scheme (RAS, an operational plan used, in part, to establish when power curtailments over a line are necessary) demonstrates its point. Prior to the 115 kV rebuild, the RAS required curtailments when power over the Kramer-Lugo lines reached 900 MW; after the rebuild, the RAS requires curtailments when power over the Kramer-Lugo lines reaches 950 MW. The 50 MW increase in deliverable power, according to CalEnergy, results from the 115 kV rebuild.

Edison asserts that the change to the RAS does not show that additional power can be delivered to its system. According to Edison, the portion of the RAS to which CalEnergy refers concerns power over the 220 kV Kramer-Lugo line. The 115 kV rebuild in no way changes the thermal rating of that line or the amount of power which can be transmitted over it. Edison also states that before the 115 kV rebuild, the RAS provided for automatic curtailments when power flows exceeded 900 MW; since the 115 kV rebuild, the RAS provides for manual curtailments when power flows exceed 950 MW. Edison adds that changes to the RAS were necessitated by the energy brought into the system by CalEnergy and Luz and cost approximately $1 million.

Finally, CalEnergy believes the existing 115 kV line was old and substandard and that the rebuild would have been required for safety reasons in the near future notwithstanding the additional QF power in the area. Edison states the line would have been safe and useful for the forseeable future.

<u>Discussion.</u> CalEnergy has not demonstrated that the 115 kV rebuild will provide system-wide benefits. The evidence does not demonstrate that the 115 kV rebuild would have been required to accommodate regional load growth by the year 2008. CalEnergy's estimates require an assumption that load in the Mohave Desert will increase sixteen-fold over a sixteen-year period. We concur with Edison that CalEnergy's regional load growth estimates are highly improbable and are not supported by independent documentation.

We also doubt whether the 115 kV rebuild allows Edison to defer a third transformer bank at the Victor Substation. Edison admitted that it will use the 115 kV rebuild for back-up power just as it used the pre-existing 115 kV line for that purpose. Nothing in the record, however, suggests that Edison would have required a third transformer bank at the Victor Substation in the near future or that existing 115 kV capacity would not have been adequate without the 115 kV rebuild.

Neither does CalEnergy show that the 115 kV rebuild will increase system capacity. Changes to the RAS may lend credence to CalEnergy's conclusion that the 115 kV rebuild increased system capacity. However, the RAS alone does not demonstrate the 115 kV rebuild increased system capacity. Edison may have changed its operational procedures for any of several reasons. The critical issue is whether the 115 kV rebuild increased capacity over the Kramer-Lugo 220 kV line or other lines. CalEnergy does not provide evidence to support this claim.

Finally, the record does not clearly demonstrate the existence of any system-wide benefit in the area of line loss savings. The record shows that line losses are likely to decrease slightly on Edison's system after the Kramer-Victor 220 kV line is completed. CalEnergy estimated the total net present value of those savings as being somewhere in the range of $660,000 to $870,000. Edison's figure for those savings was slightly lower. Edison also calculated what would happen to line losses during the period before completion of the Kramer-Victor 220 kV line. Edison calculated that line losses would increase by approximately $3-6 million per year during that period. The QFs using the 115 kV rebuild came on line in December 1989; and the Phase I Decision projected that Luz's 2nd unit would come on line in September 1990. The earliest date projected in our Phase I Decision for completion of the Kramer-Victor 220 kV line was towards the end of 1991. (D.90-09-059, 37 Cal. P.U.C. 2d 413, 419, 428, 463 n.1.) Thus, based on Edison's testimony it appears that line losses would increase by an amount significantly exceeding $3 million before there could be any line loss savings. Moreover, those line loss savings would be worth less than $1 million in total. Thus, based on the testimony presented and considering the periods both before and after completion of the 220 kV line, it appears that the overall effect of the 115 kV rebuild will be to increase line losses.

CalEnergy tried to undermine Edison's estimate of the line loss increases through cross-examination and argument. However, in light of the vastly different magnitude of the figures for the two periods ($3-6 million per year in increased line losses until completion of the 220 kV line and less than $1 million in total for all years thereafter), even after consideration of CalEnergy's arguments we are not convinced that Edison's estimate is so far off the mark that we can conclude that there will be any line loss savings taking both periods into account. We also note that CalEnergy's witness did not present an estimate as to what would happen to line losses during the period before completion of the 220 kV line. This omission from his testimony further suggests that line losses would indeed increase during this period. In sum, the record before us does not clearly demonstrate the existence of any system-wide benefit in the area of line loss savings.

Consistent with the Phase I Decision, in the absence of any clear showing of system-wide benefits we will allocate costs to CalEnergy. Pursuant to the settlement agreement between Luz and Edison, Luz agreed to pay 51.62% of the cost of the 115 kV rebuild. This leaves approximately 48.38% of those costs unallocated. The 115 kV rebuild is designed to carry 310 MW of QF power, 160 MW from Luz and 150 MW from CalEnergy. This means that nearly 51.62% of the QF power on the rebuild comes from Luz and about 48.38% from CalEnergy.[1] Therefore, CalEnergy should pay the costs of the 115 kV rebuild not previously allocated to Luz. In this way, CalEnergy will pay the costs it has caused to be incurred.

B. Lugo Transformers

In order to accommodate the facilities of CalEnergy and Luz, Edison upgraded the transformers at the Lugo Substation. The transformers increased the capacity at Lugo from 100 MVA (the amount of power which can safely flow across the transformers) to 240 MVA. CalEnergy states that its facilities require only 12.1% of the added capacity. The excess capacity on the transformers, according to CalEnergy, represents a system-wide benefit and should be paid for by Edison's ratepayers.

CalEnergy supports its argument by pointing to Edison's plans for interconnecting a biomass plant and a geothermal plant at Kramer. It also points to Edison's testimony that Texaco has an

1 These figures differ from the percentages on the 220 kV Kramer-Victor line. The 115 kV rebuild was designed to transmit the initial increment of generation from Luz and CalEnergy. The Kramer-Victor 220 kV line was designed to carry a total of 630 MW of QF power, including additional power from Luz.

option to purchase the Coolwater 5 facility which would use the increased capacity of the upgraded Lugo transformers. Finally, CalEnergy refers to Edison's filing in the Commission's transmission access investigation (I.90-09-050), in which Edison proposed transformer upgrades at Lugo prior to the addition of CalEnergy's and Luz's power.

DRA and Edison state the upgraded Lugo transformers were required solely to accommodate CalEnergy and Luz power. Edison states it did not plan to upgrade the transformers. It also argues that the plans to which CalEnergy refers concern interconnection facilities involving or affecting other utilities. The transformers, according to Edison, are not interconnection facilities affecting other utilities. Edison proposes that CalEnergy pay for 23.8% of the cost of the Lugo transformers. Edison states that it upgraded the Lugo transformers to accommodate an additional 630 MW of QF generation from CalEnergy and Luz. The 23.8% figure thus represents CalEnergy's 150 MW share of the total of 630 MW. That is the same percentage as D.90-09-059 allocated to CalEnergy for the costs of the Kramer-Victor 220 kV line.

DRA opposes Edison's proposal to require ratepayers to bear 76.2% of the costs of the Lugo transformers. It states that Edison foresees no system-wide benefits from the transformers, but would allocate a large share of their costs to ratepayers anyway because of a faulty interpretation of the Phase I decision. In that decision the Commission allocated a share of certain expenses to ratepayers after concluding the parties had not presented enough evidence to show system-wide benefits. DRA believes there have been ample time and opportunity for the parties to demonstrate system-wide benefits in Phase II.

CalEnergy characterizes DRA's proposed allocation as unfair and discriminatory on the basis that Luz will use capacity on the transformers but will not pay for a share of their installation. DRA would have CalEnergy pay for all of the costs of the transformers which, according to CalEnergy, is contrary to Commission policy. While CalEnergy's witness argued that CalEnergy should not have to pay for the Lugo transformers because there were system-wide benefits, he conceded that, if CalEnergy were to bear any cost responsibility for the Lugo transformers, the most reasonable approach consistent with the Phase I decision would be the 23% figure recommended by Edison.

<u>Discussion.</u> It is unclear whether the Lugo transformers will provide system-wide benefits. Edison may be able to use the surplus capacity at the Lugo Substation as new projects come on line in the area. Edison's rebuttal that the facilities do not affect other utilities fails to convince us otherwise. On the other hand, the record does not demonstrate near-term system-wide benefits, and Edison has shown the reasonableness of its proposal in the first instance. In short, as was the case with the 115 kV rebuild, the record before us does not clearly demonstrate the existence of any system-wide benefit from upgrading the Lugo transformers.

Consistent with the Phase I Decision, in the absence of any clear showing of system-wide benefits we will allocate costs to CalEnergy. Again we consider what share CalEnergy should bear. The settlement adopted in Phase I of this proceeding resolved all cost allocation issues as they affect Luz, as explained earlier. The settlement did not allocate any costs of the Lugo transformers to Luz. As we explained in our Phase I Decision (D.90-09-059), the Luz Agreement should not be used to increase or decrease CalEnergy's share of the costs. Thus, we cannot accept DRA's proposal, which would increase CalEnergy's share of the Lugo transformer upgrade based on the fact that Luz has not paid anything for it. Instead, as in Phase I, we look to the relative proportions of the project designed to serve Luz and CalEnergy. Edison testified that the Lugo transformer upgrade was intended to accommodate an additional 630 MW of QF generation from CalEnergy and Luz. CalEnergy is responsible for 150 MW (or 23.8%) of that 630 MW. Therefore, CalEnergy should be responsible for 23.8% of the cost of the Lugo transformer upgrade.[2] Although CalEnergy now argues for a lower percentage, we note that its own witness agreed that _if_ CalEnergy should be held responsible for a share of the Lugo transformers, that was the most reasonable figure consistent with the Phase I Decision.

C. Inyokern-Kramer 220 kV Line

In interconnecting its facilities to Edison's system, CalEnergy installed a 220 kV conductor on existing Edison towers from near Inyokern to Kramer. Edison permitted this use of its towers, saving CalEnergy about $15 million which it would have otherwise had to spend securing rights of way and constructing towers. The parties do not dispute that there are no system-wide benefits associated with this 220 kV line. CalEnergy proposes, however, that the Commission order Edison to reimburse CalEnergy if Edison eventually uses the facility following an upgrade of its Inyokern Substation.

Edison states it has no plans to use the facilities and opposes CalEnergy's proposal to leave cost allocation for the facilities open-ended. DRA argues that CalEnergy has received substantial benefits from the use of the towers. DRA believes that ratepayers are put at risk for foregoing the use of the capacity on the towers and should therefore not assume any additional costs in the future.

Discussion. Edison provided CalEnergy with capacity on its towers at no charge to CalEnergy, saving CalEnergy an enormous investment. We agree with DRA and Edison that ratepayers have

2 We remind Edison and CalEnergy that this decision does not determine the reasonableness of the costs incurred by Edison, but only the percentage of costs to be allocated to CalEnergy.

"shared" enough of their assets with CalEnergy and should not bear any future costs associated with the line. The line provides no systen-wide benefits. The record does not show that system-wide benefits are anticipated in the near future. Moreover, there is no evidence to suggest that Edison's use of the conductor would impose any incremental cost on CalEnergy. CalEnergy cannot expect both free use of Edison's towers and "reimbursement" when CalEnergy's facilities are used in ways which impose no costs on CalEnergy. Accordingly, we will not require Edison or its ratepayers to reimburse CalEnergy at some future date if Edison does upgrade the Inyokern Substation.

D. Other Ancillary Facilities

Edison installed certain other facilities in order to interconnect Luz and CalEnergy. Those facilities include Kramer Substation capacitor banks, telecommunications, and a 220 kV operating bus at Kramer. CalEnergy does not argue on brief that any of these facilities provide system-wide benefits to ratepayers and the evidence does not support a finding of such benefits.

Edison recommends that CalEnergy be allocated 23.8% of the cost of the capacitor banks. We will adopt Edison's recommendation that CalEnergy pay for only 23.8% of the cost of the capacitor banks, even though we cannot make a finding of system-wide benefits. This percentage reasonably reflects CalEnergy's use of the capacitor banks relative to Luz's use of the capacitor banks.

The unallocated costs of other ancillary facilities will be allocated to CalEnergy.

Findings of Fact

1. D.90-09-059 resolved all outstanding cost allocation issues as they pertain to Luz.

2. This decision addresses the allocation but not the reasonableness of costs incurred by Edison in interconnecting the QF projects of Luz and CalEnergy.

3. In light of Edison's testimony concerning the large magnitude of increased line losses over the near term, and given that line loss savings will total less than $1 million (net present value) for all years after construction of the 220 kV Kramer-Victor line, it appears more likely than not that the overall effect of the 115 kV rebuild will be to increase line losses.

4. In any event, the record here does not clearly demonstrate the existence of any system-wide benefit in the area of line loss savings.

5. The record does not demonstrate that the 115 kV rebuild will be required to accommodate regional growth.

6. The record does not demonstrate that Edison would have required a third transformer bank at the Victor Substation within the foreseeable future.

7. Edison's amendment to its RAS does not by itself demonstrate that the 115 kV rebuild increased system capacity by 50 MW.

8. The cost of the 115 kV rebuild is approximately $11 million.

9. It is unclear whether the Lugo transformers will provide system-wide benefits, although it appears possible that Edison may be able to use the surplus capacity on the transformers.

10. In the absence of any clear showing of system-wide benefits, CalEnergy should pay its share of the costs of the Lugo transformers.

11. The Lugo transformer upgrade was intended to accommodate 630 MW of QF generation from CalEnergy and Luz. CalEnergy's plants are responsible for 150 MW (or 23.8%) of that 630 MW. Therefore, CalEnergy should be responsible for 23.8% of the cost of the Lugo transformer upgrade.

12. Edison permitted CalEnergy to install the 220 kV conductors on Edison's towers from near Inyokern to Kramer at no charge to CalEnergy. The conductors installed on Edison's

towers benefited CalEnergy but provide no system-wide benefits.

13. The record does not show that Edison's future use of these 220 kV conductors will impose any incremental costs on CalEnergy.

14. The record does not demonstrate any system-wide benefits associated with other ancillary facilities which are the subject of this proceeding.

15. It is reasonable to allocate to CalEnergy 23.8% of the costs of the Kramer Substation capacitor banks.

Conclusions of Law

1. In the absence of any clear showing of system-wide benefits, CalEnergy should pay its share of the costs of the facilities which are the subject of Phase II.

2. The Commission should allocate to CalEnergy all of the unallocated costs of the 115 kV rebuild.

3. The Commission should allocate to CalEnergy 23.8% of the costs of the Lugo transformer upgrade, based on the relative proportions of the project designed to serve CalEnergy and Luz.

4. The Commission should not leave open the question of whether Edison's ratepayers in the future should have to pay for the use of the 220 kV conductors installed from near Inyokern to Kramer.

5. The Commission should allocate to CalEnergy 23.8% of the costs of the Kramer Substation capacitor banks.

6. The Commission should allocate to CalEnergy all of the unallocated costs of other ancillary facilities which are the subject of this proceeding.

O R D E R

IT IS ORDERED that:

1. All unallocated costs of facilities which are the subject of Phase II of this proceeding shall be allocated to California Energy Company, Inc. (CalEnergy) except that 23.8% of the costs of the capacitor banks at the Kramer Substation and 23.8% of the costs of the Lugo transformers shall be allocated to CalEnergy.

2. Because this decision resolves all outstanding matters in this proceeding, this proceeding is closed.

This order is effective today.

Dated October 6, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

APPENDIX A

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(END OF APPENDIX A)

(END OF ATTACHMENT 1)