

148 FERC ¶ 61,126
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, John R. Norris,
Tony Clark, and Norman C. Bay.

Southern California Edison Company

Docket No. ER14-1857-000

ORDER ON ABANDONMENT COST RECOVERY FILING

(Issued August 15, 2014)

1. On May 1, 2014, Southern California Edison Company (SoCal Edison) filed a request under section 205 of the Federal Power Act (FPA)¹ to recover in its Transmission Owner Tariff (TO Tariff) formula rate the prudently-incurred abandoned plant costs associated with a portion of the Tehachapi Renewable Transmission Project (Tehachapi Project). In this order, we find that a portion of the Tehachapi Project was abandoned for reasons beyond SoCal Edison's control and, therefore, we grant SoCal Edison's request to recover the prudently-incurred project costs associated with its abandonment.²

I. Background

2. The Tehachapi Project includes a combination of new and upgraded high voltage transmission facilities containing new or refurbished 500 kV and 220 kV transmission lines, construction of three new substations and refurbishment of five existing substations, as well as installation of telecommunications infrastructure and related facilities that will enable delivery of 4500 MWs of electricity to the SoCal Edison grid from renewable wind energy generators in the Tehachapi area of Kern County, southward through Los Angeles County, and eastward to the existing Mira Loma substation in San

¹ 16 U.S.C. § 824d (2012).

² *Southern Cal. Edison Co.*, 121 FERC ¶ 61,168 (2007), *reh'g denied* 123 FERC ¶ 61,293 (2008), *review dismissed*, Case No. 08-1261 (D.C. Cir. (2013)) (Incentives Order) (granting SoCal Edison's request for recovery of 100 percent of prudently-incurred costs if the Tehachapi Project is abandoned for reasons beyond SoCal Edison's control).

Bernardino County. Due to the size and magnitude of the Tehachapi Project, it was split into 11 construction segments. Each Tehachapi Project segment will be placed under the operational control of the California Independent System Operator Corporation (CAISO), upon completion.

3. The CAISO Board of Governors approved the Tehachapi Project by its regional planning process on January 24, 2007.³ On May 18, 2007, SoCal Edison filed a Petition for Declaratory Order with the Commission requesting transmission rate incentives for three major transmission projects, including the Tehachapi Project. On November 16, 2007, the Commission granted the incentives requested by SoCal Edison, including: (1) a 125 basis point return on equity (ROE) adder for the Tehachapi Project; (2) recovery of 100 percent of Construction Work in Progress; (3) 100 percent abandoned plant recovery for prudently-incurred costs if the Tehachapi Project, or a portion thereof, were canceled due to factors beyond SoCal Edison's control; and (4) a 50 basis point regional transmission organization (RTO) adder for CAISO participation.⁴

4. On December 24, 2009, the California Public Utilities Commission (CPUC) issued a Certificate of Public Convenience and Necessity (CPCN) for segments 4-11 of the Tehachapi Project.⁵ The CPCN decision adopted an overhead route for construction of the facilities in the City of Chino Hills, California (Chino Hills) area,⁶ and rejected alternative routes, including various proposed underground routes.

5. On January 25, 2010, Chino Hills sought rehearing of the CPUC decision and stay of construction for Segment 8A of the Tehachapi Project. On October 8, 2011, Chino Hills filed a Petition for Modification, seeking to reopen the record with regards to Segment 8A's route. Chino Hills alleged that visual, economic, and societal impacts of the overhead route for the Tehachapi Project through Chino Hills were more significant than envisioned by the CPUC at the time of the granting of the CPCN for Segments 4-11. On November 10, 2011, 22 months after issuing the CPCN for the Tehachapi Project, the CPUC granted a stay of construction for Segment 8A of the Tehachapi Project, pending the resolution of Chino Hills' application for rehearing.

³ Incentives Order, 121 FERC ¶ 61,168 at P 38 (finding the Tehachapi Project met the FPA section 219 rebuttable presumption of eligibility for incentive rate treatment because it had been approved by a regional planning process).

⁴ *Id.*

⁵ CPUC Decision 07-01-040. *See* Exhibit SCE-104.

⁶ The Chino Hills portion of the Tehachapi Project is also known as Segment 8A.

6. SoCal Edison ceased construction of Segment 8A upon issuance of this stay. However, prior to the CPUC granting the stay, SoCal Edison had already completed the removal of an existing line in the selected route and constructed much of Segment 8A in an overhead configuration.⁷

7. On July 16, 2013, the CPUC issued a decision granting Chino Hills' Petition for Modification, modifying the originally adopted overhead design for Segment 8A, and requiring SoCal Edison to build underground approximately 3.5 miles within Chino Hills. The CPUC decision also released the construction stay to allow SoCal Edison to remove the newly constructed overhead structures and substation facilities, and prepare for the underground construction.

II. SoCal Edison Filing

8. On May 1, 2014, SoCal Edison filed a request under FPA section 205 for recovery of abandoned plant costs, arguing that the abandonment of Segment 8A of the Tehachapi Project was beyond its control; the abandoned overhead project costs were prudently-incurred; these costs have not been otherwise recovered as part of another Commission-approved rate; and amortizing the recovery of the abandoned plant costs over a 12-month period in SoCal Edison's formula rate will result in just and reasonable rates.⁸

9. SoCal Edison contends that the abandonment of Segment 8A of the Tehachapi Project was due to reasons beyond its control. According to SoCal Edison, the abandonment is due to the fact that the CPUC's initial decision found that the proposed routing through Chino Hills and the proposed overhead construction was the preferred alternative. However, nearly two years later, the CPUC indicated it was reconsidering the initial decision, and approximately three and a half years later, the CPUC issued an order modifying its initial decision. Therefore, because the abandonment of the overhead construction was ordered by the CPUC, SoCal Edison states that the abandonment was clearly beyond its control.

10. SoCal Edison seeks recovery of all prudently-incurred costs associated with the overhead construction of Segment 8A and the removal of such facilities as a result of the CPUC-ordered underground construction. Specifically, SoCal Edison seeks recovery of \$14.445 million for project support, engineering, environmental monitoring, and mitigation activities; direct material and construction costs; removal activity; and certain overheads associated with these expenditures. This amount includes: (1) \$11.667 million in direct expenditures for construction of the overhead structures and substation

⁷ SoCal Edison Transmittal at 2-3.

⁸ *Id.* at 1-2.

facilities that are now abandoned; (2) \$3.595 million in costs for the removal of the overhead facilities; and (3) \$38,000 in additional expected removal costs. Additionally, when SoCal Edison removed the overhead facilities, some of the facilities were determined either to be reusable or to have recoverable salvage value. Therefore, SoCal Edison was able to reduce its overall expenditures by \$645,000 for reusable structures and by \$210,000 for salvageable items.⁹

11. SoCal Edison states that it has not and will not double-recover costs associated with the overhead portion of Segment 8A of the Tehachapi Project. SoCal Edison states that when it was ordered to underground Segment 8A, it created three new, unique capital work orders to which it transferred installation costs identified with Segment 8A. According to SoCal Edison, transferring the costs from the existing Tehachapi Project Identification Numbers and work orders to these unique capital work orders for the abandonment of Tehachapi Segment 8A will ensure removal of the appropriate costs.¹⁰

12. SoCal Edison proposes to recover the abandoned plant costs for Segment 8A of the Tehachapi Project in its formula rate. SoCal Edison notes that Schedule 12 of its formula rate provides for recovery of abandoned plant costs in the base Transmission Revenue Requirement (TRR) for those projects for which the Commission has approved abandoned plant cost recovery. SoCal Edison seeks authorization to begin a 12-month recovery of the \$14.445 million abandoned plant costs, beginning January 1, 2014. However, SoCal Edison is not proposing to modify the January 1, 2014 base TRR and rates at this time to reflect the abandoned plant costs; rather, SoCal Edison states that the costs will not impact rate levels under the formula until the 2014 True-Up TRR is developed and filed in its 2016 Formula Rate Update Filing, which will become effective on January 1, 2016.¹¹

13. As noted above, SoCal Edison seeks authorization to amortize the abandoned plant costs over a period of 12 months. SoCal Edison states that while the Commission's general policy provides that abandoned plant costs should be recovered over the life of the facility, in this case approximately 60 years, SoCal Edison believes that the use of a shorter amortization period is reasonable under these circumstances. SoCal Edison believes that because the TRR impact of recovering the costs over a 12-month period is

⁹ *Id.* at 7-8.

¹⁰ *Id.* at 9.

¹¹ *Id.* at 10.

relatively small,¹² and the primary beneficiaries of the planned transmission investment were customers that are taking service on the CAISO grid today, SoCal Edison's proposed amortization period is reasonable.¹³

14. SoCal Edison requests waivers of the Commission's cost support regulations,¹⁴ including waiver of the full Period I and Period II data requirements. SoCal Edison contends that good cause exists for such waiver, claiming that the statements, testimony, and exhibits accompanying its filing provide ample support for the reasonableness of the proposed costs to be recovered in SoCal Edison's formula rate.¹⁵

III. Notice, Interventions, and Responsive Pleadings

15. Notice of SoCal Edison's filing was published in the *Federal Register*, 29 Fed. Reg. 26,745 (2014), with interventions and comments due on or before May 22, 2014. Notice of intervention was filed by the CPUC. Timely motions to intervene were filed by Trans Bay Cable LLC, Modesto Irrigation District, the City of Los Angeles Department of Water and Power, and Northern California Power Agency. Timely motions to intervene and comments were filed by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities) and M-S-R Public Power Agency (M-S-R). On June 5, 2014, SoCal Edison filed an answer to the protests.

Comments and Responses

16. M-S-R states that it does not oppose SoCal Edison's recovery of the abandoned plant costs at this time, nor does it oppose SoCal Edison's proposed 12-month amortization for recovery of such costs. M-S-R also does not oppose SoCal Edison's decision to recover the abandoned plant costs in Schedule 12 of its formula rate. M-S-R notes that because the Project is ongoing, the recovery of a portion of the Project costs as abandoned plant raises the possibility of double-recovery. Therefore, M-S-R requests that the Commission reserve M-S-R's right to verify the lack of double-recovery of abandoned plant costs in response to SoCal Edison's formula rate update filings.

¹² According to SoCal Edison, the proposed 12-month amortization period results in a base TRR impact of about \$15.1 million, or an increase over SoCal Edison's currently authorized base TRR of 1.8 percent. *Id.*

¹³ *Id.*

¹⁴ *See* 18 C.F.R. § 35.13 (2014).

¹⁵ SoCal Edison Transmittal at 12.

17. Six Cities state that they do not oppose the general recovery methodology of abandoned plant costs that SoCal Edison proposes – namely, collection of the costs through the formula over a 12-month period during 2016 as part of the 2014 True-Up Adjustment. However, Six Cities request clarification that any order issued in this proceeding authorizing SoCal Edison to recover abandoned plant costs not foreclose parties from using the procedures in the Formula Rate Protocols to review the level of the proposed costs and how they will be reflected in the 2016 Draft Annual Update when the full update is made available. Six Cities state that they would not object to conditional authorization by the Commission for SoCal Edison to reflect \$14.445 million in abandoned plant costs in the formula using the methodology described in the filing, subject to possible further adjustment based upon the outcome of the review procedures set forth in the Formula Rate Protocols.

18. In its answer, SoCal Edison asserts that if the Commission accepts SoCal Edison's filing, the \$14.445 million and the 12-month amortization would become fixed elements of the formula rate in Schedule 12, and thus would not be subject to further adjustment in the formula rate update process. However, SoCal Edison contends that the formula rate process does provide parties the ability to evaluate and challenge its recovery of other costs, including the possibility of double recovery, incurred by SoCal Edison and proposed for recovery in the formula rate.

IV. Discussion

Procedural Matters

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), the notice of intervention and the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

20. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2014), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept SoCal Edison's answer because it has provided information that assisted our decision-making process.

Commission Determination

21. In the Incentives Order, the Commission granted SoCal Edison's request to recover 100 percent of its prudently-incurred abandoned plant costs if the Tehachapi Project, or any portion thereof, was abandoned for reasons beyond SoCal Edison's control.¹⁶ However, the Commission determined that, in order for SoCal Edison to

¹⁶ Incentives Order, 121 FERC ¶ 61,168 at P 72.

recover these costs, SoCal Edison would have to show that its rates reflecting the abandoned plant costs were just and reasonable in a subsequent section 205 filing,¹⁷ which SoCal Edison filed herein on May 1, 2014.

22. We conclude that SoCal Edison has demonstrated that it qualifies to recover 100 percent of the prudently-incurred project costs for Segment 8A of the Tehachapi Project based on the facts and circumstances presented in this proceeding. We find that the CPUC's Order reversing its prior decision adopting an overhead route for the Project resulted in SoCal Edison's abandonment of Segment 8A of the Tehachapi Project and that these circumstances were beyond SoCal Edison's control.

23. We find SoCal Edison's proposed recovery of \$14.445 million of abandoned plant costs in its formula rate is reasonable based on the information presented in this proceeding.¹⁸ With respect to the amortization period, we accept the 12-month amortization proposal as it will reduce potential overall costs by avoiding years of carrying costs, and the effect on SoCal Edison's overall revenue requirement will be minimal.

24. In addition, in response to M-S-R and Six Cities, we clarify that this determination does not affect any other rights or procedures available to customers under SoCal Edison's formula rate procedures.

25. Finally, we note that SoCal Edison indicates that the abandoned plant costs are recorded in Account 182.2, Unrecovered Plant and Regulatory Study Costs.¹⁹ SoCal Edison's use of Account 182.2 is approved and, consistent with the instructions of the account, it must amortize the abandoned plant costs by crediting Account 182.2, and debiting Account 407, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs.

The Commission orders:

(A) SoCal Edison's request to recover abandoned plant costs is granted based on the specific circumstances presented in this case, as discussed in the body of this order.

¹⁷ *Id.* P 73.

¹⁸ However, we note that SoCal Edison's development of the abandoned plant costs and its representations made in this proceeding may be subject to scrutiny through Commission audit.

¹⁹ SoCal Edison Exhibit SCE-100 at 15.

(B) SoCal Edison's proposed request to recover the Tehachapi Project abandoned plant costs in its formula rate is hereby accepted, effective January 1, 2014.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.