

SCE AT 2006 E-4052

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

ENERGY DIVISION

I.D.# 6651

RESOLUTION E-4052

June 7, 2007

**R E S O L U T I O N**

Resolution E-4052. Southern California Edison Company's Request to Establish a Renewable Transmission Feasibility Study Costs Memorandum Account to Record Costs of Studying the Feasibility of Developing Transmission to Access and Deliver Output From Eligible Renewable Resources Located in Western Nevada, Inyo and Eastern San Bernardino Counties, the Salton Sea Area in California, and Western Arizona.

By Advice Letter 2062-E filed on November 22, 2006 and a supplemental Advice Letter 2062-E-A filed on April 2, 2007 to replace Advice Letter 2062-E in its entirety. This advice letter is approved with modifications.

**SUMMARY**

Southern California Edison (SCE) has requested Commission approval to establish a Renewable Transmission Feasibility Study Costs Memorandum Account to record up to \$6 million to study the feasibility of accessing new renewable resources located in Western Nevada, Inyo and Eastern San Bernardino Counties, the Salton Sea Area in California, and Western Arizona. This Resolution approves SCE's request with modifications.

Specifically, SCE is authorized to establish a renewable transmission memorandum account and record costs, up to \$1.5 million in Phase 1. We will also approve up to \$4.5 million in Phase 2, subject to pre-approval after Phase 1. We expect SCE to (1) conduct a robust cost-effectiveness analysis that prioritizes among the identified renewable resource areas; (2) work with the California Independent System Operator (California ISO) to ensure that this effort is aligned with its transmission planning and project approval responsibilities and processes; and (3) to work with stakeholders throughout all of the phases, and (3) to proactively identify any permitting issues along proposed transmission routes. We believe SCE's proposal is a crucial step in meeting our greenhouse gas and renewable goals and that these studies could lead to cost-effective transmission and renewable resource

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development.

## **BACKGROUND**

### **SCE requests authority to establish renewable transmission memorandum account and record up to \$6 million in study costs**

SCE has requested authority to establish a Renewable Transmission Feasibility Study Costs Memorandum Account (memo account) to record up to \$6 million in costs associated with studying the feasibility of developing transmission capacity to deliver the output of renewable energy resources located in Western Nevada, Inyo and San Bernardino Counties, the Salton Sea area in California, and Western Arizona.

Specifically, this advice letter seeks authority to record in a memo account up to \$6 million in incremental Operations and Maintenance (O&M) costs, including outside consultant costs. SCE also wants to record the costs associated with evaluating the feasibility of building up to four high-voltage bulk-transfer transmission facilities to the four identified renewable resource rich areas even though SCE has not yet identified a transmission route or a specific renewable project. The costs of these studies will be incremental O&M costs, which are not currently reflected in SCE's distribution or other rates.

According to the advice letter, the studies will identify:

- Initial transmission facility scopes
- Likely transmission routes
- Preliminary environmental surveys identifying potentially sensitive areas
- Cost estimates

### **SCE believes Commission Decision (D.)06-06-034 establishes authority to create a renewable transmission memo account in order to record transmission study costs**

SCE believes that Commission Decision (D.)06-06-034 authorized SCE to file an advice letter to establish a memo account and record costs related to renewable transmission feasibility studies. SCE states that the costs it is seeking to record and later recover are not themselves eligible for California Public Utilities (PU) Code Section 399.25 rate recovery since the costs of the feasibility studies proposed do not result from the construction of specific transmission facilities. In addition, feasibility study costs of the type

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proposed cannot be capitalized under generally accepted accounting principles because these study costs will be incurred prior to selecting a site and prior to committing to a specific project. SCE interprets D.06-06-034 to authorize utilities to file advice letters seeking to record and recover feasibility study costs, provided that a reasonable belief has been established once a specific project is identified, the cost of building the project would be eligible for Section 399.25 backstop recovery.

### **SCE seeks cost recovery through the ERRA**

SCE seeks cost recovery through its annual Energy Revenue Requirement Accounts (ERRA) Reasonableness proceeding for CPUC review. The ERRA is a balancing account to record and track energy procurement and procurement related costs. SCE proposes that after an ERRA reasonableness review of SCE's actual costs recorded in the memo account, SCE will transfer amounts from the memo account to SCE's Base Revenue Requirement Balancing Account for rate recovery.

### **PROTESTS**

Neither AL 2062-E nor AL 2062-E-A was protested, however, three supporting comments with proposed modifications were filed.

- Pacific Gas and Electric (PG&E) provided timely and supportive comments with modifications regarding AL 2062-E. PG&E filed its comments on December 12, 2007.
- SCE filed timely reply comments to PG&E's comments on December 19, 2007.
- California Wind Energy Association (CalWEA) provided timely and supportive comments with modifications regarding AL 2062-E-A. CalWEA filed its comments on April 23, 2007.
- Kern Wind Energy Association (KWEA) provided timely and supportive comments with modifications regarding SCE's AL 2062-E-A. KWEA filed comments on April 23, 2007.

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## Summary of Comments

### PG&E

On December 12, 2007, PG&E filed comments stating that SCE's interpretation of D.06-06-034 is "overly restrictive" in stating that feasibility studies which may or may not lead to the development of transmission facilities are not eligible for Section 399.25 rate treatment. Instead, PG&E asks the Commission to make an explicit finding in this Resolution that such study costs that "can be shown to be 'necessary for the achievement of RPS goals,' should be deemed eligible for recovery under Section 399.25..."<sup>1</sup> even if they (quoting SCE's Advice Letter) "do not result from the construction of a specific transmission facility."<sup>2</sup>

On December 19, 2007, SCE responded to PG&E's comments, stating that feasibility study costs incurred before a specific transmission project has been identified are not eligible for Section 399.25 backstop cost recovery because such costs cannot be capitalized in association with a specific project, because the project does not exist. SCE believes that PG&E's scenario assumes that such costs can be recorded and capitalized, but SCE emphasizes that its advice letter addresses costs that occur before a specific project has been identified, which therefore cannot be capitalized.

### California Wind Energy Association

On April 23, 2007, CalWEA filed comments strongly supporting SCE's request to establish a memorandum account but suggests the following modifications:

- SCE's Eastern San Bernardino study should include projects interconnecting as far east as the Eldorado/Mohave substations in Nevada

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<sup>1</sup> See PG&E's Response to SCE's Advice 2062-E, p. 1

<sup>2</sup> See Advice 2062-E-A, *mimeo* p. 5

CONCERNING THE RPS PLAN

- SCE should coordinate with the efforts of San Diego Gas and Electric (SDG&E), Los Angeles Department of Water and Power (LADWP), Imperial Irrigation District (IID), and the Imperial Valley Study Group (IVSG) to expand transmission access to the Salton Sea/Imperial Valley area
- SCE's Salton Sea study should include the significant La Rumorosa wind resources south of the Imperial Valley

Kern Wind Energy Association

On April 23, 2007, Kern Wind Energy Association (KWEA) also filed comments supporting SCE's request, but asks SCE to focus and prioritize study resources for specific areas they believe contain the greatest amount of RPS potential.

KWEA believes the highest priority resource areas are:

- area East of Tehachapi into Southwestern Nevada
- from Eldorado/Mohave to Pisgah to Lugo/Silverwood route
- potentially include linkage with Kramer and Windhub, into Path 26

Other areas that may be of high current RPS potential:

- Devers and South to the Imperial Valley
- Mexican Border

**DISCUSSION****Proactive Renewable Transmission Planning**

Through this advice letter filing, SCE has signaled its desire to pursue a path of proactive transmission planning to access renewable resources. We commend SCE for taking the initiative to find transmission solutions for accessing renewable resources located far from the load centers. SCE's request distinguishes SCE as a leader committed to meeting the state's clean energy goals under the RPS and AB32. We understand that transmission planning and development to access renewable resources face difficult challenges, particularly those summarized below.

Current problems with accessing renewable resources:

- 1) Renewable resources are location constrained

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- a. Renewable resources are far from the grid and load centers and often require extensive and expensive transmission upgrades ~~a.b.~~ In order to achieve cost-savings through economies of scale, and to limit environmental impacts and ultimate build-out time, large transmission projects are needed to access large geographic areas of renewable resources
- c. All inclusive comprehensive transmission planning is needed to avoid piecemealed transmission solutions
- 2) Anticipation of developer commitment and its timing is difficult since resource development typically occurs over an extended period of time and faces complex hurdles.
- 3) Permitting and Construction of transmission facilities requires substantially longer lead times than resource development.
- 4) Efficient proactive planning and development procurement decisions will require "big picture" judgments that are best informed by thoughtful resource and transmission planning processes. ~~and balancing of generation and transmission costs and hurdles~~

Considering all of the above, we agree with SCE that there is a need for more proactive planning for the and development procurement of renewable resources and related transmission facilities. ~~to access renewable resources.~~ Thus, ~~W~~we propose the following guidelines ~~for proactive renewable transmission planning be considered going forward.~~

Resource Assessment, Planning, and Procurement Guidelines regarding transmission planning for renewables:

- 1) A robust cost-effectiveness analysis of the total cost and benefits of ~~to~~ developing the renewable resource area (i.e. generation and transmission costs and benefits) should be performed and the result expressed on a dollars per megawatt-hour basis.
- 2) The renewable resource potential of any particular renewable resource area should be adequately assessed to determine if it will (a) produce sufficient capacity and energy to warrant development; and (b) enable justify additional sufficient ~~sufficient~~ transmission capacity to access the renewable resource areas.
- 3) Transmission development should be coordinated with renewable resource development procurement and the state's RPS and AB32 goals to the extent practically feasible
- 4) Renewable-resource supply-diversity (i.e. off peak intermittent energy should be mixed with base load and on-peak energy) should be

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- adequately valued and encouraged
- 5) Robust stakeholder processes should be utilized to identify planning, procurement, and development issues. ~~help identify economic resource potential, the projected transmission access needs of renewable developers, timing, and potential transmission siting constraints~~
  - 6) This planning process and its results should be integrated with (a) the California ISO's transmission planning and study processes, (b) sub-regional planning activities, (c) tariff development related to implementation of the Federal Energy Regulatory Commission (FERC)'s April 19, 2007 approval of the multi-user trunkline petition for declaratory order filed by the California ISO, and (d) related processes underway at the California Energy Commission to identify renewable resource areas. ~~Transmission siting constraints and opportunities, including coordination with CAISO and/or other relevant transmission planning should be identified early, not later in the process~~

**SCE's request to establish Memorandum Account to record costs for renewable transmission planning is reasonable and consistent with Commission Policy**

We agree with SCE that D.06-06-034 creates an opportunity for utilities to pursue renewable transmission planning, which includes feasibility studies related to renewable transmission route identification and renewable resource validation. In recognition of the long lead times necessary to build transmission projects, D.06-06-034 established Commission policy to encourage the proactive identification and study of new renewable resource areas for the state.

There is also ample Commission precedent for this request. SCE's request is consistent with the Commission's recent approval (March 1, 2007) of PG&E's request to study the feasibility of accessing renewable resources from British Columbia.<sup>3</sup> In D.07-03-013, the Commission allowed PG&E to record up to \$14 million in feasibility studies in a new account related to accessing renewable resources in British Columbia. SCE's request is also consistent with Resolution E-3969, which the Commission approved February 16, 2006. In E-3969, the Commission authorized SCE to conduct biological studies related to the siting of the Tehachapi region transmission project. Lastly, SCE's request is consistent with FERC Order 890, which encourages transparent, coordinated transmission planning, both locally and regionally. ~~to access and integrate~~

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~~new resources, including renewables.~~

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<sup>3</sup> See D.07-03-013

We find that SCE has made a persuasive showing that these four areas can support high concentrations of renewable resources that are potentially economically feasible. Therefore, we conditionally authorize the establishment of the Renewable Transmission Feasibility Study Costs Memorandum Account, as modified, herein. Our approval of SCE's request to perform and track the costs of proactive renewable transmission planning is contingent upon SCE incorporating the phased renewable transmission planning process described below.

**We conditionally approve SCE's advice letter if SCE pursues the three phases listed and described below.**

- Phase 1 - Competitive Renewable Energy Zone (CREZ) Identification
- Phase 2 - Identification of Transmission Routes
- Phase 3 - Development and filing of Plan-of-Service

We find SCE's request reasonable to study the feasibility of upgrading or building new transmission facilities to renewable resource rich areas with the modifications described in this section. We have divided SCE's request into two phases. Phase 1 consists of the cost-effectiveness analysis, which includes preliminary transmission and resource validation studies. As SCE indicated in the advice letter, it expects to spend between \$500,000 to \$1,500,000 for transmission planning studies and \$1,500,000 to \$4,500,000 for the environmental surveys and field work.

We authorize SCE to spend up to \$1,500,000 in Phase 1, the higher end of the range, on transmission planning, resource validation, stakeholder process, and literature searches regarding biological and cultural resources. SCE has eight months to complete these preliminary studies and complete this phase. Once the studies are complete, or at eight months time, SCE will submit a report to the Energy Division of the study's key findings, which will identify the CREZs (proposed "Competitive Renewable Energy Zones" discussed below) and include SCE's work plan and proposed budget for Phase 2 to spend up to \$4,500,000 for the environmental surveys

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and field work. Lastly, we envision a third Phase, which would be led by the California ISO and result in a plan-of-service related to a specific transmission project. The third phase is the culmination of all the analysis and work conducted in the first two phases. A more detailed description of each phase is described below and depicted in a flowchart contained in Attachment A.

### Phase 1 - Competitive Renewable Energy Zone Identification through Cost-Effectiveness Analysis

SCE proposes to “develop cost comparison of alternatives, including present worth cost estimates”<sup>4</sup> as part of its transmission planning. Such a comparison can be accurately performed only in the presence of data that reflect the full cost of transmission alternatives. Because SCE proposes to transmit power from renewable resource areas that are as yet relatively untapped, the economic evaluation must include estimates of the cost of developing and generating power from those untapped resources, as well as the magnitudes of the economic resources. Specifically, SCE must consider both the levelized busbar cost – the cost of generating power – and the levelized transmission cost – the cost of delivering that power to load – for each area identified in the advice letter. We therefore direct SCE to begin Phase 1 with a thorough study of the cost-effectiveness of developing each of the renewable resource areas SCE has identified.

#### *Verification of Economic Potential*

The first step in estimating the levelized busbar cost must be a validation of the renewable resources themselves. SCE requested that the Commission take official notice of two studies – the Western Governors’ Association January 2006 report, “Clean and Diversified Energy Initiative,” and the CEC PIER April 2004 study, prepared by GeothermEx, Inc., “New Geothermal Site Identification and Qualification” – as evidence of renewable resource potential in the areas they propose to study. SCE also referenced other studies and resources, including the CEC Staff Paper, “Developing Cost-Effective Solar Resources with Electricity System Benefits In Support Of The 2005 Integrated Policy Report,” (CEC-500-2005-104, June 2005), the Arizona Department of Commerce (<http://www.azcommerce.com/energy/renewable>) and [www.energyatlas.org](http://www.energyatlas.org). SCE has not performed independent analyses of these reports, considering them to be credible. SCE proposes, however,

that "...if the Commission desires further verification, a portion of the

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<sup>4</sup> Advice 2062-E-A p. 21

funds requested herein could be devoted to validating the above-referenced governmental studies."<sup>5</sup>

We do request that SCE validate the resource in the proposed regions. We agree that the studies referenced by SCE are likely credible, but we believe them to be only the first step in validating economic resource potential. For example, SCE points out that the CEC Staff Paper found nearly 78,000 MW of economic solar capacity in San Bernardino County. SCE suggests that substantial transmission investment would be required to develop even 10% of these resources but provides no analysis as to why 10% of the potential should be developed, rather than 5% or 50%. We understand that SCE likely provided the 10% figure only as an example; our point is simply that detailed analysis must be performed to ensure that any transmission plans resulting from SCE's studies correctly value the resources in the focus areas and provide transmission to all of those areas' most economic resources. SCE may choose to rely on existing studies of wind, solar, geothermal and other renewable resource potential for the first step of this validation but must justify that choice to the Commission, providing full references and data sets to the extent possible.

#### *Total Energy Cost*

Following identification of gross economic resource potential, SCE must work to refine this analysis and estimate levelized busbar cost for the various resource classes, accounting for land use restrictions, technology (capacity, capacity factors, potential for technological improvement), project specifics (financing assumptions, capital costs, operations and maintenance, etc.), and other relevant factors. The total developable potential of each area should be categorized by resource class and distance to transmission, and levelized busbar cost should be provided for each combination (e.g. Class 4 wind, 10-15 miles from transmission: 1,000 MW, 8.0 cents/kWh).

Next, we direct SCE to estimate the levelized transmission cost for each of the resource class/transmission combinations identified above (e.g. Class 4 wind, 10-15 miles from transmission: 1.0 cents/kWh). This levelized

5 Advice 2062-E-A p. 11

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transmission cost will be combined with the levelized busbar cost to create a final overall levelized cost for each class (e.g. Class 4 wind, 10-15 miles from transmission: 9.0 cents/kWh).

### *CREZ Ranking*

Having roughly quantified the costs associated with developing and transmitting renewable energy from each of the areas identified in their AL, SCE will be in a position to make a determination as to which areas show the greatest potential benefit to California's rate-payers. We therefore direct SCE, at the conclusion of Phase 1, to submit to the Commission, the California Energy Commission, and the California ISO a ranking of proposed Competitive Renewable Energy Zones (CREZs) which it believes should be the subject of more detailed transmission planning. The top-ranked zones will, to a great extent, be those zones that show the greatest renewable potential for the smallest overall cost per MWh and greatest least cost best fit (LCBF) value. If SCE considers factors besides overall cost in constructing its ranking, it must explain and justify those factors to the Commission.

### *Stakeholder Participation*

Stakeholder input will be critical at many points of the cost effectiveness analysis described above. As SCE has stated, developer interest and expertise is a key source of information in determining which potential resources are actually developable. We therefore direct SCE to coordinate with the California ISO's transmission planning process and convene stakeholders early in Phase 1 to help develop the levelized total costs of each resource class/transmission category. These stakeholders would likely be convened by resource type, i.e. one working group focused on solar, one on wind, etc., but would also include ~~such~~ stakeholders such as the California ISO/CAISO and local, state, and federal agencies that have expertise and interest in the overall process of planning transmission for renewables.

It is critical that this process is seamless and coordinated inclusive with other transmission planning efforts already underway or proposed. One such transmission planning effort group involves the imminent formation that is imminent is the formation of a California Sub-regional planning group. . To the extent this group has been formed and meetings are ongoing, Conceptual renewable transmission project information from this process this process should be shared in California

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Sub-regional Planning group meetings for the purpose of peer review and joint project sponsorship to maximize the value of these projects for meeting the transmission needs of California and the west.

#### *Environmental Literature Review*

SCE has identified under the Preliminary Environmental Surveys that they would perform literature searches to identify potentially sensitive areas as they relate to the environment and cultural resources. The resource area stakeholder groups will help validate any findings from the literature search as well as call attention to any sensitive areas that the literature search failed to identify.

#### *Integration of Comments from Cal WEA and KWEA*

CalWEA and KWEA have provided comments regarding the renewable resource areas SCE has selected to study. Both parties highlight that SCE has not indicated it would study wind in addition to solar and geothermal. These parties provide evidence that there is a substantial amount of both wind potential and developer interest in the region, evidenced through projects in the queue or in the planning stages. Since the RPS statute is resource neutral and uses a least-cost best-fit ranking to procure renewables, SCE should also be resource neutral when evaluating renewable resource areas. Thus, when analyzing renewable resource areas, SCE should study the potential of all renewable resources in that geographic area. Similar to the RPS program, SCE must study all renewable resources, which includes wind energy.

CalWEA and KWEA also noted that Edison needs to study the corridor from Kramer Junction, to Pisgah substation, and extend eastward to Eldorado/Mohave. SCE proposed to study from Lugo to Pisgah substation, but did not indicate that they would continue studying the corridor eastward to El Dorado. We believe that CalWEA and KWEA made a reasonable justification that significant renewable resources are located east of Pisgah and direct SCE to consider the entire corridor, from Lugo and/or Kramer, to Pisgah, and then to Eldorado/Mohave.

#### *Phase 1 Reporting Requirements*

- Monthly progress reports with Energy Division through in-person or web-enabled meetings

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- Report that includes methodology, key findings, and recommendations for prioritized CREZs; also includes Phase 2 work-plan and budget

### Phase 2 - Identification of Transmission Routes

The purpose of Phase 2 is to identify preliminary transmission routes through field surveys and stakeholder consultations. SCE is authorized to record up to \$4,500,000 only after Energy Division staff has reviewed the Phase 1 report, agrees with the recommendations, and receives a detailed work plan and budget of the costs for the Phase 2 studies. Energy Division staff will have up to two weeks to review SCE's Phase 1 report and make a decision regarding Phase 2. SCE will receive a letter from director of the Energy Division within 30 days after the Phase 1 report is received determining if SCE can continue the Phase 2 renewable transmission feasibility studies.

Once Energy Division staff authorizes SCE to record costs for Phase 2, SCE will have 8 months time to complete the Phase 2 tasks. We understand that certain environmental studies must occur in a specific season, such as the spring bloom studies. We believe that SCE should be able to complete the spring bloom studies within the given timeframe, but will work with SCE if this proposed schedule does not coincide with season-specific studies.

SCE is directed again to convene stakeholder groups during Phase 2, but by CREZ rather than resource type, so that preliminary transmission plans may benefit from the expertise and viewpoints of all stakeholders. These stakeholder groups would likely have more broad membership than those convened in Phase 1, and would include project developers; other utilities; environmental stakeholders; landowners; State and National Parks Service; the Bureau of Land Management; the U.S. Forest Service; the U.S. military; and other local agencies that permit renewable facilities.

Participation of the California ~~Independent System Operator (CAISO)~~ is also crucial at this juncture. The CAISO's leadership proved critical in developing a plan-of-service for Tehachapi. We believe that their leadership will be critical again, and that their participation should be sought from the onset. Thus, we direct SCE to work with all stakeholders, but to specifically work with the CAISO to identify key issues, including a preliminary indication of the need for new transmission and interconnection ~~facilities upgrades and transmission permitting show-stoppers.~~

Once Phase 2 is complete or by 8 months time, SCE is ordered to submit a second report to the Energy Division detailing the results of the studies, the preliminary transmission routes, and the costs associated with developing each route. SCE will receive a letter from director of the Energy Division within 30 days after the Phase 2 report is received determining if SCE can continue the Phase 3 renewable transmission feasibility studies.

#### *Reporting Requirements*

- Monthly progress reports with Energy Division through in-person or web-enabled meetings
- Report that includes methodology, key findings, and recommended transmission routes; also includes next steps for Phase 3.

#### Phase 3 - Development and Filing of Plan-of-Service

Phase 3 applies to those resource areas that require associated transmission upgrades or application of new provisions of the California ISO's tariff being developed pursuant to the multi-user trunkline Petition for Declaratory Order approved by FERC on April 19, 2007 (Docket EL07-33-000) . It is here that the intersection occurs with the California ISO's process for studying transmission options and arriving at a plan of service for the renewable resource area, taking into account the route(s) identified by SCE during Phase 2. ~~If the Energy Division approves SCE's Phase 2 findings and recommendations, then SCE should design the route for a specific renewable transmission project. We believe that once SCE has completed the feasibility studies, they will have enough information to select transmission routes and work with the CAISO and stakeholders to develop a specific plan of service within the route(s) identified during Phase 2.~~

Once the California ISO completes its stakeholder process and approves a transmission project(s), plan of service, ~~Following completion of those plans, we suggest an open season process during which developers would signal their intent to use the proposed line by providing a deposit in proportion to the amount of capacity that they expected to deliver via the line. Once the minimum threshold of committed megawatts is reached (as determined based on the cost effectiveness analysis),~~ SCE will submit a CPCN or PTC application to the CPUC. SCE is directed to work collaboratively with the California AISO and other stakeholders toward the development and ultimate FERC approval of a revision of the California AISO tariff provisions

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addressing implementation of a multi-user trunkline and additional changes to. This revision would explicitly allow for the clustering of interconnection requests, in a manner that is consistent with the open season concept endorsed in this Resolution.~~

### **Cost Recovery Mechanism**

#### Overview

SCE is seeking authorization to record study costs of up to \$6 million in the Renewable Transmission Feasibility Study Costs Memorandum Account. SCE indicated that costs for similar work are normally recovered through the General Rate Case (GRC), in that they are reflected in SCE's revenue requirement request. SCE states that the circumstances that made these feasibility studies necessary arose after SCE's 2006 GRC was concluded, and therefore SCE was not able to include the estimated costs of these studies in its forecast of expenses in the 2006 GRC application.

As a result, SCE is requesting authorization to establish a memorandum account to track the costs in order to seek recovery from customers at a later

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date. In order for SCE to recover these costs from customers, SCE would include these costs in its annual ERRA Reasonableness proceeding for Commission review. In that reasonableness application, SCE would be required to show that the amounts were spent on activities described in their advice letter filing and are incremental (i.e., these feasibility costs were not recovered through some other authorized revenue requirement).

#### Rationale for cost-recovery through the GRC and not the ERRA

SCE has requested that all study costs be reviewed in the ERRA. In the proceeding leading up to D.06-06-034, SCE also requested that transmission costs related to 399.25 backstop cost-recovery be reviewed in the ERRA. D.06-06-034<sup>6</sup> determined that "Review or audit of the costs should occur in the utility's GRC, not the ERRA. The ERRA proceedings are intended as a six-month forecast of energy-related and procurement expenses, and are not suitable for review of or setting revenue requirements for transmission costs."

SCE had again requested cost-recovery through the ERRA in its request for a Certificate of Public Convenience and Necessity Concerning the Antelope-Pardee Project. In D.07-03-012, the Commission again rejected SCE's request to recover costs through the ERRA and directed them to seek recovery through the GRC:

The issues between SCE and DRA regarding use of the ERRA proceeding to audit accounts and to move costs from the memorandum account to a balancing account were appropriately resolved in D.06-06-034, which concluded that, to the extent applicable, review or audit of costs should occur in the utility's rate case, and not in the ERRA. Until that time, the costs should remain in the memorandum account. We affirm that determination here.<sup>7</sup>

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<sup>6</sup> See D.06-06-034, *mimeo.* at p. 32

<sup>7</sup> See D.07-03-012, *mimeo.* at p. 89

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As in D.07-03-012, we affirm the determination in D.06-06-034, that the ERRA is not the appropriate vehicle to review transmission costs, and direct SCE to seek cost-recovery in the GRC, and not the ERRA.

#### Description of cost recovery for each phase

##### *Phase 1: Cost-recovery through CPUC*

Since the focus of Phase 1 is the cost-effectiveness analysis and the stakeholder process, cost-recovery through CPUC jurisdictional rates is reasonable. The focus of these studies is to validate the economic renewable resource for procurement purposes and then to study the preliminary economic feasibility of accessing these resources through new transmission routes or upgrades to the current transmission system. Since the purpose of accessing these renewable resource areas is to comply with the RPS goals and procure new renewable resources, SCE shall seek cost-recovery at the CPUC for Phase 1 costs

##### *Phase 2: Explore possibility of cost-recovery through FERC*

For Phase 2, cost-recovery at the CPUC is less clear. If the purpose of the Phase 2 studies is to identify preliminary transmission paths and upgrades taking into account biological and cultural surveys, it seems plausible that these costs would fall under FERC's jurisdiction and that FERC would allow recovery of these costs through a general planning fund within the FERC transmission owner rate case process.

Thus, recovery of some, or perhaps a substantial portion of Phase 2 costs, to the extent they may concern FERC jurisdictional transmission planning activities and may subsequently lead to specific projects, shall be sought through FERC jurisdictional rates. We understand that SCE is filing their 2008 rate case at FERC this summer, and hope that they will be far enough along in Phase 1 to determine the appropriate allocation to FERC jurisdictional versus CPUC jurisdictional rates for Phase 2 expenses.

#### SCE required to file compliance advice letter

We direct SCE to file, within 20 days of the effective date of this Resolution, a compliance advice letter describing how SCE will implement the new Renewable Transmission Feasibility Study Costs Memorandum Account, subject to Energy Division determining that the revised tariffs are in

COMPLIANCE WITH THIS ORDER

compliance with this order. Further, we direct SCE to include with this filing a work-plan detailing activities, budget, timelines, etc. for the Phase 1 studies approved herein. The compliance advice letter shall be served on the service list for R.06-05-027, R.06-02-012.

#### PG&E's comments are beyond the scope of the Resolution

Because we find that SCE's request is justified based on Commission precedent other than §399.25 authority, as described above, we do not address PG&E's comments regarding the scope of D.06-06-034 in this Resolution.

#### **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311 (g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

#### **FINDINGS**

1. SCE filed Advice Letter 2062-E on November 22, 2006, and Advice Letter 2062-E-A on April 2, 2006, requesting Commission approval to establish new Renewable Transmission Feasibility Study Costs Memorandum Account to record costs related to renewable transmission feasibility studies.
2. There are potentially viable renewable resources in Western Nevada, Inyo and Eastern San Bernardino Counties, the Salton Sea Area in California and Western Arizona that may be available for SCE to develop or acquire.
3. The cost for a feasibility study on renewable resources from these areas is not within SCE's existing funding to procure renewable resources and

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is incremental to potential in-state renewable resources currently subject to review and consideration in other proceedings.

4. The adopted transmission feasibility studies, as modified, are entirely supplemental and do not otherwise affect the existing renewable resource procurement processes.
5. Transmission study costs are generally reviewed in SCE's General Rate Case.
6. We reject without prejudice PG&E's comments.

### **CONCLUSIONS OF LAW**

1. SCE made a reasonable case that there is sufficient Commission precedent to authorize establishment of a memorandum account to record costs associated with renewable transmission feasibility studies, given that it may lead to a specific transmission project.
2. SCE met its burden of proof to proceed with the renewable transmission feasibility studies as modified and adopted herein.
3. It is reasonable to authorize SCE authority to record up to \$6 million to prepare renewable transmission feasibility studies, as modified.
4. No party, including SCE, should rely or cite to this study as a viable resource option, or use it as a justification to defer or distract our pursuit of economic and viable renewable resources or transmission projects in our other forums, until such time as SCE has a viable renewable transmission proposal (in the form of a project or contract) to propose in a timely fashion under the then current regulatory regime for renewable energy and procurement.
5. A renewable transmission memorandum account will allow SCE an opportunity to seek recovery of the renewable transmission feasibility studies as a part of its General Rate Case.
6. Any transactions or project investments that result from the study meet the then-applicable RPS eligibility criteria and conform to existing law, including Pub. Resources Code § 25741.

### **THEREFORE IT IS ORDERED THAT:**

1. Advice Letter 2062-E-A is approved with modifications.
2. SCE shall record the study costs in a new Renewable Transmission Feasibility Study Costs Memorandum Account and may seek recovery of the costs in a subsequent General Rate Case.

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3. SCE shall submit a report upon completion of Phase 1 that includes a list of ranked Competitive Renewable Energy Zones (CREZs) and a detailed budget of proposed studies for Phase 2. Upon completion of Phase 2, SCE shall submit a second report that details the results of the studies and identifies routes to access the prioritized CREZs. These reports shall be submitted to the Commission's Energy Division within eight months after the onset of each phase.
4. SCE shall continue to vigorously pursue all pending and future resource procurement and renewable resource-related activities without regard to these studies.
5. SCE shall make a separate filing for authority to pursue any transaction or project derived from these studies, consistent with all then-applicable requirements.
6. Within 20 days of the effective date of this Resolution, SCE shall file a compliance advice letter with the Commission's Energy Division, which shall describe how SCE will implement the new Renewable Transmission Feasibility Study Costs Memorandum Account, subject to Energy Division determining that the revised tariffs are in compliance with this order. Within the compliance advice letter, SCE shall include a Phase 1 work-plan and budget. The compliance advice letter shall be served on the service list for this proceeding.
7. This Resolution is effective today.

Dated June 7, 2007, at San Francisco, California.

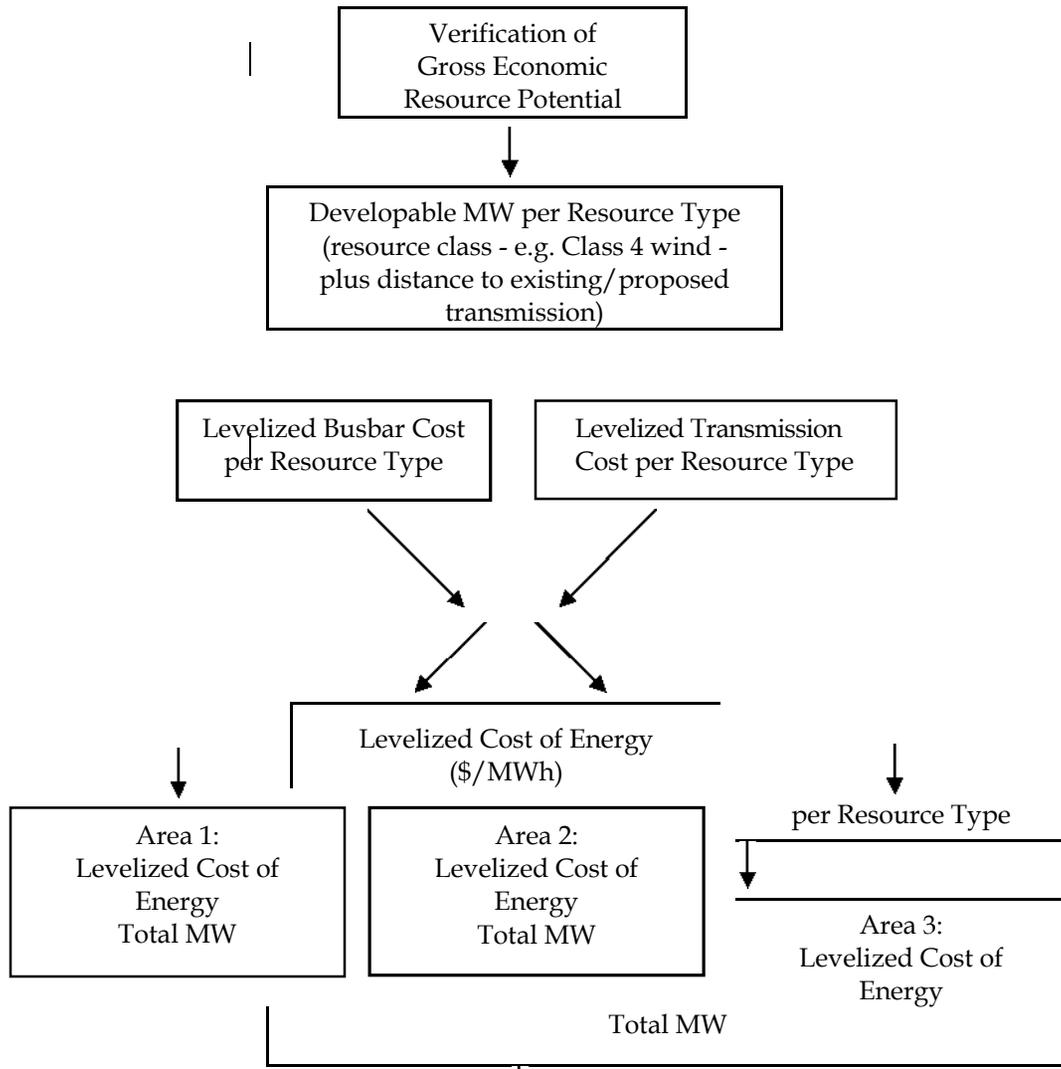
I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 7, 2007; the following Commissioners voting favorably thereon:

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Paul Clanon  
Executive Director

Attachment A: Phase 1 and 2 Implementation Steps and Milestones

**Phase 1**

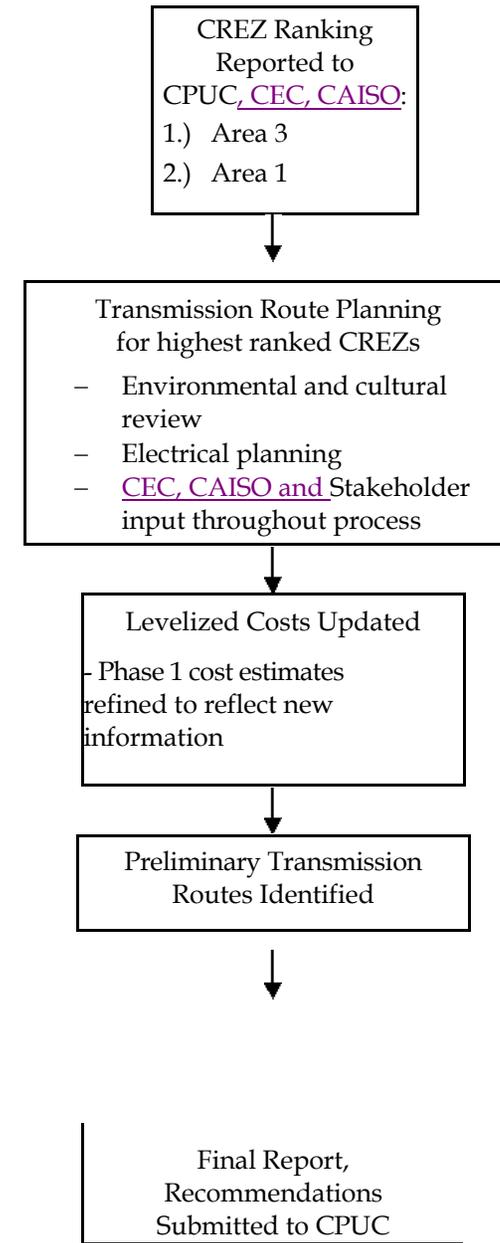


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CREZ Ranking Reported to CPUC:  
1.) Area 3

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**Phase 2**



Final Report, Recommendations Submitted to CPUC

