

SEP 5 1996

Decision 96-09-039 September 4, 1996

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-Circuit Transmission Line Between the Kramer Substation and the Victor Substation in San Bernardino County, California.

ORIGINAL

Application 89-03-026 (Filed March 22, 1989)

Integration Facilities Agreement (IFA) with Cal Energy and Edison in late 1988, Edison executed the Kramer-Victor Project as abandoned project.

interconnect facilities with nominal capacity of 150 megawatts. The applicant, Morrison & Foerster, by John R. Shiner and Claudia L. Toussaint, Attorneys at Law for California Energy Company, petitioner, and Robert Finkelstein and Peter V. Allen, Attorneys at Law, for Toward Utility Rate Normalization (TURN) and Karen Mills, Attorney at Law, for California Farm Bureau Federation, interested parties.

Laura Manina, for Commission Advisory and Compliance Division of California Public Utilities Commission. Carol L. Matchett, Attorney at Law, and John Yager, for Division of Ratepayer Advocates of California Public Utilities Commission.

The power purchase agreements between Edison and its have been amended several times. The National Energy Policy Act of 1992 (NEPA) was consolidated, amended, and restated agreement was executed by its Solar Partners, Ltd. The initial IFA was executed by Edison and California Energy Company to Modify Decision No. 90-09-059 and to Approve Rate Making Treatment (Petition). The petition makes two requests. First, it requests

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that Cal Energy and Luz be relieved of responsibility for that portion of the project costs of the Kramer-Victor 220kV line which was assigned to them in Decision (D.) 90-09-059. We grant this request for Cal Energy but not for Luz. Second, it requests that the Commission authorize Edison to regard the costs of the Kramer-Victor Project as abandoned plant for ratemaking purposes. We grant this request.

Background

In late 1988, Edison executed Interconnection and Integration Facilities Agreements (IIFA) with Cal Energy and Luz to interconnect facilities with nominal capacity of 150 megawatts (MW) and 480 MW, respectively, to the Edison system. The interconnection of 630 MW of new generation required construction of a new 220 kilovolt (kV) transmission line between the Kramer and Victor substations and related substation improvements (collectively known as the Kramer-Victor Project).

In D.90-09-059, we granted Edison a certificate of public convenience and necessity (CPCN) to construct and operate the Kramer-Victor Project. D.90-09-059 also specified an allocation of project costs between Cal Energy, Luz, and Edison's ratepayers. The maximum authorized cost of the transmission facilities was

Carol L. Mitchell, Attorney at Law, and John Yager, for Division of Ratepayer Advocates of California Public Utilities Commission.

1 The power purchase agreements between Edison and Luz have been amended several times. The original signatory was Luz Engineering Corporation. A consolidated, amended, and restated agreement was executed by Luz Solar Partners, Ltd. The initial IIFA was executed by Luz, as general partner, for certain limited partnerships, Solar Partners VIII-XII. Four subsequent amendments to the IIFA were executed by Luz International Limited (LIL), as developer of the SEGS VIII-XII Projects and on behalf of all its subsidiaries and affiliates. For the purposes of this decision, these various entities are collectively referred to as Luz, except where the context requires a more specific designation.

\$50.3 million. We specified that the project's costs would be allocated as follows: Edison 44.8%, Luz 21.0%, and Ratepayers 34.2%. The total liability is 100.0%.

Edison's projected operating date for the Kramer-Victor Project was December 1992. However, both Cal Energy and Luz desired a December 1991 operating date to interconnect a substantial portion of their total planned generation. To meet the December 1991 deadline, Edison and Luz entered into an expedited agreement under which Luz would construct the 220 kV transmission line and Edison would construct the other system components. In addition, Cal Energy and Luz wanted to interconnect 310 MW of the 630 MW of total generation prior to completion of the Kramer-Victor Project. To accommodate Cal Energy and Luz, Edison upgraded existing 115 kV facilities to connect two Cal Energy plants (Navy II and BLM for 150 MW) and two Luz plants (SEGS 8 and 9 for 160 MW) on an interim basis until completion of the Kramer-Victor Project. Luz and Cal Energy shared cost responsibility for the interim facilities.

Once we approved the CPCN for the Kramer-Victor Project, Edison promptly initiated construction on its portion of the project and construction by Luz was scheduled to commence February 1, 1991. When construction by Luz did not begin in February, Edison wrote to Luz on March 11, 1991. Noting projected delays in construction of the line by Luz, Edison proposed revisions in the schedule of payments from Edison to Luz. Through the first quarter of 1991, Luz had paid Edison \$7,095,000 for Kramer-Victor project work, while Edison had paid Luz \$7,176,000 for Kramer-Victor project work to be undertaken by Luz.

In the second quarter of 1991 Edison continued progress with its construction of the substation facilities, but Luz had still not begun construction of the line. In a letter to Luz dated April 23, 1991, Edison proposed that no further payments to Luz be made until the start of line construction by Luz.

On July 1, 1991, Luz officially suspended development of SEGS X, one of the QF facilities which it had planned to connect to the Kramer-Victor line. At the same time, Luz terminated all employees of LIL and various Luz affiliates and subsidiaries. On July 9, 1991, Edison wrote to Luz Development and Finance Corporation (LDF) stating Edison's concern about the status of the Edison payments. Edison requested an accounting of the expenditures for the \$7,176,000 of payments made by Edison, along with a confirmation of the materials and equipment currently in Luz's possession. Edison asked LDF to provide the accounting by July 29, 1991.

On July 11, 1991, Edison suspended its construction of the Kramer-Victor Project. By this time, Edison had spent \$18,641,000 for engineering, right-of-way acquisition, and construction of the substation. In addition, Edison had paid Luz \$7,176,000 to construct the line.

The following day, July 12, 1991, LDF wrote to Edison, stating that Edison was corresponding with the wrong entity.

The agreement for Luz to build the 220kv line was negotiated directly by Luz Construction, Inc. (LCI), Luz International

Edison addressed its correspondence to Eric Wills at LDF. LDF had assisted in the negotiations of the IIFAs, but LDF was not a signatory to Luz's contracts with Edison. The actual signatory to the amended IIFAs was LIL. However, from the record before us it appears that Edison never made any effort prior to the Luz bankruptcy to correspond directly with LIL or its principal officers. Instead, Edison persisted in writing to Mr. Wills, and only Mr. Wills, even after he advised Edison that they were corresponding with the wrong party.

Limited (LIL) and SCE without LDF's involvement. In addition, all monies received from SCE relative to the 220kV line and work to be performed under the agreement were immediately transferred to LIL through LCI. Therefore, I have forwarded your letter to Arnold Goldman and Joshua Bar-Lev who are the appropriate people to respond to your request."

On July 15, 1991, Edison wrote again to LDF, noting that \$3,400,000 in payments were overdue from Luz. Edison requested that payments be made by July 26, 1991.

The July 26 and July 29 deadlines established by Edison passed without any further response from Luz. Nevertheless, Edison did not write again to Luz until October 15, 1991, when Edison again requested from LDF an accounting of the \$7,176,000 in cost payments to Luz. Although the requested accounting was already long overdue, Edison granted LDF an additional month to provide the accounting.

On October 22, 1991, LDF responded to Edison. LDF again indicated that all monies received from Edison relative to the Kramer-Victor line were immediately transferred to LIL. Edison apparently took no action in response to the October 22 letter.

On November 25, 1991, LIL and related Luz entities filed for bankruptcy. In January 1992, Edison filed claims in bankruptcy court to recover the money Luz owed Edison.

On April 30, 1993, Edison and Cal Energy executed a settlement agreement entitled "Transmission Agreement and Release" (Cal Energy Settlement). Since 1988, Cal Energy and Edison had numerous disputes over cost responsibility for numerous facilities including the 115kV rebuild, a new 220kV line from near the Inyokern substation to the Kramer substation, upgrade of facilities at the Lugo substation, and the construction of the Kramer-Victor line. The disputes involved issues relating to cost allocation, added facilities charges, and line loss responsibility.

The difference between Edison's original estimate

Cal Energy and Edison negotiated new facilities charges on the various Edison-financed facilities. The parties also agreed on Cal Energy's appropriate share of the Lugo Substation upgrades. As part of the package of agreements, the parties agreed that Edison's existing Inyokern-Kramer-Victorville-Lugo transmission system would be the permanent method of service under the IIPA.

The Cal Energy Settlement did not relieve Cal Energy of its cost obligation for the Kramer-Victor Project. The settlement provided that the parties would jointly seek ratebase treatment of the costs incurred by Edison. In addition, the settlement expressly provided that in the event the request is denied by the Commission, Cal Energy remains obligated for up to \$5,880,660 of the costs which are not allowed to be recovered from ratepayers. Cal Energy has provided Edison with a letter of credit as security for this obligation.

On May 7, 1993, following Edison's settlement with Cal Energy, Edison terminated the power purchase agreements to buy power from SEGS X+XII.

On August 24, 1993, in the Notice of Intent for Edison's 1995 general rate case, Edison requested that the Kramer-Victor Project be considered as Plant Held for Future Use. However, following discussions with Commission staff, Edison and Cal Energy filed this petition to modify D:90-09-059, asking the Commission to relieve Cal Energy and Lugo from the cost obligations for the Kramer-Victor Project assigned to them by that decision and to allow Edison to recover associated costs in the Electric Revenue Adjustment Mechanism (BRAM).

The Division of Ratepayer Advocates (DRA) filed a protest to the petition for modification on July 14, 1994. While DRA supports the request to relieve the QPs of the Kramer-Victor costs, DRA believes that Edison's original request for recovery of a net investment of \$18,641,000 should be reduced to \$17,131,000. The difference between Edison's original estimate

and DRA's recommended amount is attributable to the costs of portable equipment that may be used elsewhere on Edison's system. Edison does not contest DRA's proposed adjustment to its original request.

On May 25, 1994, Edison reached a settlement with the Luz Bankruptcy Trustee. The settlement notes that Edison has already petitioned the Commission to relieve Luz of its cost responsibility for the Kramer-Victor Projects. If the Petition is granted, Edison and the Trustee agree that Edison shareholders would retain the \$7,095,000 Luz previously paid Edison for its share of Edison's construction costs. In exchange, Edison agrees to waive all of its claims against the Luz bankruptcy, including the \$7,176,000 Edison had paid to Luz and for which Luz had done non-tangible work. If the Petition is denied, Edison and the Trustee agree that Edison's claims would be satisfied, if funds are available during the disposition of the Luz bankruptcy.

On August 29, 1994, the assigned administrative law judge (ALJ) issued a ruling directing Edison to respond to a series of questions relating to the circumstances surrounding its request. Edison filed responses to the ruling on September 30, 1994. On November 19, 1994, the ALJ issued a second ruling finding that Edison's responses to the August 29 ruling were inadequate and directing Edison to amend its responses. Edison filed amended responses on November 30, 1994.

The Commission's February 8, 1995 meeting agenda packet included a proposed decision which would deny the petition to modify. The proposed decision was distributed to the public prior to the February 8 meeting. Shortly after receiving a copy of the proposed decision, Edison met with individual Commissioners on an ex parte basis to express its opposition to the proposed decision. As a result of Edison's ex parte contacts, the Commission decided to seek additional evidence from the petitioners. Therefore, the Commission scheduled evidentiary hearings on the petition to modify and

directed Edison to make available witnesses who are able to respond to specific issues. (As authorized by the Commission, Toward Utility Rate Normalization (TURN) filed a Protest to the Petition on April 12, 1995. TURN contends that the Kramer-Victor Project does not meet the criteria for recovery of abandoned plant. Hearings were held on June 8 and 14, 1995. Edison and Cal Energy presented testimony at the hearings. Briefs were filed by Edison, Cal Energy, TURN, and the California Farm Bureau. The matter was submitted upon receipt of reply briefs on July 12, 1995. Discussion.

The petitioners make two requests. First, they request that Cal Energy and Luz be relieved of responsibility for that portion of the Kramer-Victor Project costs which was assigned to them by D.90-09-059. Second, they request that the Commission authorize Edison to regard the costs of the Kramer-Victor Project as abandoned plant for ratemaking purposes. Should Cal Energy and Luz be relieved of their cost responsibility for the uncompleted project?

We will not relieve Luz of its cost responsibility for its portion of the Kramer-Victor Project costs.

We recognize that each electric utility under our jurisdiction "is required under the Federal Public Utilities Regulatory Policies Act (PURPA) to interconnect with and purchase power from the QFs developed by Cal Energy and Luz" (D.90-09-059, 37 CPUC2d 421). To interconnect the Cal Energy and Luz facilities required, installing dedicated lines from their generators to Edison's transmission grid. Cal Energy interconnects at the Inyo Kern substation with power then flowing south along Highway US 395 through Edison's 220kV transmission lines to the Kramer substation. Luz also interconnects at the Kramer substation from its facility 13 miles east. From the Kramer substation the

power flows south through Edison's transmission grid to the Victor substation.

In D.90-09-059, we authorized the construction of a new 220kV line from the Kramer to Victor substations to serve Luz and CalEnergy because "all parties appear to agree that SCE needs to add additional 220 kV transmission capacity in order to move the power from these QFs as far south as the Victor substation" (Id.). D.90-09-059 adopted Edison's estimate of project costs of \$50.4 million with \$18.2 million for substation improvements and a net \$32.2 million for the transmission line (Id. at 425).

D.90-09-059 also addressed the allocation of costs among the parties. In D.85-09-058, we established our policy for cost responsibility for transmission enhancements (not specifically dedicated to serve the interconnection with the QF facility).

We adopted the policy that "A QF is responsible only for its interconnections and other facilities solely beneficial to the QF." This approach eliminates the need for a difficult cost allocation among the various users of a transmission facility. On occasion, a transmission facility's cost may outweigh its system-wide benefits. We continued, noting "we will allow utilities to follow the principle that as long as a transmission facility has system-wide benefits, the utility's ratepayers are responsible for the prudent and reasonable cost. The QF is responsible only for the project interconnection cost and other special facilities which have no system-wide benefits." (D.85-09-058, 19 CPUC2d 24).

In D.90-09-059, we expressed our continued support for this earlier policy. "The universal application of D.85-09-058 and subsequent decisions which interpret that order is the best way to preserve that balance." However, we also acknowledged that "D.85-09-058 remains ambiguous as to what criteria should be applied to define the parameters of system-wide benefits." (D.90-09-059, 37 CPUC2d 438).

project based on a settlement between Luz and Edison.

In D.90-09-059, we reviewed several categories of possible system benefits, including lowering line losses, providing for future growth, increasing system security and reliability, providing emergency support from other utilities, increasing inter-system transfer capability, and adding firm resources during system peak conditions.

Edison did not acknowledge system-wide benefits from any of these sources. In fact, Edison's expert testified that transmission losses could actually increase if losses were calculated over the entire peak period. DRA also found few, if any, system-wide benefits. On the other hand, Cal Energy and Luz alleged system-wide benefits in all areas. The CEC also forecasted potential system-wide benefits in most areas.

We noted that the project likely did lower line losses because "it appears logical that a new line will cause some of the power flow on the Kramer-Lugo line to flow on the new Kramer-Victor line instead." (D.90-09-059; 37 CPUC2d 440). However, with disputes in methodology and data, we were not able to adopt a specific quantity for any system-wide benefit, including lower line losses.

In the absence of quantifiable benefits, we adopted an Edison/Luz agreement under which Luz agreed to bear 44.8 percent of the project cost. We recognized that Edison and Cal Energy had not agreed on Cal Energy's share of project costs. However, we concluded that "our application of D.85-09-058 in its current form has not persuaded us that Cal Energy should be relieved of all cost responsibility for the proposed project." (D.90-09-059; 37 CPUC2d 440). We allocated Cal Energy's share of project costs based on its share of expected generation, 150 of 630 MW or 23.8 percent or 21 percent, excluding the tower over-build. We allocated the residual 34.2 percent to ratepayers.

Thus, in D.90-09-059, we assigned cost shares for this project based on a settlement between Luz and Edison, not on the

results of our analysis of system-wide benefits. In the absence of this agreement and with our continued acceptance of the principles of D.85-09-058, we would have concluded that the potential for some system-wide benefits would require ratepayers, not the QP, to bear the cost of this project. In D.90-09-059, we acknowledged the ambiguity of D.85-09-058, but we did not overturn the standards in this earlier Decision.

As our discussion above indicates, Edison constructed a portion of the project and spent \$18.641 million of which \$17.131 million is attributable to this project. Under its agreement with Edison, Luz would have built the transmission line between the Kramer and Victor substations. Luz declared bankruptcy before it started the construction of the line. Luz bankruptcy not only stopped construction but also ended the justification of the new 220 kV line. Without Luz generation, Edison did not need the new line from this project and could transmit the generation from Cal Energy on the upgraded 115 kV line, which Luz and Cal Energy had jointly financed. Luz bankruptcy was the precipitating event which made the project unnecessary and Edison's expenditures useless except for salvage value. We received no evidence which indicates that either Cal Energy or Edison contributed in any way toward the problems which led to Luz bankruptcy. In fact, Edison advanced Luz \$7.2 million which Edison apparently intended that Luz use to finance the transmission line. Therefore, Luz remains responsible for its share of the costs expended by Edison or 44.8 percent of \$17.131 million or \$7.675 million and for the \$7.176 million which Edison advanced Luz, which totals \$14.851 million.

Cal Energy, on the other hand, is not at fault in causing the failure of the Kramer-Victor Project. Cal Energy clearly does not benefit from an unbuilt line. Cal Energy has paid \$28 million for an upgraded 115 kV line which serves Cal Energy's requirements. We imposed on Cal Energy and on Luz independent shares of cost.

responsibility for a project which both required. When we examined the way in which Edison could recover costs from Cal Energy for its share of a completed functional project, we only discussed the recovery of costs from a completed operating project by noting the control which Edison held over the QFs. We could have used that opportunity to make Cal Energy responsible for the costs of an uncompleted project but we did not. Moreover, Cal Energy did not agree to become jointly responsible with Luz for the construction or finance of the project. We cannot hold Cal Energy responsible for costs which it did not cause and from which it will not benefit.

Again, we note that we assigned cost responsibility for this project based only on the agreement between Edison and Luz. Edison and Cal Energy did not reach agreement. We imposed responsibility on Cal Energy based on the Edison-Luz agreement and on the relative project size of the two QFs.

However, we will hold Luz responsible for the cost share which would have been borne by Cal Energy, which is 21 percent of the \$17.131 million spent by Edison or \$3.597 million. Luz actions caused costs incurred by Edison to have no value except salvage. Consequently, we assign Luz a total cost responsibility of \$18.448 million, less the \$7.095 million which it paid Edison or \$11.353 million.

We expect Edison to pursue these claims in bankruptcy proceedings against Luz. If Edison makes a reasonable attempt to pursue these claims and receives less than the total dollar amount which we assigned Luz, we will not require Edison's shareholders to become responsible for the shortfall. We encourage Edison to resolve the bankruptcy issues quickly, including through a settlement process to the extent Edison is unable to recover these funds from Luz. Edison may file an Advice Letter seeking rate recovery of any unrecovered amounts. In reviewing such an Advice Letter, the only issue will be the reasonableness of Edison's

efforts to recover any such amounts from Luz. We have disposed of the remaining issues. Do you wish to raise any other issues? Should project costs not allocated to Cal Energy or not recovered from Luz be granted Abandoned Plant Treatment?

The Commission rarely allows a utility to include abandoned plants in the utility's ratebase. PU Code 1005.5(d) provides that the Commission can allow the utility to recover in its rates "reasonable and prudent costs" when the Commission has determined that the plant becomes "used and useful."

In D.84-05-100, we analyzed the circumstances under which we will include abandoned plant in ratebase. To include abandoned plant in ratebase means that we will not apply the "used and useful" test in PU Code 1005.5. However, we stated that we will continue to apply "the criterion of reasonable managerial skill." We then asked how should "utility management perform its planning function under conditions of great uncertainty and unusually high risk?" (15 CPUC 2d 125.)

We developed three criteria to evaluate whether the utility reacted to this uncertainty appropriately. These three criteria include identifying relevant risks; analyzing relevant projects; and performing project re-evaluations.

We stated that identifying relevant project risks obligates the utility to assess "the risks relevant to its ability to maintain adequate and reliable service." We noted analyzing particular projects implies that the utility "should reflect an overall strategy to minimize costs." We stated that re-evaluation means that the utility should frequently review its project commitments. (15 CPUC 2d 126.)

These tests apply when the utility is under a general obligation to find the most cost-effective way to meet customer demand. These tests emphasize project selection in the face of uncertain costs and uncertain demand. In D.90-09-059, we ordered the construction in a specific location of a specific line to meet

the specific generation of Cal Energy and Luz Edison could not choose the time, place or size of the project nor the partners with whom it would cooperate. Therefore, we cannot directly apply these three tests and will apply the general test of "reasonable managerial skill" (15 CPUC2d 125.)

(b) Edison promptly built the substation improvements, incurring the estimated cost. DRA has found these costs reasonable. The 220 kV line apparently would have been useful had the transmission line been constructed and control to complete the project passed from Edison to Luz, whose financial and operational responsibility to construct the transmission line.

Luz was scheduled to begin construction on February 1, 1991. On March 11, Edison wrote Luz noting the delay and proposing a new schedule through March 31. Edison advanced Luz \$7.095 million. Edison continued construction of its substation. On April 23, 1991, Edison wrote Luz suspending payments until Luz started its construction. On July 1, Luz suspended construction of its generation facility and terminated its employees. On July 11, Edison suspended its substation construction.

This sequence of events raises two issues concerning "reasonable managerial skill." First, did Edison use such skill in advancing the \$7,095 million to Luz? Second, did Edison use such skill in suspending its own substation construction?

With respect to the first issue, Edison's advancing of funds to Luz implies that Luz was facing some financial difficulty. Did Edison exercise "reasonable managerial skill" in advancing these funds? If Edison had refused to advance the funds, then Edison retrospectively could have accelerated Luz bankruptcy. If Luz entered bankruptcy and never completed its generation facility, then Edison could not recover Luz's share of Edison's cost of the substation work from Edison's PPA payments to Luz which we had recognized as the backstop source of revenue for Edison's cost in the construction in a specific location of a specific

Moreover, we have encouraged cooperation between a utility and its QF in planning and building of interconnection facilities. If Edison had not advanced the funds, then Edison could have believed that it faced some uncertainty in our assessment of responsibility for consequential problems which Luz encountered. This does not mean that we hold the utility responsible for all problems in the utility-QF relationship, but only that, in this case, the utility faced uncertainty. We conclude that Edison exercised "reasonable managerial skill" in advancing Luz the funds.

With respect to the second issue, Edison exercised "reasonable managerial skill" in suspending its substation construction after receiving notice of Luz bankruptcy. In advancing funds, Edison knew of Luz financial difficulties. However, Edison did not receive definitive notices of the serious nature of Luz financial problems until July 1 when Luz suspended its own construction. Edison suspended its own construction within 11 days. We find this a reasonable delay. Indeed, we would have required that Edison present substantial evidence supporting its position if Edison had suspended its substation work at an earlier stage because this suspension could have accelerated the financial difficulties which Luz faced.

Based upon the above analysis, the Commission grants Edison abandoned plant treatment for the Kramer-Victor Project costs for ratemaking purposes for Edison. Findings of Fact

1. D.90-09-059 granted Edison a CPCN for the Kramer-Victor Project and allocated the cost of the project between ratepayers and two QFs, Luz and Cal Energy.

2. The petition to modify D.90-09-059 seeks to relieve Cal Energy and Luz of their cost obligations for project costs.

3. By the time Edison ceased construction of the Kramer-Victor Project, it had spent \$25,817,000 on the project.

4. On May 25, 1994, Edison reached a settlement with the Luz Bankruptcy Trustee. If the petition is granted, Edison and the Trustee agree that Edison shareholders would retain the \$7,095,000 Luz previously paid Edison for its share of Edison's construction costs. In exchange, Edison agrees to waive all of its claims against the Luz bankruptcy, including the \$7,176,000 Edison had paid to Luz and for which Luz had done no tangible work. If the Petition is denied, Edison and the Trustee agree that Edison's only claims would be satisfied, if funds are available, during the disposition of the Luz bankruptcy.

5. Edison is asking for permission to forgive or refund to Luz and Cal Energy approximately \$23,551,000 which these parties either owe or have already paid to Edison, and Edison seeks to charge these amounts to the ratepayers. Edison knows, and Luz and Cal Energy know, that Edison has advanced funds to pay for these amounts.

6. Both Luz and Cal Energy executed power purchase agreements, and transmission interconnection agreements which contractually obligated these QFs to pay Edison their respective shares of the Kramer-Victor Project costs.

7. Luz failed to undertake construction of the transmission line. Luz failed to make scheduled payments for its share of the project. Luz failed or refused to provide an accounting of payments received by Edison.

Conclusions of Law

1. Luz remains responsible for its share of the costs expended by Edison or 44.8 percent of \$17.131 million or \$7.675 million and for the \$7.176 million which Edison advanced Luz, which totals \$14,851 million. Luz is also responsible for the 21 percent which would have been borne by Cal Energy, equaling \$3,597 million. After subtracting the \$7.095 million already paid by Luz to Edison, Luz has a total cost responsibility of \$11.353 million.

2. We cannot hold Cal Energy responsible for costs which it did not cause and from which it will not benefit.

3. By the time that Luz had advanced \$22,817,000 on the Kramer-Victor Project, it had spent \$22,817,000 on the project.

3. It is reasonable to allow Edison to collect, at minimum, \$5.778 million from ratepayers which represents Edison's total project-specific investment of \$17.131 million minus the cost responsibility assigned to Luz.

4. It is reasonable to allow Edison to collect from ratepayers the balance of \$11.353 million of the \$17.131 million investment, after Edison undertakes appropriate efforts to pursue collection of the \$11.353 million attributable to Luz in bankruptcy proceedings or related actions, minus the amount collected by Edison through such efforts.

ORDER  
being necessary and proper

IT IS ORDERED that Southern California Edison Company is authorized to make an entry of \$5.778 million to its ERAM Balancing Account reflecting its Kramer-Victor Project's CPUC-jurisdictional investment related revenue requirement. Edison is also authorized to make a subsequent Advice Letter filing requesting rate recovery through an entry to its ERAM Balancing Account reflecting Luz' cost responsibility of \$11.353 million less all amounts recovered from Luz in bankruptcy or through other legal pursuit of Edison's claims. Each entry should be reduced to reflect the effect of applying the then currently effective FERC jurisdictional

allocation factors, and increased to provide for standard franchise fees and uncollectible accounts expense.

This order is effective today.

Dated September 4, 1996, at San Francisco, California.

It is reasonable to allow Edison to collect from taxpayers the balance of \$11.353 million of the \$14.133 million investment after Edison undertakes appropriate efforts to pursue collection. The amount attributable to tax in bankruptcy proceedings, minus the amount collected by Edison.

DANIEL Wm. FESSLER  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEPPER  
Commissioners

President P. Gregory Conlon,  
being necessarily absent, did not participate.

IT IS ORDERED that Southern California Edison Company is authorized to make an entry of \$2.778 million to its ERAM balancing account reflecting its Kraker-Victor Project's CPUC-judicially investment related revenue requirement. Edison is also authorized to make a subsequent advice letter filing requesting rate recovery through an entry to its ERAM balancing account reflecting tax cost responsibility of \$11.353 million less all amounts recovered from tax in bankruptcy or through other legal pursuit of Edison's claims. Each entry should be reduced to reflect the effect of applying the then currently effective FERC jurisdictional