172 FERC ¶ 61,241
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;
Richard Glick and James P. Danly.

Southern California Edison Company Docket No. EL20-51-000

ORDER GRANTING PETITION FOR DECLARATORY ORDER

(Issued September 17, 2020)

1. On June 1, 2020, Southern California Edison Company (SoCal Edison) filed a petition for declaratory order (Petition) seeking certain transmission rate incentives pursuant to section 219 of the Federal Power Act (FPA),[1] Order No. 679,[2] and the Commission's November 15, 2012 policy statement on transmission incentives,[3] for the Riverside Transmission Reliability Project (the Project). Specifically, SoCal Edison requests the Commission authorize it to recover (1) 100% of its prudently-incurred costs if the Project is cancelled or abandoned for reasons beyond SoCal Edison's control, and (2) 100% of the Project's network transmission Construction Work In Progress (CWIP) in transmission rate base during the construction period. SoCal Edison also requests the Commission declare that the Project is a network facility eligible for rolled-in rate treatment and cost recovery under the California Independent System Operator Corporation's (CAISO) Transmission Access Charge (TAC). In this order, we grant SoCal Edison's request for transmission rate incentives, and find that the costs of the Project are eligible for recovery in the CAISO TAC, as discussed below.

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[1] 16 U.S.C. § 824s.

[2] *Promoting Transmission Investment through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057, *order on reh'g*, Order No. 679-A, 117 FERC ¶ 61,345 (2006), *order on reh'g*, 119 FERC ¶ 61,062 (2007).

[3] *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129 (2012) (2012 Incentives Policy Statement).

I. Background

2. SoCal Edison explains that it jointly proposed construction of the Project with the City of Riverside (Riverside) in order to increase the capacity available to Riverside to serve its customers, thereby remedying the fact that Riverside's gross loads have exceeded the capacity currently provided by the two Riverside-dedicated transformers at the Vista Substation each year for over a decade.[4] SoCal Edison states that the Project will also ensure reliability in the event of a failure at the Vista Substation, which could otherwise prove catastrophic given that the Vista Substation is currently the only point of connection between CAISO-controlled transmission grid and Riverside's distribution system.[5] SoCal Edison states the Project will be located in Riverside County, within the cities of Jurupa Valley, Norco, and Riverside, California.[6]

3. SoCal Edison states that its components of the Project will be comprised of a new 230 kV substation and associated facilities to be owned and constructed by SoCal Edison (to be known as the Wildlife Substation); approximately 10 miles of 230 kV double-circuit transmission lines, of which approximately four miles will be placed underground, connecting SoCal Edison's Wildlife Substation to its Mira Loma Substation and Vista Substation by looping-in SoCal Edison's existing Mira Loma-Vista No. 1 230 kV transmission line; and new telecommunications equipment between the existing Mira Loma Substation and Vista Substations on the one hand, and SoCal Edison's new Wildlife Substation on the other hand.[7] SoCal Edison states that the Wildlife Substation will serve Riverside's Wilderness Substation, which in turn will serve various 69 kV lines that serve multiple Riverside distribution substations and generating stations.[8]

4. SoCal Edison explains the Project was approved by CAISO's Board on June 14, 2006, and CAISO reiterated its support of the Project in both its opening and reply briefs in support of SoCal Edison's Application of a Certificate of Public Convenience (CPCN) before the California Public Utilities Commission (CPUC).[9] On March 12, 2020, the CPUC approved SoCal Edison's application for a CPCN. In doing so, the CPUC approved an alternative project plan, which included, for example, the approximately four

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[4] Petition at 8.

[5] *Id*.

[6] *Id*.

[7] *Id*.

[8] *Id*. at 9.

[9] *Id*.

miles of underground double-circuit transmission lines located within the City of Jurupa Valley. It is this alternative project plan, as approved by the CPUC, which has come to be known as the Project.[10]

II. SoCal Edison Filing

5. SoCal Edison argues that the Project satisfies the rebuttable presumption that it will improve reliability or reduce congestion because the CPUC approved a CPCN for the Project, and in doing so, determined that the Project was needed to ensure reliability to Riverside.[11] SoCal Edison states that it is therefore entitled to the rebuttable presumption under Order No. 679 that the Project is eligible for incentive rate treatment; however, even if it were not entitled to this rebuttable presumption, SoCal Edison asserts it has demonstrated in this petition, described in more detail in each section below, that the Project is needed to maintain reliability, and thus, meets the threshold requirement of FPA section 219.[12]

6. Furthermore, SoCal Edison asserts that the Project satisfies the requirements of the nexus test as the requested incentives are narrowly tailored to address the risk and challenges of the Project.[13] SoCal Edison is requesting recovery of 100% of the prudently incurred costs for the Project if the Project must be cancelled or abandoned for reasons outside SoCal Edison's control, such as the need to obtain discretionary approvals from local, state, and federal authorities to cross land, or the CPCN being vacated, and that this request is specifically tailored to the risks SoCal Edison faces with respect to the Project.[14]

7. SoCal Edison states that there is a clear nexus between its request to include 100% of CWIP in rate base and the investment SoCal Edison intends to make in the Project.[15] SoCal Edison explains CWIP recovery allows cash flow[16] at a time of high capital

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[10] *Id*.

[11] *Id.* at 11.

[12] *Id.* at 12.

[13] *Id.* at 13.

[14] *Id.*

[15] *Id.* at 17.

[16] *Id.*

expenditures,[17] and stronger credit ratings for the utility, all of which mean better rates for the customers.[18] Because of high capital expenditures, SoCal Edison maintains that increased cash flow prior to the in-service date of the Project will be important and including CWIP in rate base will assist SoCal Edison with its financing requirements and rating agency coverage ratios by replacing non-cash allowance for funds used during construction (AFUDC) earnings with cash earnings.[19]

8. Finally, SoCal Edison requests that the Commission determine that the Project be entitled to rolled-in rate treatment and that the costs of the facilities that comprise the Project are recoverable through SoCal Edison's transmission revenue requirement (TRR).[20] SoCal Edison states that such a declaration would remove uncertainties about proceeding with the Project and that the Commission has previously issued such declaratory orders finding that certain facilities SoCal Edison proposed to construct to interconnect were network facilities eligible for rolled-in rate treatment.[21] SoCal Edison explains that the Project will be fully integrated with the transmission network once placed under CAISO's operational control and that under the seven factors set forth in Order No. 888,[22] the project will consist of upgrades readily identified as transmission facilities.[23] SoCal Edison states that the Project meets all the criteria under the

[17] *Id.*

[18] *Id.* at 18.

[19] *Id.*

[20] *Id.* at 19.

[21] *Id.*

[22] *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036 (1996) (cross-referenced at 77 FERC ¶ 61,080), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048 (cross-referenced at 78 FERC ¶ 61,220), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002).

[23] Petition at 19-20.

Commission's seven-factor test[24] and the *Mansfield* test[25] for integrated transmission facilities, and a Commission declaration to this effect would provide certainty to SoCal Edison concerning the manner in which the costs will be recovered.[26]

III. Notice of Filing and Responsive Pleadings

9. Notice of SoCal Edison's filing was published in the *Federal Register*, 85 Fed. Reg. 35,083 (June 8, 2020), with interventions and protests due on or before July 1, 2020. Timely motions to intervene and comments were filed by CAISO and Riverside. Timely motions to intervene were filed by Los Angeles Department of Water and Power; Pacific Gas and Electric Company, the City of Anaheim, Azusa, Banning, Colton, and Pasadena, California, and Public Citizen. Motions to intervene out of time were filed by the City of Santa Clara, California (Santa Clara) and San Diego Gas & Electric Company (SDG&E). No protests or adverse comments were filed.

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[24] *Id*. Order No. 888 sets forth the Commission's seven-factor test to identify distribution facilities, and include: (1) local distribution facilities are normally in close proximity to retail customers; (2) local distribution facilities are primarily radial in character; (3) power flows into local distribution systems and it rarely, if ever, flows out; (4) when power enters a local distribution system, it is not re-consigned or transported on to some other market; (5) power entering a local distribution system is consumed in a comparatively restricted geographical area; (6) meters are based at the transmission/local distribution interface to measure flows into the local distribution system; and (7) local distribution systems are of reduced voltage.

[25] Petition at 20; Patel Decl. at 31-37 (citing *Mansfield Mun. Elec. Dept. v. New England Power Co.,* 97 FERC ¶ 61,134 (2001), *order on reh'g,* 98 FERC ¶ 61,115 (2002) (*Mansfield*)). The five *Mansfield* criteria are: (1) whether the facilities are radial, or whether they loop back into the transmission system; (2) whether energy flows only in one direction, from the transmission system to the customer over facilities, or in both directions, from the transmission system to the customer, and from the customer to the transmission system; (3) whether the transmission provider is able to provide transmission service to itself or other transmission customers over the facilities in question; (4) whether the facilities provide benefits to the transmission grid in terms of capability or reliability, and whether the facilities can be relied on for coordinated operation of the grid; and (5) whether an outage on the facilities would affect the transmission system. *Mansfield*, 97 FERC ¶ 61,134 at 61,613-14.

[26] Petition at 20.

IV. Comments

10. CAISO and Riverside filed comments supporting SoCal Edison's request for the abandoned plant incentive.[27] CAISO states that its Board approved the Project, and that the CPUC granted a CPCN for the Project.[28] CAISO also states that under its tariff, project sponsors such as SoCal Edison are obligated to make a good faith effort to obtain all approvals and property rights for and to construct needed transmission projects reflected in the annual transmission plan for which they are responsible.[29] Riverside states that the Project represents a critically-important build-out of the CAISO-controlled grid that has been under development by SoCal Edison, Riverside and CAISO for the past 16 years and is needed to ensure reliable transmission service to the Riverside. Riverside asserts that the incentives SoCal Edison is seeking are narrowly tailored to address the specific risks and challenges SoCal Edison has identified associated with the Project. Riverside states that it is supportive of SoCal Edison's determination to rely on risk-reducing incentives for the Project, rather than to request incentive rate treatments that would increase costs to CAISO transmission customers, such as project-specific rate of return on equity adders. Riverside concludes that SoCal Edison's proposal to implement the CPUC's CWIP incentive will have the benefit to transmission customers of smoothing the effects of increased rate base on SoCal Edison's TRR, particularly benefitting the Project because the costs of the Project are substantial.[30]

11. Furthermore, Riverside states that the Project, once constructed and placed into service, will represent networked transmission facilities that, as part of the integrated, high-voltage transmission system under CAISO's operational control, will be eligible for cost recovery under the CAISO's High Voltage Access Charge rates.[31] CAISO comments that the Project is a network facility eligible for rolled-in rate treatment and cost recovery under the TAC. CAISO confirms that many of the facilities that comprise the Project will be classified as network transmission upgrades.[32]

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[27] CAISO Comments at 2.

[28] *Id.* at 3.

[29] *Id.*

[30] Riverside Comments at 11.

[31] *Id.* at 2.

[32] CAISO Comments at 2.

V. Discussion

A. Procedural Matters

12. Pursuant to Rule 214 of the Commission's Practice and Procedures, 18 C.F.R. § 385.214 (2020), timely unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

13. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d), we grant Santa Clara and SDG&E's late-filed motions to intervene given their interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

B. Substantive Matters

1. FPA Section 219 Requirement

14. In the Energy Policy Act of 2005,[33] Congress added section 219 of the FPA, directing the Commission to establish, by rule, incentive-based rate treatments to promote capital investment in certain transmission infrastructure. The Commission subsequently issued Order No. 679, which sets forth processes by which a public utility may seek transmission rate incentives pursuant to section 219, including the incentives requested by SoCal Edison. Additionally, in November 2012, the Commission issued the 2012 Incentives Policy Statement providing additional guidance regarding its evaluation of applications for transmission rate incentives under section 219 and Order No. 679.[34]

15. Pursuant to Order No. 679, an applicant may seek to obtain incentive rate treatment for a transmission infrastructure investment that satisfies the requirements of section 219, i.e., the applicant must show that "the facilities for which it seeks incentives either ensure reliability or reduce the cost of delivered power by reducing transmission congestion."[35] Order No. 679 established the process for an applicant to demonstrate that it meets this standard, including a rebuttable presumption that the standard is met if: (1) the transmission project results from a fair and open regional planning process that considers and evaluates the project for reliability and/or congestion and is found to be

[33] Energy Policy Act of 2005, Pub. L. No. 109-58, § 1241, 119 Stat. 594 (2005).

[34] 2012 Incentives Policy Statement, 141 FERC ¶ 61,129.

[35] Order No. 679, 116 FERC ¶ 61,057 at P 76.

acceptable to the Commission; or (2) a project has received construction approval from an appropriate state commission or state siting authority.[36]

a. SoCal Edison's Proposal

16. SoCal Edison asserts that the Project satisfies the rebuttable presumption that it will improve reliability or reduce congestion because the CPUC approved a CPCN for the Project, and in doing so, determined that the Project was needed to ensure reliability to Riverside.[37] Specifically, according to SoCal Edison, the CPUC considered whether the Project was needed to ensure reliability and determined that there was a "need to provide Riverside with a second source line that includes enough capacity to accommodate Riverside's existing and projected load needs and that provides reliability in the event existing facilities serving Riverside are rendered inoperable."[38] Additionally, SoCal Edison states that the CPUC recognized "project benefits of making the Riverside Energy Resource Center generation units available for CAISO market dispatch to support system reliability, flexibility, and efficiency and reducing the need for non-consequential load shedding within Riverside."[39] SoCal Edison explains that the CPUC granted a CPCN to the Project on March 12, 2020 and, as such, SoCal Edison contends that it is entitled to the rebuttable presumption under Order No. 679 that the Project is eligible for incentive rate treatment. However, even if it were not entitled to this rebuttable presumption, SoCal Edison asserts it has demonstrated in this Petition that the Project is needed to maintain reliability, and thus, meets the threshold requirement of FPA section 219.[40]

b. Commission's Determination

17. The Commission previously has found that if a transmission project has received construction approval from an appropriate state commission or state siting authority, it is entitled to a rebuttable presumption established under Order No. 679.[41] In this case, the

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[36] *Id*. P 58.

[37] Petition at 11.

[38] *Id.* at 12.

[39] *Id.*

[40] *Id.*

[41] Order No. 679, 116 FERC ¶ 61,057 at P 58; *see also* 18 C.F.R. § 35.35(i)(1)(ii) (2020).

Project was granted a CPCN from the CPUC. Therefore, we find that SoCal Edison is entitled to the rebuttable presumption for the Project established under FPA section 219.

2. Order No. 679 Nexus

18. In addition to satisfying the FPA section 219 requirement of ensuring reliability and/or reducing the cost of delivering power by reducing congestion, Order No. 679 requires an applicant to demonstrate that there is a nexus between the incentive sought and the investment being made.[42] In Order No. 679-A, the Commission clarified that the nexus test is met when an applicant demonstrates that the total package of incentives requested is "tailored to address the demonstrable risks or challenges faced by the applicant."[43] The Commission requires a project-specific demonstration of the nexus between the requested incentives and the risks and challenges of the project.[44]

a. SoCal Edison's Proposal

19. SoCal Edison asserts that the Project satisfies the requirements of the nexus test as the requested incentives are narrowly tailored to address the risk and challenges of the Project.[45] SoCal Edison requests recovery of 100% of the prudently incurred costs for the Project if the Project must be cancelled or abandoned for reasons outside SoCal Edison's control and that this request is specifically tailored to the risks SoCal Edison faces with respect to the Project.[46] SoCal Edison explains that the Project may be cancelled or abandoned should the CPUC vacate its decision granting the CPCN due to a challenge by the Public Advocates Office.[47] Further, SoCal Edison states that it still needs to obtain discretionary approval from local, state, and federal authorities to cross over segments of approximately two miles of lands purchased with Land and Wildlife Conservation Funds, and to identify and purchase suitable replacement property to mitigate impact on these lands.[48]

[42] Order No. 679, 116 FERC ¶ 61,057 at P 48.

[43] Order No. 679-A, 117 FERC ¶ 61,345 at P 27.

[44] *See* 18 C.F.R. § 35.35(d).

[45] Petition at 13.

[46] *Id.*

[47] *Id.* at 14.

[48] *Id.*

20. Additionally, SoCal Edison explains that it will need to obtain land rights superior to those granted under franchise, such as an easement from the City of Jurupa Valley and that the condemnation of private land may be required to obtain the necessary property rights, potentially causing project delays.[49] In addition to potential regulatory and permitting delays, SoCal Edison states that the CPUC is requiring it to underground approximately four miles of double-circuit, high-voltage transmission lines, which is a task that SoCal Edison states it has limited experience doing.[50] Further, SoCal Edison states that beginning March 12, 2020 construction and planning activities are be done at SoCal Edison's risk and that they are not insignificant given the magnitude of the cost of the Project.[51]

21. SoCal Edison also states that there is a clear nexus between its request to include 100% of CWIP in rate base and the investment SoCal Edison intends to make in the Project.[52] SoCal Edison explains that unless it is permitted to recover CWIP in rate base its investors would have to wait four years or more before receiving any cash return on their investment in the Project.[53] SoCal Edison states that it has high expenditures, and thus maintaining increased cash flow prior to the in-service date of the Project will be important. For these reasons, SoCal Edison maintains that including CWIP in rate base will assist SoCal Edison with its financing requirements and rating agency coverage ratios by replacing non-cash AFUDC earnings with cash earnings.[54]

22. SoCal Edison states that in the long-term customers benefit from smoothing out large rate increases and stronger credit ratings for the utility as it may lead to better financing terms that will be passed on to its customers.[55] Finally, SoCal Edison states that inclusion of CWIP in rate base will result in a lower future rate base than would occur by accruing AFUDC until the in-service date, thereby reducing rates in the future through a lower revenue requirement over the remaining life of the Project.[56]

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[49] *Id.*

[50] *Id.* at 15.

[51] *Id.* at 16.

[52] *Id.* at 17.

[53] *Id.*

[54] *Id.* at 18.

[55] *Id.*

[56] *Id.* at 19.

b. Commission Determination

23. We consider below whether the two incentives requested by SoCal Edison satisfy Order No. 679's nexus test. We find that SoCal Edison has sufficiently demonstrated that there is a nexus between the incentives it seeks and the risks and challenges that it faces in developing and constructing the Project described above. We also find that SoCal Edison's requested incentives are tailored to address the demonstrated risks and challenges presented by the Project.

C. Individual Transmission Incentives

24. SoCal Edison requests recovery of 100% of prudently incurred abandonment costs and the inclusion of CWIP in transmission rate base. We evaluate each of these requested incentives below.

1. Abandoned Plant Incentive

a. SoCal Filing

25. SoCal Edison seeks authorization to recover 100% of prudently incurred costs, including pre-commercial expenses and construction costs, if the Project is abandoned due to an event beyond SoCal Edison's control. SoCal Edison contends that the Project faces substantial abandonment risk, noting that the Project remains subject to multiple layers of regulatory review at the federal, state, and local levels. In addition, SoCal Edison argues that it has limited experience with undergrounding double-circuit, high voltage transmission lines. Finally, SoCal Edison contends that it bears the bulk, if not all, of the financial risk of the Project.[57]

b. Commission Determination

26. We grant SoCal Edison's request for the abandoned plant incentive. In Order No. 679, the Commission determined that the abandoned plant incentive is an effective means of encouraging transmission development by reducing the risk of non-recovery of costs.[58] We agree with SoCal Edison that it faces risks and challenges in the development of the Project. For example, SoCal Edison states that it will need to secure a number of siting and permitting approvals for the Project, including certificates of

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[57] *Id.* at 13-16.

[58] Order No. 679, 116 FERC ¶ 61,057 at P 163; *see also DCR Transmission, LLC*, 153 FERC ¶ 61,295, at P 42 (2015); *TransCanyon DCR, LLC*, 152 FERC ¶ 61,017, at P 41 (2015).

convenience and necessity and wetland permits from the U.S. Army Corps of Engineers. The abandoned plant incentive will protect SoCal Edison should the Project be abandoned for reasons beyond SoCal Edison's control.

27. We note, however, that if the Project is abandoned for reasons beyond SoCal Edison's control, SoCal Edison would be required to make a filing under section 205 of the FPA to demonstrate that the costs were prudently incurred before it can recover any abandoned plant costs.[59] In such a proceeding, abandoned plant cost recovery is available for 100% of prudently-incurred project costs expended on or after the date of issuance of this order.[60] In the event SoCal Edison seeks abandoned plant recovery for the period of time prior to the issuance of this order, SoCal Edison would be eligible to seek recovery of 50% of its prudently incurred costs.[61]

2. <u>Construction Work in Progress</u>

a. <u>SoCal Edison's Proposal</u>

28. SoCal Edison argues there is a clear nexus between its request to include 100% of CWIP in rate base and the investments SoCal Edison intends to make in the Project. SoCal Edison contends that recovery in transmission rate base of CWIP expenditures during construction of the facilities will improve cash flow and prevent rate shock during a time when SoCal Edison is financing significant wildfire mitigation efforts, as well as continuing to expand and upgrade its transmission system.[62] Additionally, SoCal Edison explains that the Project is expected to take about four years to construct, which it asserts makes the Project less attractive to investors than projects with shorter construction time frames. SoCal Edison argues that recovery of CWIP expenditures in rate base would encourage investors to participate in the Project because it would provide investors with greater cash returns within a shorter time frame.[63]

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[59] Order No. 679, 116 FERC ¶ 61,057 at PP 165-166.

[60] *See, e.g., San Diego Gas & Elec. Co*., 154 FERC ¶ 61,158 (*SDG&E*), *order denying reh'g*, 157 FERC ¶ 61,056 (2016) (*SDG&E* Rehearing Order), *aff'd, San Diego Gas & Elec Co. v. FERC*, 913 F.3d 127 (D.C. Cir. 2019) (*SDG&E v. FERC*); *New England Power Co*., Opinion No. 295, 42 FERC ¶ 61,016, at 61,075-178, *order on reh'g*, Opinion No. 295-A, 43 FERC ¶ 61,285 (1988).

[61] *See SDG&E v. FERC,* 913 F.3d at 139*; see also SDG&E* Rehearing Order, 157 FERC ¶ 61,056 at P 15.

[62] Petition at 17.

[63] *Id*.

29. SoCal Edison also states that the Project will require a significant cash outlay during a time that SoCal Edison is experiencing continued high capital spending, including $2.9 billion in transmission infrastructure, $4.4 billion in wildfire mitigation related capital expenditures, and $13.1 billion in distribution investments over the four year period from 2020 to 2023.[64] According to SoCal Edison, its planned $581 million investment in transmission network upgrades portion of the Project represents a substantial component of its total planned transmission investment of $2.9 billion.[65] SoCal Edison asserts that because of the magnitude of all these planned investments, using CWIP in rate base would assists SoCal Edison with its financing requirements and rating agency coverage ratios by replacing non-cash AFUDC earnings with cash earnings.[66] SoCal Edison also argues that CWIP enhances debt ratios due to higher coverage ratios and improved quality of earnings and, because investors view reduced variability positively, it lowers borrowing costs.[67]

30. Further, SoCal Edison asserts that in the long-term, customers benefit from smoothing out large rate increases and stronger credit ratings for the utility as it may lead to better financing terms that will be passed on to its customers.[68] Finally, SoCal Edison states that inclusion of CWIP in rate base will result in a lower future rate base than would occur by accruing AFUDC until the in-service date, thereby reducing transmission rates in the future through a lower revenue requirement over the remaining life of the Project.[69]

b. **Commission Determination**

31. We grant SoCal Edison's request to include 100% of CWIP for the Project in rate base. In Order No. 679, the Commission noted that such rate treatment furthers the goals of FPA section 219 by providing upfront regulatory certainty, rate stability, and improved cash flow, thereby reducing the pressures on an applicant's finances caused by investing

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[64] *Id*. (citing Rumble Decl. at 11-12).

[65] *Id*. at 17-18.

[66] *Id.* (citing Rumble Decl. at 20).

[67] *Id*.

[68] *Id.* at 18.

[69] *Id.* at 19.

in transmission projects.[70] The Commission has also found that allowing companies to include 100% of CWIP in rate base would result in greater rate stability for customers by reducing the "rate shock" when certain large-scale transmission projects come on line.[71] Noting SoCal Edison's projection that the Project will cost approximately $581 million and is not expected to go into service until the third quarter of 2026, we find that granting this CWIP incentive in these circumstances is consistent with Order No. 679.

32. We note that the Commission's accounting regulations provide procedures to ensure that customers will not be charged for both capitalized AFUDC and corresponding amounts of CWIP in rate base.[72] Hence, our determination here granting SoCal Edison's request to recover 100% of CWIP in rate base is conditioned upon SoCal Edison fulfilling the Commission's requirements for CWIP inclusion for the Project in its future FPA section 205 filings.

D. Network Facilities and Rolled-In Rate Treatment

1. SoCal Edison's Proposal

33. SoCal Edison further requests that the Commission determine the Project be entitled to rolled-in rate treatment and that the costs of the facilities that comprise the Project are recoverable through SoCal Edison's TRR.[73] SoCal Edison states that such a declaration would remove uncertainties about proceeding with the Project and that the Commission has previously issued such declaratory orders finding that certain facilities SoCal Edison proposed to construct to interconnect were network facilities eligible for rolled-in rate treatment.[74] SoCal Edison explains that the Project will be fully integrated with the transmission network once placed under CAISO's operational control and that

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[70] Order No. 679, 116 FERC ¶ 61,057 at P 115.

[71] 2012 Incentives Policy Statement, 141 FERC ¶ 61,129 at P 12 (citing *e.g.*, *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,229 (2011)). *See also PPL Elec. Utils. Corp.*, 123 FERC ¶ 61,068, at P 43, *reh'g denied*, 124 FERC ¶ 61,229 (2008).

[72] *See Construction Work in Progress for Public Utilities; Inclusion of Costs in Rate Base*, Order No. 298, FERC Stats. & Regs. ¶ 30,455, *order on reh'g*, Order No. 298-B, FERC Stats. & Regs. ¶ 30,524 (1983). *See also S. Cal Edison Co.*, 161 FERC ¶ 61,107, at PP 32, 35 (2017)

[73] Petition at 19.

[74] *Id*.

under the seven factors set forth in Order No. 888, the Project will consist of upgrades readily identified as transmission facilities.[75]

34. SoCal Edison additionally explains that the following factors show that the Project's facilities would be part of the integrated transmission system: that the Project will be operated in a network manner once it loops into the new Wildlife Substation; that energy is expected to flow in both directions; that CAISO would be able to use the available capacity for multiple purposes; that the facilities would provide transfer capability and reliability benefits to the transmission grid and could be relied upon for the coordinated operation of the grid; and that an outage on the facilities would affect the transmission system.[76] As such, SoCal Edison asserts that the Project meets all the criteria under the seven-factor test and the *Mansfield* test for integrated transmission facilities, and a Commission declaration to this effect would provide certainty to SoCal Edison concerning the manner in which the costs will be recovered.[77]

2. <u>Comments</u>

35. CAISO and Riverside support the analysis of SoCal Edison's expert that the facilities will be network transmission facilities consistent with the Commission's *Mansfield*[78] test and will not be distribution facilities under the Commission's seven-factor test.[79] CAISO also contends that the Project will provide system operational benefits and support more efficient market dispatch and real-time operations.[80] In particular, CAISO asserts that the Project will increase access to generation within Riverside to meet CAISO's system, local, and flexible capacity needs, and it will simplify and automate dispatch for the Riverside generating units.[81] CAISO also contends that it will operate the Project in a networked manner and use the facilities to provide transmission service to customers, energy can flow in both directions on the Project

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[75] *Id*. at 19-20.

[76] *Id*.

[77] *Id*.

[78] CAISO Comments at 4; Riverside Comments at 7-8 (citing *Mansfield*, 97 FERC ¶ 61,134, *order on reh'g,* 98 FERC ¶ 61,115).

[79] CAISO Comments at 4 (citing Petition, Ex. B, Decl. of Vishal C. Patel, Attachments 4 and 5 (Patel Decl.)).

[80] *Id*.

[81] *Id*.

facilities, the Project will provide increased transfer capability and reliability benefits to the grid, CAISO will operate the Project facilities in a coordinated manner with the remainder of the system, and outages on the Project facilities would affect the networked system.[82]

3. Commission Determination

36. We find that, based on SoCal Edison's representations in the Petition,[83] the Project would constitute network facilities. Further, our review indicates that the Project will constitute transmission network upgrades under the Commission's seven-factor test for differentiating between transmission and distribution facilities and will satisfy the integration criteria in *Mansfield*.[84] We agree with SoCal Edison and commenters that the Project will be operated in a networked manner, and that energy will flow in both directions so that the facilities will be part of the integrated transmission system. Additionally, we find that SoCal Edison's request that the costs of the Project be declared eligible for rolled-in rate treatment is also appropriate because the transmission ratepayers will benefit from these upgrades, and the costs of the Project should be recovered through SoCal Edison's TRR.

The Commission orders:

(A) We hereby grant SoCal Edison's Petition for transmission rate incentives, as discussed in the body of this order.

(B) We hereby grant SoCal Edison's Petition to classify the Project as network facilities and grant rolled-in rate treatment, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

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[82] *Id.*

[83] *See supra* P 33-34; *see also* Patel Decl. at 23-37.

[84] Patel Decl. at 23-37.