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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-4602**
February 5, 2014

R E S O L U T I O N

Southern California Edison Company (SCE) seeks approval of the California Public Utilities Commission (CPUC or Commission) to revise the cost cap for its California portion of the Devers Palo Verde No. 2 Transmission Line Project, now referred to as Devers Colorado River Transmission Line Project (DCR), from $545.3 million (2005$) to $944.8 million (2012$).

PROPOSED OUTCOME: This Resolution revises the cost cap for Devers Colorado River Transmission Line from $545.3 million (2005$) to $840 million (2012$).

SAFETY CONSIDERATIONS: This resolution does not approve any changes to the construction or operations of transmission facilities, and only revises the cost cap. The revision to the cost cap is not likely to result in any adverse safety impacts on the facilities or construction operations of the DCR transmission line since SCE is required to comply with all the applicable CPUC rules, local, state and federal safety requirements.

ESTIMATED COST: Aside from the costs described in the Proposed Outcome above, the actual amount ratepayers will pay in their rates depends on what the Federal Energy Regulatory Commission (FERC) authorizes because transmission rates are FERC jurisdictional.

By Advice Letter 2804-E filed on November 2, 2012.

SUMMARY

On November 2, 2012 Southern California Edison (SCE) filed Advice Letter 2804-E requesting the California Public Utilities Commission (CPUC or Commission) revise the authorized cost cap for its California portion of Devers Palo Verde No. 2, now referred to as Devers Colorado River Transmission Line Project (DCR). SCE is requesting to increase the cost cap from $545.3 million (2005$) to $944.8 million (2012$). The DPV2 project as originally approved by the CPUC on January 25, 2007 in D.07-01-040[1] was for a 500 kV overhead inter-state Transmission Line Project across Arizona and California. However, in June 2007 the Arizona Commerce Commission (ACC) denied SCE's request to construct the line in Arizona. After ACC's denial, SCE filed a Petition for Modification (PFM) requesting that the CPUC authorize construction of only the California portion of DPV2. The CPUC approved SCE's PFM on November 20, 2009 in D.09-11-007. In that decision, the Commission retained the earlier authorization in D.07-01-040 allowing SCE to seek an increase in the approved maximum cost pursuant to § 1005.5, subdivision (b) through the advice letter process.[2] According to SCE, its revised cost estimate has increased from $545.3 million (2005$), adopted in D.07-01-040 to $944.8 million (2012$). This Resolution revises the cost cap for DCR Transmission Line from $545.3 million (2005$) to $840 million (2012$).

BACKGROUND

On April 11, 2005 Southern California Edison (SCE) submitted an application for Certificate of Public Convenience and Necessity (CPCN) at the CPUC for a 500 kV interstate Transmission Line Project (Devers-Palo Verde No. 2) across Arizona and California.

On January 25, 2007 the CPUC issued D.07-01-040, which granted SCE the CPCN for the inter-state transmission line between California and Arizona on the basis

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[1] The Decision approved an application (A.05-04-015) filed by SCE for a Certificate of Public Convenience and Necessity (CPCN) for the construction of DPV2.

[2] D.07-01-040, Ordering Paragraph 12: "If SCE's final detailed engineering design-based construction estimate for the authorized project exceeds the authorized maximum cost, SCE shall, within 30 days, file an advice letter to seek an increase in the approved maximum cost pursuant to § 1005.5(b), and shall address whether the cost increases affect the cost effectiveness and need for the DPV2 project."

of the economic benefits of the project. DPV2 was originally comprised of two major transmission lines, a 42-mile transmission line that was intrastate and a 230-mile transmission line that was interstate.[3] The Commission approved a cost cap of $545.3 million (2005$). The Commission allowed SCE to file an advice letter if the cost estimates changed based on a final detailed engineering design-based construction estimate for the final route. The project was conditional upon the Arizona Commerce Commission (ACC) granting permission to construct the Arizona portion of the project.

In June 2007 the Arizona Commerce Commission (ACC) denied SCE's request to construct the transmission project in Arizona. On May 14, 2008, following ACC's denial, SCE filed a Petition for Modification (PFM) with the Commission, seeking approval to construct a California-only transmission project.

On May 14, 2008 following ACC's denial, SCE filed a Petition for Modification (PFM) of D.07-01-040 seeking approval to construct a California-only transmission project. With the elimination of the Arizona portion of the transmission line, the revised project scope focused on connecting renewable energy resources such as solar power projects in the Blythe area to the electricity grid. The project modification resulted in a revised construction plan, which expanded the Midpoint Substation and has since been renamed as the Colorado River Substation (CRS). The expansion allows the required space for generation tie lines to be interconnected with SCE's 500 kV transmission system.

On July 17, 2008 CPUC directed SCE to amend its PFM to provide additional information demonstrating that construction of the California portion of DPV2 would serve the public interest. In response, SCE submitted an Amendment to the PFM on September 2, 2008 and a further Supplement on September 12, 2008 providing additional information regarding the renewable resources in the

[3] The intrastate portion was a 42-mile transmission line known as the "Devers-Valley No. 2" transmission line. This would be a second 500 kilovolt (kV) transmission line between SCE's Devers substation in North Palm Springs, Riverside County, and SCE's Valley substation in the unincorporated portion of Riverside County. The interstate line was an approximate 230-mile 500 kV line known as the "Devers Harquahala" transmission line, which would connect Devers substation in California to a location in Arizona near the Palo Verde Nuclear Generating Plant.

Blythe area, as well as updated information regarding the costs and benefits of the Project.

On May 18, 2009 SCE withdrew its pre-filing request (PT08-1-000) for construction authority from the FERC. SCE concluded that it would not continue to pursue construction of the Arizona portion of the DPV2 project.

On June 3, 2009 the CPUC directed that SCE further supplement the PFM regarding: (1) the current status of the California-only Project, including any changes to cost estimates, applications before other agencies and the California Independent System Operator (CAISO), power purchase agreements between SCE and generation developers served by the Project, projections of renewable energy resources identified by the Renewable Energy Transmission Initiative (RETI), and any other relevant information; (2) information regarding the status of the CAISO's approval of the California-only Project; and (3) information regarding the status of the Blythe Energy Project Phases I and II generation facilities.

On June 26, 2009 SCE filed the supplemental information. SCE did not provide a new estimate for environmental mitigation requirements or revise previous estimates, but escalated costs authorized in D.07-01-040 to 2009 dollars. SCE instead requested that the maximum cost adopted in D.07-01-040 not be modified until the final route was known and final engineering-based cost estimate had been completed. SCE included a letter from CAISO that suggested the California portion of the project would continue to provide operational and reliability benefits, and confirmed that the CAISO had identified the anticipated need for the project to interconnect new generation. The CAISO concluded that it would agree to construction of the California portion of the project, should certain specified requirements be met.

On November 20, 2009 in D.09-11-004 the Commission granted SCE's request to build the California-only Project, but conditioned start of construction upon CAISO approval. On August 5, 2010 the CAISO sent a letter to the Commission indicating that SCE could proceed with the construction, and on August 9, 2010 the Commission formally authorized SCE to commence construction. SCE did not file updated cost estimates and D.09-11-007 did not modify the original cost cap of $545.3 million (2005$). However, the Commission retained SCE's authorization to file an advice letter within 30 days of the availability of final

design estimates so that the Commission can reconsider the appropriate maximum cost for the project.

After the ACC denied SCE's request to construct in Arizona, the California only project was modified to support and integrate new conventional and renewable electric generation resources.

The modified project, referred to as Devers Colorado River (DCR) Transmission Project, included:
(1) The elimination of approximately 72 miles of 500 kV transmission line located in Arizona;

(2) The elimination of approximately 15 miles of 500 kV transmission line proposed in California;

(3) The elimination of facilities associated with the then proposed Harquahala Switchyard;

(4) The elimination of shunt capacitors and static variable compensators at the Devers Substation;

(5) The addition of the Colorado River Switchyard;

(6) The elimination of the planned Arizona series capacitor, and

(7) The upgrade to the planned California series capacitor needed to increase the current carrying capacity of the transmission line.

The DCR Transmission Project includes construction of a 110-mile 500 kV transmission line, a 42-mile 500 kV transmission line and a 500 kV Switchyard:

The major components of Devers Colorado River Transmission Project include:

1. Construction of a new 110-mile 500 kV transmission line between SCE's Devers Substation near Palm Springs and the new Colorado River Switchyard, paralleling the existing Devers-Palo Verde No. 1 (DPV1) transmission line.
2. Construction of a 42-mile 500 kV transmission line between Devers Substation and SCE's Valley Substation in Menifee. The line would be parallel to the existing Devers-Valley transmission line.
3. Construction of a 500 kV Colorado River Switchyard near Blythe.
4. A 500 kV series capacitor adjacent to the existing DPV1 series capacitor, and substation upgrades at the Devers and Valley Substations.

The DCR Transmission Project resulted in the expansion of the Colorado River Switchyard to a 500/220 kV substation and subsequently costs were assigned and allocated between the DCR Project, Colorado River Substation Expansion (CRSE) facilities and interconnecting generators.

As additional renewable generators sought interconnection to the SCE system, planning studies by SCE and the CAISO concluded that the Midpoint Switchyard, which had been renamed to Colorado River Switchyard, should be expanded to facilitate interconnection requests. SCE filed a Permit to Construct Application on November 3, 2010 to expand the Colorado River Switchyard to a 500/220 kV substation. With a change in scope and the expansion of a switchyard to substation, the Commission undertook supplemental environmental analysis. The result of the environmental analysis was a change in location of the substation to avoid a sand transport corridor to minimize impacts to the Mojave Fringe-Toed Lizard, which has been designated as a Bureau of Land Management's (BLM) Sensitive species and a California Department of Fish and Game's Species of Special Concern.

SCE is constructing Colorado River Substation (CRS) as one facility, allocating costs of substation between DCR, CRSE and interconnecting generators. Allocation Methodology is explained in detail in Appendix D to the Advice Letter.

SCE also filed with the FERC an Offer of Settlement on July 2, 2012, in Docket No. ER12-239, to recover costs related to the abandoned project in Arizona.

The settlement was approved by the FERC on August 30, 2012, allowing SCE to recover from California ratepayers $11.028 million of abandoned plant costs, to be amortized over one year, through Formula Rate in FERC Docket No. ER11-3697.

Here, the Commission considers SCE's November 2, 2012 Advice Letter E-2804 in which it is seeking to revise the cost cap from $545.3 million (2005$) to $944.80 million (2012$).

On November 2, 2012 SCE filed advice letter E-2804 in which it is seeking to revise the cost cap for DCR. SCE's proposed revised cost cap is 73% over its originally approved cost cap. SCE arrives at the new cap by first revising its 2005

dollar cost estimates and then escalating the revised cost to account for inflation from 2005 to 2012 constant dollars. The revised cost estimate is broken down as:

a. Increasing the original cost estimate of $545.3 million (2005$) to $701 million (2005$), which is a 29% increase over the original estimate, and

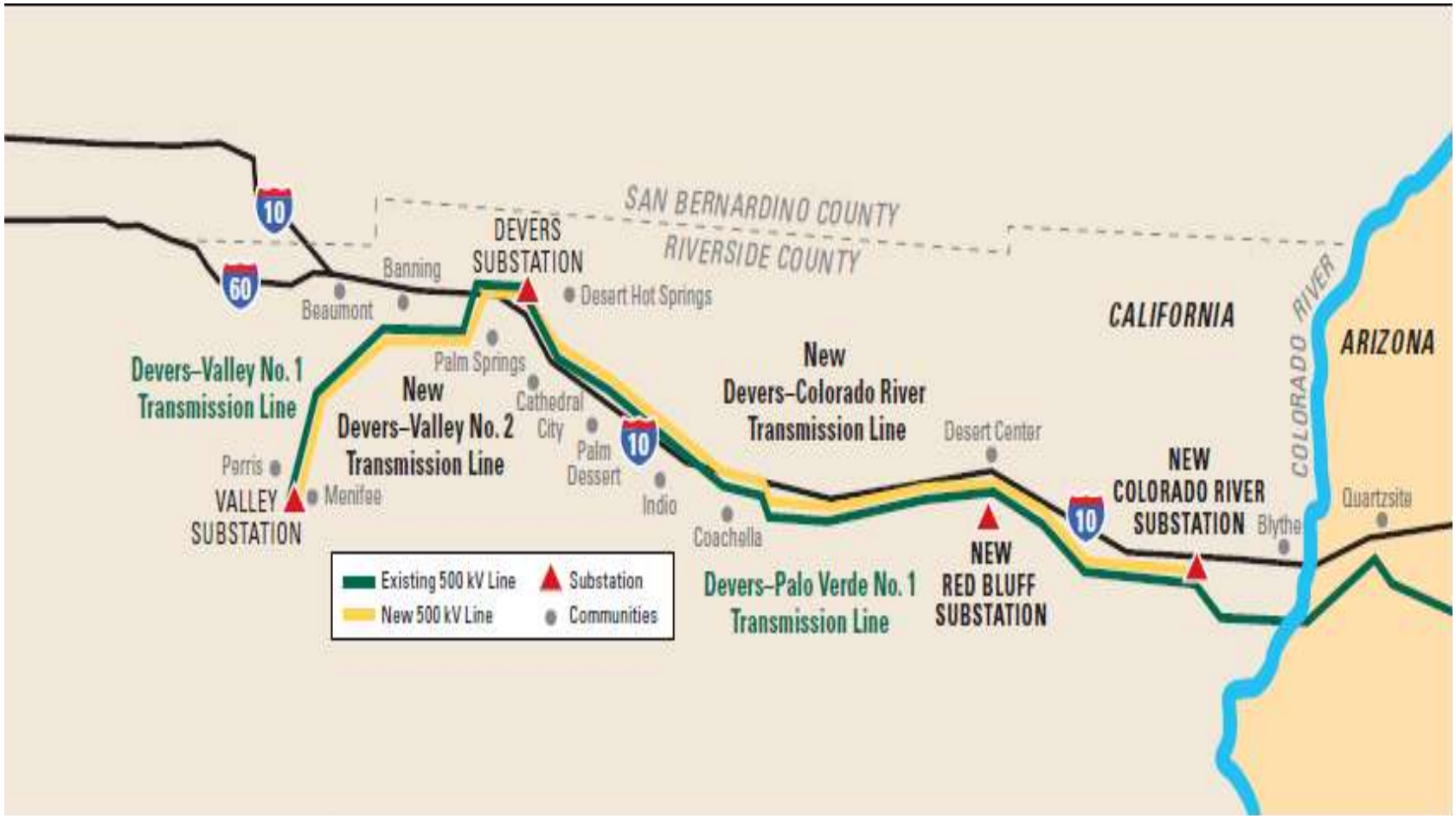
b. Escalating $701 million to adjust for inflation, which increases the revised cost cap by 35% to $944 million in 2012 dollars.

Table 1 shows the original cost cap approved in D.07-01-040 and SCE's revised cost cap estimates submitted in this AL 2804-E.

Table 1

Category	A. Approved Cost cap per D.07-01-040	B. Approved Cost Cap inflation adjusted	C. Revised Cost Cap with increases	D. Revised Cost Cap with increases and inflation per AL 2804-E
Financial year:	Millions (2005$)	Millions (2012$)	Millions (2005$)	Millions (2012$)
Preliminary Engineering & Licensing	$11.7	$15.7	$25.9	$34.8
Bulk Transmission	$255.5	$344.1	$333.3	$449.1
Environmental Mitigation & Monitoring	$0.0	$0.0	$81.2	$109.4
Substation	$156.3	$210.5	$120.4	$162.1
Land	$7.0	$9.4	$3.2	$4.3
Telecommunications	$9.8	$13.1	$4.4	$5.9
Distribution	$0.0	$0.0	$0.6	$0.8
Total Direct Costs:	$440.2	$593.0	$569.0	$766.5
Contingency	$63.0	$84.8	$85.3	$115.0
Total Direct Cost with Contingency:	$503.2	$677.8	$654.3	$881.5
Corporate Overheads	$42.1	$56.7	$47.0	$63.3
Total:	$545.3	$734.6	$701.3	$944.8

Map illustrating the Devers Colorado River Transmission line route.



SCE's Revised Cost Estimates by Project Categories

Preliminary Engineering and Licensing: SCE is requesting $34.8 million. The cost estimate has increased by 121% from $11.7 million (2005$) to $25.9 million (2005$). SCE is escalating the increased cost estimate in 2005 dollars by 35% to account for inflation which brings the updated cost to $34.8 million (2012$).

Category	A. Approved Cost Cap per D.07-01-040	B. Approved Cost Cap inflation adjusted	C. Revised Cost Cap with increases	D. Revised Cost Cap with increases and inflation per AL 2804-E
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Preliminary Engineering & Licensing	$11.70	$15.70	$25.90	$34.80

SCE states that cost increases in this category are due to Project changes that resulted in alternatives studies for a California only project and also because of locational change for the Colorado River substation to accommodate concerns related to the Mojave Fringe-Toed lizard. Costs included in this category include costs of developing the Project, such as project licensing filings for the CPCN Application and consultant costs hired by the CPUC, BLM and the United States Fish & Wildlife Service (USFWS) for work on the licensing filings. SCE asserts all activities in this category have been completed, and there are no additional cost increase forecasts in this area.

The total costs can be divided into the following subcategories:

1. Preliminary Engineering and Design costs at $12.8 million (2012$) for the development of project design criteria, the scope of work, technical specifications and studies, and other engineering activities;
2. Environmental Costs at $7.0 million (2012$) for research, surveys, studies, and reports to document existing environmental conditions and regulations;
3. Project Management and Support costs at $10.0 million (2012$) for SCE 's own as well as contract resources hired by SCE to manage and control the project, and provide the information needed for the licensing and CPCN permitting activities; and

4. Agency Costs: $5.0 million (2012$) in reimbursement for the costs incurred by the CPUC, BLM and USFWS to approve the licensing and permit applications. These costs include both agency staff and consultant costs.

Bulk Transmission: SCE is requesting $449.1 million. The cost estimate has increased by 30% from $255.5 million (2005$) to $333.3 million (2005$). SCE is escalating the revised cost estimate of $333.3 million (2005$) by 35% to account for inflation from 2005 to 2012 which brings the updated cost to $449.1 million (2012$).

Category	A. Approved Cost Cap per D.07-01-040	B. Approved Cost Cap inflation adjusted	C. Revised Cost Cap with increases	D. Revised Cost Cap with increases and inflation per AL 2804-E
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Bulk Transmission	$255.50	$344.16	$333.30	$449.10

The Bulk Transmission category involves the construction of 500 kV line from Valley to Devers and the 500 kV line from Devers to the Colorado River Substation, which has been contracted to a construction firm (PAR Electrical Contractors). It includes costs of looping and relocating the existing DPV1 500 kV line into the Colorado River Substation, costs of material yards and handling of transmission line equipment, conductor pull sites, construction support and costs of Owners Engineer.

SCE states that the primary cause of higher construction costs is environmental compliance and mitigation requirements. In their bid specification for the contractors SCE provided detailed information regarding likely compliance requirements. The contract was designed to assign much of the cost of construction-related risk due to environmental and permit compliance to the contractor. As a result, SCE states that the contractor now absorbs the construction-related risks associated with environmental and permit compliance which may be a major driver for the higher estimated construction costs.

Other major differences from the CPCN estimate to this update include elimination of the 500 kV transmission line segment from the Colorado River to

Harquahala Switchyard, increases in the material costs, and increases in the number of material yards needed.

Environmental Mitigation and Monitoring: SCE is requesting $109.4 million. SCE did not provide a separate line item cost estimate for the environmental compliance requirements as part of its DPV2 CPCN Application (A.05-04-015) in 2005.

Category	A. Approved Cost Cap per D.07-01-040	B. Approved Cost Cap inflation adjusted	C. Revised Cost Cap with increases	D. Revised Cost Cap with increases and inflation per AL 2804-E
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Environmental Mitigation & Monitoring	$0.00	$0.00	$81.20	$109.40

In the CPCN proceeding, SCE stated that it did not include additional costs arising due to mitigation measures, and requested that it be allowed to update the Commission on additional costs via an advice letter.[4] The Commission in D.07-01-040[5] agreed to SCE's request.

This category includes the costs of land mitigation, the cost of monitors required by the Federal Environmental Impact Report (FEIR) and other federal and state permits, cost of preparing post-CPCN environmental documents and reports such as mitigation plans, variances, notices to proceed requests and temporary extra workspace requests, the cost of NOx emission credits, the cost of geographic information system (GIS) support and the staff needed to support environmental compliance. SCE has stated that for this project they have used a combination of employees, direct contractors and consultants to staff environmental compliance.

A more detailed breakdown of the cost estimates per sub categories is as follows:

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[4] Id. at 19 ("For example, if the Bureau of Land Management ("BLM") or the Commission imposes mitigation measures, the Commission should address an increase in the cost cap pursuant to Pub. Util. Code Section 1005.5 (b).").

[5] D.07-10-040, Ordering Paragraph 12.

1. *Field Activities and Reporting Cost Estimate ($73 million in 2012$):* It includes costs related to biological, archaeological and environmental field activities and reporting. Costs for site restoration, CPUC/Aspen (CPUC's Consultant) monitoring costs and San Bernardino National Forest monitoring costs are also included in this category.
2. *Land Mitigation Cost Estimate ($12.9 million in 2012$):* It includes costs to purchase approximately 1,891 acres for desert tortoise, fringe-toed lizard, and milk-vetch habitat, as well as other costs such as contributions to the National Fish and Wildlife Foundation and the California Department of Parks and Recreation.
3. *Environmental Compliance Documents Cost Estimate ($7.1 million in 2012$)*: It includes cost of developing environmental compliance documents such as mitigation plans, notice to proceed requests, authorizations to proceed, permits, variances, temporary extra workspaces, addendums and other regulatory compliance reports.
4. *Environmental Coordination and Management Cost Estimate ($16.4 million in 2012$):* This includes environmental coordination and management, geographic information system support, contract and construction specifications and procedures, document tracking tools, material, and direct allocation costs.

Substation: SCE is requesting $162.1 million. SCE has decreased its cost estimates for this category by 23% from $156.3 million (2005$) to $120.4 million (2005$). Escalating the revised $120.4 million (2005$) estimate by 35% to account for inflation brings the updated cost to $162.1 million (2012$).

Category	**A. Approved Cost cap per D.07-01-040**	**B. Approved Cost Cap inflation adjusted**	**C. Revised Cost Cap with increases**	**D.Revised Cost Cap with increases and inflation per AL 2804-E**
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Substation	$156.30	$210.55	$120.40	$162.10

A major reason for the reduction in the cost estimates for the Substation category is the elimination of construction related to the Arizona portion of the project. However, due to a modified Project Scope there have been few changes in the

existing substation structures, which have added to cost estimates. The costs in the Substation category include the modification and additions to the Devers and Valley Substations, the cost of the new Colorado River Switchyard, and the costs of the new series capacitor.

Major contributors to the cost increases include the need to redo the engineering and design for the substation associated with the decision to move the location of the substation 4,000 feet to the southeast to avoid the sand transport area affecting the Mojave Fringe-Toed lizard. Another major component of the cost increase is the need to increase the series capacitor amperage to 3,800 amps from 2700 amps because the power delivery requirement from queued renewable energy now exceeds the amount of generation that would have been imported over DPV2. During the engineering project development phase it was determined that this increase in power delivery required reassessing the amperage of California series capacitors on the Devers Colorado River line.

Land: SCE is requesting $4.3 million. SCE has reduced its cost estimate by 55% from $7 million (2005$) to $3.2 million (2005$). Escalating the revised $3.2 million (2005$) estimate by 35% to account for inflation brings the updated cost to $4.3 million (2012$).

Category	**A. Approved Cost cap per D.07-01-040**	**B. Approved Cost Cap inflation adjusted**	**C. Revised Cost Cap with increases**	**D. Revised Cost Cap with increases and inflation per AL 2804-E**
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Land	$7.00	$9.48	$3.20	$4.30

The cost reduction is due to the elimination of the Arizona portion of the project in the current estimate. The costs in this section include the real estate acquisition for transmission, cost of telecommunication and switchyard facilities. The estimates also include costs related to activities such as real estate surveys, title search, escrow services, condemnation and SCE labor to support these activities. SCE has spent approximately $3.7 million (2012$) through June 2012, which is approximately 86 percent of the estimated costs for this category.

Telecommunications: SCE is requesting $5.9 million. SCE has reduced this cost estimate by 55% from $9.8 million to $4.4 million in 2005 dollars. Escalating the revised $4.4 million (2005$) estimate by 35% to account for inflation brings the updated cost to $5.9 million (2012$).

Category	A. Approved Cost cap per D.07-01-040	B. Approved Cost Cap inflation adjusted	C. Revised Cost Cap with increases	D. Revised Cost Cap with increases and inflation per AL 2804-E
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Telecommunications	$9.80	$13.15	$4.40	$5.90

Similar to the Land category, the scope of telecommunication work has been reduced due to the elimination of Arizona scope. The scope of telecommunications work is directly influenced by the scope of transmission and substation work. The costs include engineering, materials and construction of the planned telecommunications equipment at various locations.

SCE has spent approximately $1.9 million through June 2012, or approximately 32 percent of the estimated costs for this category.

Distribution: The original cost estimates did not have Distribution related costs. However, with a change in project scope, SCE is requesting $0.6 million (2005$). Escalating the revised $0.6 million (2005$) estimate by 35% brings the updated cost to $0.8 million (2012$).

Category	A. Approved Cost cap per D.07-01-040	B. Approved Cost Cap inflation adjusted	C. Revised Cost Cap with increases	D.Revised Cost Cap with increases and inflation per AL 2804-E
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Distribution	$0.00	$0.00	$0.60	$0.80

The costs in the Distribution category are for a new 33 kV line extension and the relocation of existing distribution lines. The new distribution line extension from the existing 33 kV Chanslor circuit to the Colorado River Switchyard facility is approximately 2 miles in length and will provide station light and power. SCE has spent approximately $520,000 through June 2012, or approximately 65 percent of the estimated costs for this category. The recorded costs represent a portion of the distribution line extension construction and related engineering,

material and support activities. The remaining costs were estimated based upon the distribution line relocation near the series capacitor site, completion of the remaining line extension construction, and completion of distribution facilities which can only be completed after installation of the Mechanical Electrical Equipment Room at the Colorado River Switchyard.

Contingency: SCE is requesting a 15% contingency adder over its direct cost estimates excluding corporate overhead cost.

Category	**A. Approved Cost cap per D.07-01-040**	**B. Approved Cost Cap inflation adjusted**	**C. Revised Cost Cap with increases**	**D. Revised Cost Cap with increases and inflation per AL 2804-E**
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Contingency	$63.00	$84.82	$85.30	$115.00

SCE is requesting a 15% contingency adder over its Direct Cost estimates. The approved cost cap in D.07-01-040 included $63 million (2005$) of Contingency costs. Because contingency costs are calculated as a percentage of the total direct costs, upward revision in these costs result in a higher contingency cost estimate. SCE first revised contingency costs from $63 million (2005$) to $85 million (2005$) and then escalated the revised $85 million (2005$) estimate by 35% to account for inflation which brings the updated contingency cost to $115 million (2012$).

Corporate Overheads: SCE has increased its estimate for this category from $42 million (2005$) to $47 million (2005$). Escalating the revised $47 million (2005$) by 35% brings the updated cost to $63.3 million (2012$).

Category	**A. Approved Cost cap per D.07-01-040**	**B. Approved Cost Cap inflation adjusted**	**C. Revised Cost Cap with increases**	**D. Revised Cost Cap with increases and inflation per AL 2804-E**
Financial year:	**Millions (2005$)**	**Millions (2012$)**	**Millions (2005$)**	**Millions (2012$)**
Corporate Overheads	$42.10	$56.76	$47.00	$63.30

Corporate overheads include administrative and general (A&G) expenses, pensions and benefits (P&B), payroll taxes, injuries and damages, and property taxes that are allocated to the capital orders. These costs are not directly recorded

to the capital orders and are allocated to reflect the corporate functions supporting the construction work. SCE has spent approximately $15.3 million (2012$) through June 2012 or approximately 24 percent of the estimated costs for this category. The recorded costs represent the amount of corporate overheads allocated to the capital orders. SCE has estimated the remaining costs by applying a gross-up factor of 7.66% to the Project cost components.

Cost Escalation Methodology

The Commission approved the cost cap of $545.3 million in 2005 dollars. As explained in Appendix A of its AL 2804-E, SCE is escalating the cost to 2012 dollars by 35% using a blended escalation index. The blended index is a weighted average of labor and non-labor cost escalation rates. The non-labor escalation rate used by SCE is based on historical escalation and forecasts of transmission capital escalation rates from the Handy-Whitman Index[6] of Public Utility Construction Costs, and IHS Global Insight Power Planner[7]. Labor escalation is based on SCE's historical average hourly earnings escalation rates for transmission workers for the years 2005 to 2011 and forecast of transmission labor escalation rates for the years 2012 to 2014. These labor and non-labor escalation rates are then blended by calculating a weighted average escalation rate based on the Project's historical and forecast annual labor and non-labor related expenditures.

Weighted Average/ Blended Project Escalation Factors used by SCE										
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Blended Escalation Factor	5.96%	7.26%	6.05%	6.15%	2.21%	3.37%	3.36%	2.17%	2.48%	2.49%

[6] Handy-Whitman Index is an inflation index that provides a cost index for every year for different types of FERC's Uniform System of Accounts compared to a base year.

[7] IHS Global Insight Power Planner Operation and Maintenance Costs, Quarter 2 2012, Managers and Administrators and Professional and Technical Workers.

NOTICE

Notice of AL 2804-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-B.

PROTESTS AND COMMENTS

SCE's Advice Letter AL 2804-E was timely protested by Division of Ratepayer Advocates (DRA) on November 21, 2012. The DRA has now been re-named as the Office of Ratepayer Advocates (ORA).

In its protest DRA recommends the Commission:

I. Suspend the Advice Letter for 120 days in accordance with GO 96-B, Section 7.5.2 in order to fully evaluate the AL and determine whether SCE's request for a cost increase for this project is "just and reasonable" as required by Public Utilities Code §§ 451 and 454. DRA notes that the facilities associated with the DPV2 project have undergone multiple changes and additions since the Commission approved the project in 2007 and that SCE has not provided supporting documentation that would justify approving the cost increases.

II. Treat AL 2804-E as requiring Tier 3 treatment pursuant to General Order (GO) 96-B, because SCE's claim that the AL qualifies as a Tier 2 or even a Tier 1 filing is contradicted by the General Order.

SCE replied to DRA's protest on December 3, 2012.

In its reply comments, SCE argues that DRA's assertion that transmission rates will be unjust and unreasonable as a result of cost cap revisions proposed by this advice letter is not a valid basis for protesting this advice letter because that determination is not CPUC jurisdictional. SCE notes that while DRA is requesting that cost estimates be evaluated under Public Utilities Code §§ 451 and 454, the cost estimates adopted by the CPUC will only be informational at the FERC as the CPUC does not regulate transmission rates or the actual cost recovery of expenditure, as that responsibility lies with the FERC. In its request

SCE recommends that the advice letter should be evaluated under Public Utilities Code § 1005.5(b)[8], which allows the CPUC to set a cost cap in a CPCN proceeding. In order to address DRA's concern regarding the need for additional supporting documents to review the cost increases, SCE states that they have provided workpapers and will provide additional information as requested.

SCE contends that DRA's request that SCE's AL 2804-E be treated as a Tier 3 letter is without merit and should be rejected. SCE suggests that it is appropriate to treat Advice 2804-E as a Tier 2 advice letter because the advice filing is not requesting an increase or change to any rates. SCE repeats its argument that while the CPUC approves "a maximum amount determined to be reasonable and prudent for the facility[]" under Pub. Util. Code § 1005.5(b), it is the FERC that will ultimately decide how much of the costs the utility is authorized to recover in transmission rates. SCE also refers to its Application (A.)05-04-015, wherein SCE requested that the CPUC adopt provisions similar to those included in D.88-12-030, the Commission's first decision granting a CPCN for DPV2, which authorized SCE to file updated information in a compliance advice letter process.[9] The Commission granted the request and authorized a similar process for DPV2 in D.07-01-040.[10] SCE states that it is submitting AL 2804-E in compliance with the CPCN that was approved by the Commission, which authorized SCE to submit an advice filing and request Commission approval. SCE further states that although it could be asserted that this cost update should be considered a compliance-type filing falling within Industry Rule 5.1(1), it

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[8] Pub. Util. Code § 1005.5 (b) ("After the certificate has been issued, the corporation may apply to the commission for an increase in the maximum cost specified in the certificate. The commission may authorize an increase in the specified maximum cost if it finds and determines that the cost has in fact increased and that the present or future public convenience and necessity require construction of the project at the increased cost; otherwise, it shall deny the Application.").

[9] The Commission stated that SCE could seek "any adjustments in adopted project costs due to: (1) anticipated delays in starting the project or inflation, (2) final design criteria, and (3) the adopted mitigation measures and mitigation monitoring program." (D.88-12-030, Ordering Paragraph 12.).

[10] In D. 07-01-040, Ordering Paragraph 11, "Once SCE has developed a final detailed engineering design-based construction estimate for the final route, if this estimate is one percent or more lower than the authorized maximum reasonable and prudent cost identified in Conclusion of Law 10, SCE shall, within 30 days, file an advice letter to show cause why the Commission should not adopt a lower amount as the maximum reasonable and prudent cost to reflect the final estimate."

believes that the more appropriate classification would be Tier 2 – a request that would otherwise be appropriate for Tier 1, but for which the utility submitting the advice letter requests review and disposition under Tier 2 as provided in General Order 96-B, Energy Industry Rule 5.2, subdivision(7).

SCE states that it has provided work papers to the Energy Division and to the DRA supporting its Advice Letter and is willing to meet with both Energy Division and DRA and to respond to additional data requests needed to support its position.

DISCUSSION

It is appropriate to review advice filing 2804-E under Public Utilities Code Section 451and under Public Utilities Code Section 1005.5(b).

The CPUC is cognizant that the recovery of transmission system related costs is FERC jurisdictional and that the CPUC does not regulate transmission rates. Nevertheless, it is the CPUC's responsibility to review costs or charges for which the utility requests review and approval.

P. U. Code 451 clearly states,

"All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful."

In its protest, ORA argued that SCE's request to revise the cost cap be reviewed under P. U. Code Section 454. Under Section 454 whenever any electric utility files an application to change any rate, the utility is required to provide notice to its customers affected by the proposed rate change of its application to the commission for approval of the new rate. However, this notice requirement does not apply to any rate change proposed by a utility pursuant to an advice letter submitted to the commission in accordance with commission procedures for this means of submission. Accordingly, we conclude that P.U. Code Section 454 is not applicable here.

Because SCE stated its intent to not make AL 2804-E effective until it has Commission approval of its request, Tier 2 classification of this advice letter is acceptable at this time.

SCE's advice filing 2804-E is distinct because it is the first time a utility is seeking to substantially increase an approved cost cap for a transmission line project by filing a Tier-2 Advice Letter. There is only one example where a utility made an informational filing regarding cost estimates of a transmission project which had an approved CPCN. Such an advice letter was filed by PG&E, AL 2127-E, on June 18, 2001. However, PG&E's request was different from SCE's because it involved submitting Supplemental Testimony containing cost estimates for the final route selected by the Final Decision and not revisions to an already approved cost cap.[11]

D.07-01-040, which originally approved SCE's CPCN application and established the cost cap, also authorized SCE to file for revision of its cost estimates via an advice letter mechanism, but it did not specify a Tier for such a compliance filing. In that decision, the Commission did not envision that SCE would need to request a substantial increase in the cost cap that might involve evidentiary issues. That authorization was reiterated in D.09-11-007 and D.12-11-026.

By its very nature, the advice letter mechanism, which is an informal request, does not give the CPUC an opportunity to conduct evidentiary hearings. General Order 96-B explains the nature of an advice letter filing in the Definitions section on p. 2 as follows:

> "Advice letter" means (1) an informal request by a utility for Commission approval, authorization, or other relief, including an informal request for approval to furnish service under rates, charges, terms or conditions other than those contained in the utility's tariffs then in effect, and (2) a compliance filing by a load-serving entity pursuant to Public Utilities Code Section 380.

Additionally, General Rule 3.7 of General Order (G.O.) 96-B defines an informal matter as "either an uncontested matter or a matter for which a hearing is not required in order to resolve the contested issues."

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[11] http://www.pge.com/nots/rates/tariffs/2001-e.shtml.

SCE submitted its AL 2804-E is a Tier-2 advice filing. G.O. 96-B, Energy Industry Rule Section 5.2 describes that Matters Appropriate for Tier-2 treatment are:

> (1) A change in a rate or charge pursuant to an index or formula that the Commission has approved for use in an advice letter by the Utility submitting the advice letter but that the Utility has not used previously for this purpose. This Industry Rule does not cover a change pursuant to a methodology, such as a methodology approved by the Commission for use by a Utility for performance-based ratemaking.
> (2) A tariff change that is consistent with authority the Commission previously has granted to the Utility submitting the advice letter, such as a rate change within a price floor and ceiling previously approved by the Commission for that Utility.

The cost increase requested by SCE is substantial in magnitude and does not result from a pre-specified formula or index approved in D.07-01-040 to adjust the approved cost cap. We note that while this Advice Letter was filed as a Tier 2, it is effectively being processed as a Tier 3 advice letter with a resolution adopted by the Commission instead of a staff disposition.

The decision establishing the original cost cap (D.07-01-040) as well as the decision issued on the PFM (D.09-11-007) granted SCE permission to seek revisions to the cost cap once it had finalized its engineering design-based construction estimate. While we authorized SCE to seek revisions to the cost cap through the filing of an advice letter, in processing this request we have learned that the advice letter may not be an appropriate vehicle when the revisions requested are substantial in nature. Therefore, we would encourage SCE to request any future revisions to the cost cap by filing an application if the proposed revisions are substantial. SCE should consult with the Energy Division on whether an advice letter or an application would be more appropriate when seeking such revisions.

SCE's revised cost estimate of $944.8 million is significantly high relative to the actual costs incurred through December 31, 2012.

In a reply to a data request sent to SCE asking for actual costs incurred through 2012, SCE provided the information shown in Table 2 below:

Table 2

Actual DCR Costs incurred through 2012

(Nominal, in Thousands)	2005	2006	2007	2008	2009	2010	2011	2012	Total
Prelim Eng & Licensing	$7,790	$9,247	$3,454	$3,189	$6,653	-$3,183	$1,162	$0	$28,313
Bulk Transmission	$0	$0	$936	$794	$4,679	$3,631	$83,151	$227,569	$320,761
Substation	$319	$37	$155	$33	$84	$950	$5,364	$86,209	$93,150
Distribution	$0	$0	$0	$0	$0	$0	$179	$397	$576
Environmental Mitigation & Monitoring	$0	$0	$0	$0	$0	$6,435	$11,859	$54,261	$72,555
IT/Telecom	$58	$50	$78	$68	$29	$25	$191	$4,268	$4,767
Land	$0	$2,171	$526	$1	$1	-$148	$417	$80	$3,047
P&B and A&G	$537	$1,081	$708	$866	$1,011	$2,155	$2,700	$17,801	$26,859
Total Direct and Indirect Costs incurred	$8,704	$12,585	$5,857	$4,951	$12,458	$9,864	$105,024	$390,585	$550,027

An update provided by SCE on May 1, 2013 shows that the two main transmission segments of DCR, Valley to Devers and Devers to Colorado River Substation, are 100% and 80% complete respectively.

At this advanced stage of completion of the project, in its June 2013 Business Update for its investors[12], SCE estimates the costs of the project to be about $860 million with an in service date of third quarter in 2013.

Evaluation of SCE's revised cost estimates by cost categories:

We approve SCE's revised cost estimate of $34.8 million for Preliminary Engineering and Licensing work.

SCE has revised Preliminary Engineering and Licensing work cost estimates from $25.8 million, approved in D.07-01-040, to $34.8 million for this advice filing. Per SCE's methodology, these cost estimates were increased to allow for project scope changes and were then adjusted for inflation to bring the estimates from 2005 to 2012 constant dollars. The work-papers show that these costs were expended through 2011 and no additional costs have been forecasted for

[12] June 7, 2013 Business Update, http://www.edison.com/investors/.

2012-2014. We approve the revised cost estimates for Preliminary Engineering and Licensing at $34.8 million.

We approve SCE's revised cost estimate of $449.1 million for Bulk Transmission.

SCE has revised the Bulk transmission cost estimate from $255 million approved in D.07-01-040 to $449 million. Even though the California only Project is a scaled down version of the original interstate Project the cost estimates have increased substantially. We understand that the project scope changed since D. 07-01-040 was issued. The costs included in the Bulk Transmission category involve the construction cost of the 42-mile 500 kV line from Valley to Devers and the 110-mile 500 kV line from Devers to the Colorado River Substation, costs of looping the existing Devers Palo Verde 1 (DPV1) 500 kV line into the Colorado River Substation and the cost of moving a segment of the existing DPV1, which was moved to accommodate the change in location for the Colorado River Substation. The Bulk Transmission cost estimate of $255 million approved in D.07-01-040 was for the transmission line between Arizona and California. SCE did not update these cost estimates when it filed a Petition for Modification (PFM) in 2008 revising the project scope to a California only project. The Commission approved the PFM for a California only project in D.09-11-007 and allowed SCE to file any revisions to the approved cost estimates through an Advice Letter.

We are accepting SCE's revised estimates for this cost category based on SCE's assertion that the cost revisions are based on the contract that it established in 2011 as a result of a competitive procurement process. According to SCE, it revised its bid specifications ensuring that the contractor absorbs construction-related risks associated with environmental and permit compliance. SCE believes that shifting this risk to the contractors resulted in the contractors quoting higher costs for the Bulk Transmission Category. SCE selected the lowest bid and signed a fixed price contract.

We approve SCE's revised cost estimate of $109.4 million for Environmental Mitigation and Monitoring.

SCE did not include forecasts of costs for environmental mitigation and monitoring in its 2005 CPCN Application or the 2009 PFM as a separate line item. We do not think that just because SCE did not include a separate line item for environmental mitigation and monitoring that SCE did not forecast any environmental costs at the time of filing its CPCN Application. These costs were

probably embedded in other cost categories. In D.07-01-040, the Commission observed that SCE included sufficient allowance for contingency costs and approved the requested 15% contingency factor to accommodate final design changes, as well as the adopted Electro Magnetic Field (EMF) mitigation, environmental mitigation and mitigation monitoring program.[13]

The decision establishing the original cost cap (D.07-01-040) as well as the decision issued on the PFM (D.09-11-007) granted SCE permission to seek revisions to the cost cap once it had finalized its engineering design-based construction estimate. According to SCE, the costs included in this category are direct environmental costs related to its field activities, land mitigation, environmental monitoring, preparing reports and compliance documents and Project Management costs. SCE employed its own employees, contractors and consultants to do this work. These costs differ from environmental costs reported in Bulk Transmission because these are direct environmental costs incurred by SCE to perform environmental mitigation and monitoring work. The environmental costs reported in Bulk Transmission, on the other hand, are indirect and a result of the contractors raising the bid price to undertake construction activity that is in compliance with the environmental mitigation rules.

The underlying laws designed to ensure environmental resource protection have not changed substantially from the time SCE filed its CPCN in 2005. However, what has changed is that agencies have better knowledge with which to understand and minimize impacts, including how project activities can affect resources. There is increased understanding of species behaviors and the consequences of disruption, the identification of more effective mitigation impacts strategies, and an enhanced awareness of what approaches are needed to ensure that the intent of the laws are achieved. As the project evolved, the agencies involved and SCE had increased awareness and knowledge to minimize impacts, which also led to increased costs due to more costly mitigation activities.

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[13] In D.07-01-040, Section III Project Benefits; Subsection (5.b) DPV2 Costs- Specification of Maximum Reasonable Cost, Page 45 – "We believe that SCE included sufficient allowance for contingency costs—almost 15%—to accommodate final design changes, as well as the adopted EMF mitigation, environmental mitigation, and mitigation monitoring program."

SCE should consider this project as a key learning experience in planning its future transmission projects and environmental costs. Not foreseeing or planning for the extent of work needed to meet the environmental obligation has resulted in a $109.4 million being added to the total cost cap after the project was approved. SCE should judiciously identify all costs of the project upfront in the future and not just depend on the ease of revising Project cost cap through an Advice Letter process. Based on SCE's recent experiences with the construction of a number of large transmission projects including DCR, Tehachapi, and EL Dorado-Ivanpah, expected cost of all future proposed projects should be easier to calculate in application filings to the CPUC.

We approve the $109.4 million in environmental mitigation and monitoring costs.

We approve SCE's revised cost estimate of $162.1 million for Substation. Accounting for inflation over time, this cost estimate is lower than what was approved as part of the original cost cap in D.07-01-040.

This revised estimate is a result of the overall project modifications that led to rebuilding the Colorado River Switchyard substation and associated upgrades. The decision to relocate the existing substation 4,000 feet to the southeast was made to avoid the sand transport area affecting the Mojave Fringe-Toed lizard. Additional assessment indicated the need to increase the series capacitor amperage to 3,800 amps, which further led to a revised cost cap.

We approve SCE's revised cost estimate for Land, Telecommunications and Distribution.

After accounting for inflation, Land and Telecommunications cost estimates are lower compared with estimates approved in D.07-01-040.

SCE's original cost estimate for Land was $7.0 million. In the advice letter, SCE has reduced this estimate to $4.3 million. Similarly for Telecommunications, SCE has reduced its cost estimates from $9.8 million to $5.9 million.

SCE did not include any costs for Distribution in its original cost estimate, but has included $0.8 million in its revised cost estimate. We approve SCE's revised cost estimate of $0.8 million for Distribution because these are costs associated with the relocation of existing distribution lines which was required for the installation of the new series capacitors at the DCR California Series Capacitor site 14 miles west of Red Bluff Substation.

All these changes in cost estimates have resulted from the change in scope of the project due to the elimination of the Arizona portion of the Project.

We approve SCE's proposed Corporate Overhead Cost allocation factor. However, because the cost cap approved in this resolution is lower than what was proposed by SCE, the amount for total corporate overhead cost approved here is lower than SCE's request.

Corporate overhead costs are not directly recorded to the capital orders, but are allocated using a factor to reflect the cost of providing corporate functions supporting the construction work. As project cost estimates change, the corporate overhead cost is also revised. In this resolution, we are approving SCE's proposed Corporate Overhead Cost allocation factor of 7.66%. However, because the cost cap approved in this resolution is lower than what was proposed by SCE, the amount for corporate overhead cost approved here is lower than SCE's request. Cost of Corporate overheads is revised to $56.4 million from $63.3 million approved in D.07-01-040.

The Commission recognizes that although majority of the project work is completed and the overall risk to the project is low, there could still be some undetermined risk until project completion. Based on the remaining work in this project the Commission revises SCE's original contingency request of $115 million (2012$) to $17.1 million (2012$) to better reflect SCE's need to meet any risk and cost increases at this stage of the project.

Generally, contingency factors are incorporated in early estimates of cost to account for any unforeseen costs. In D.07-01-040, the Commission provided for a 15% contingency factor as the costs were not fully known at that stage of the project. SCE is requesting a 15% contingency factor ($115 million in 2012 dollars) in the advice letter filed on November 2, 2012 after SCE had the contracts in place, after the revised cost estimates had already incorporated all of the cost increases and after a substantial amount of work had already been completed.

As referenced in footnote 13 on page 24, D.07-01-040 viewed allowance for contingency costs as an area that could accommodate final design changes, as well as the adopted EMF mitigation, environmental mitigation, and mitigation monitoring program. Since we are approving recovery of $109.4 million (2012$) in this resolution for environmental monitoring and mitigation cost separately, we do not think it is just and reasonable to approve these newly added

environmental mitigation and monitoring costs in addition to allowances for contingency costs.

Moreover, the revised cost estimates presented in this advice letter are based on final design changes and already incorporate cost increases and inflation adjustments. It would be unreasonable to allow SCE to mark-up cost with an additional contingency factor when the risk has been minimized by substantially revising the costs. Also, as explained by SCE in its advice letter, one reason for the increase in costs is that SCE has shifted construction cost related risk to its contractor. According to SCE, this has resulted in higher bids by contractors. This contracting approach resulted in increased bulk transmission and indirect environmental mitigation and monitoring costs. The contractors' bid specifications provided as evidence by SCE confirm that sufficient cost mark-ups were built into the bid price. We believe it is unreasonable to allow the contingency amounts requested in this advice letter in addition to approving higher revised cost estimates which include cost increases due to inflation over time and the high cost of fixed price contracts that minimize SCE's exposure to unforeseen cost increases. However, based on the current status of the project the Commission recognizes that there could be some unknown risk factors that add to the overall cost estimate. To ensure that SCE is able to complete the project as planned the Commission allows an amount of $17.1 million (2012$) towards contingency funds.

We revise the total cost cap to $840 million (2012$) from SCE's proposed $944.8 million (2012$).

The revised cost cap of $840 million (2012$) includes $766.5 million (2012$) of Direct Costs, $56.4 million (2012$) of Corporate Overhead and $17.1 million (2012$) in Contingency funds.

Table 3 compares SCE's Estimated Cost Cap filed per AL 2804-E and the Approved Revised Cost Cap per this Resolution.

Devers Colorado River Cost Estimate Comparison (Constant 20012$, in Millions)			
(A)	**(B)**	**(C)**	**(D) = (C) - (B)**
Category	**Advice Letter Update**	**CPUC Approved Revised Cost Cap**	**Difference between CPCN Adopted and Advice Filing Update**
Preliminary Engineering & Licensing	$34.8	$34.8	$0.0
Bulk Transmission	$449.1	$449.1	$0.0
Environmental Mitigation & Monitoring	$109.4	$109.4	$0.0
Substation	$162.1	$162.1	0.0
Land	$4.3	$4.3	0.0
Telecommunications	$5.9	$5.9	0.0
Distribution	$0.8	$0.8	$0.0
Total Direct Costs:	$766.5	$766.5	$0.0
Contingency	$115.0	$17.1	-$97.9
Total Direct Forecast (excludes Corp OH):	**$881.5**	**$783.6**	**-$97.9**
Corporate Overheads:	$63.3	$56.4	-$6.9
Total:	**$944.8**	**$840.0**	**-$104.8**

If SCE believes that the revised cost cap approved in this resolution will not enable it to recover all of the prudently incurred costs of this project, SCE may file a formal Application.

If SCE believes that the revised cost cap approved in this resolution will not enable it to recover all of the prudently incurred costs of this project, SCE may file a petition to modify the Commission's earlier decision establishing the cap. In case SCE decides to file a formal application the Commission may consider the full record regarding this project and make a redetermination. The revised cost cap then will be established in that formal proceeding.

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 nor reduced. Accordingly, this draft resolution was mailed to parties for comments on December 18, 2013, and was placed on CPUC's agenda no earlier than 30 days from the mail date.

On January 17, 2014, the Commission's Office of Ratepayer Advocates (ORA), and SCE filed comments for this resolution.

A summary of the comments submitted by the parties and the revisions to this Resolution in response to the comments are provided below.

ORA Comments

ORA supports the Draft Resolution with modification. ORA recommends that the Commission revise the resolution to require that SCE file an application when seeking substantial cost cap revisions in the future instead of merely suggesting that SCE use the formal application process for that purpose. ORA agree with the rejection of SCE's proposed contingency allowance and revision of the total cost cap as proposed in the Draft Resolution. ORA contends that it is appropriate for the Commission to review SCE's Advice Letter filing under Public Utilities Code sections 451 and 454 in conjunction with Section 1005.5(b).

We reject ORA's proposed modification to require an application because requiring SCE to file a formal application to seek cost cap revisions for other transmission projects which are not the subject of this advice letter and resolution is beyond the scope of this resolution and would require modification of earlier Commission decisions authorizing cost cap revisions through the advice letter process. We cannot modify an earlier Commission decision without following due process. That is the reason the Commission is encouraging SCE to consult with the Energy Division and to seek guidance as to whether an Advice Letter filing, Application or a Petition for Modification is appropriate for future submissions of similar cases.

SCE's Comments

SCE proposes to increase the cost cap to $840 million from the $822.9 million described in the Draft Resolution. In its comments SCE asserts that the final costs are likely to go up to $840 million (2012$). SCE's comments also address Contingency and the Commission's review process under Section 451 and 454 of the Public Utilities Code.

- *Raising the Cost Cap to $840 million (2012$)*

SCE argues that notwithstanding the fact that SCE's contingency factor of 15 percent and its estimate of $944.8 million (2012$) could be found reasonable under Section 1005.5(b), the Commission should consider the updated status of project completion and costs.[14] SCE also recognizes that as informed by the passage of time and the fact that much of the change orders requiring contingency allocations have already been incurred during the construction to date, the Commission should raise the cost cap from the $822.9million (2012$) in the draft resolution to $840 million (2012$) to allow it to meet its project completion obligations while managing any undetermined risk that may arise. [15]

Even though the majority of construction is complete and the transmission lines are energized there are still some activities that remain to be completed, which may have some marginal risks and uncertainties. We are persuaded by SCE's argument that we should revise the cost cap to $840 million given the fact that until the project is completed there could be some unforeseen risk which will increase the overall project cost. Accordingly, revisions have been made in the discussion sections that refer to revised cost cap estimate.

- *Review under Sections 451 and 454; Request to delete Finding No. 17 and 30*

In its comments SCE argues that Finding No. 17[16] erroneously states that it is appropriate to review cost estimates under Sections 451 and 454, as well as under

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[14] Comments of Southern California Edison Company filed January 17, 2014, p. 5.

[15] Comments of Southern California Edison Company filed January 17, 2014, pp. 5-6.

[16] "It is appropriate to review advice filing 2804-E under Public Utilities Code Section 451, 454, and under Public Utilities Code Section 1005.5(b). The charges and cost estimates that SCE seeks approval of are inextricably linked to rates and so a review under P.U. Code 454 in

Footnote continued on next page

Section 1005.5(b) and recommends it be deleted.[17] SCE argues that cost estimates are not rates and the CPUC does not regulate transmission rates.

SCE points out that the draft resolution erred in saying that P.U. Code Section 454 applies to this advice letter. Section 454 requires that the utility provide a notice to its customers of its request to the Commission for a rate increase. However, requests made through the advice letter process are specifically exempted from this notice requirement.

We agree with SCE that P.U. Code Section 454 is not applicable here because this code section expressly exempts requests made through the advice letter filings.

In addition, SCE proposes to delete Finding No. 30[18] by arguing that the revised cost figure ultimately approved in the final Resolution does not limit the amount SCE could recover at FERC. SCE also states that the FERC will ultimately determine the costs SCE is authorized to recover in rates.

SCE further argues that it filed the AL under Section 1005.5(b) to update the cost estimate specified in the Certificate and in doing so does not (nor could it) waive its legal right to have the recovery of incurred costs reviewed in the appropriate proceeding. SCE states that regardless of procedural vehicle (i.e., petition for modification or advice letter), it is inappropriate for the current Commission to predetermine the scope of issues to be decided in such future proceeding by a future Commission by stating that all current findings will become null and void if SCE avails itself of its rights under Section 1005.5(b). SCE also states that it does not waive any right, position or argument that SCE may have regarding recovery of prudently incurred costs in the appropriate proceeding.

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conjunction with a review under P.U. Code 1005.5(b) will help determine a reasonable revised cost cap for the transmission project."

[17] Comments of Southern California Edison Company filed January 17, 2014, pp. 6-7.

[18] "30. If SCE believes that the revised cost cap approved in this resolution will not enable it to recover all prudently incurred costs of this project, SCE may file a formal application. In case, [sic] SCE decides to file a formal application, the determination made in this resolution will be null and void as to revisions of any cost cap category granted or denied by this resolution. The revised cost cap then will be established in that formal proceeding."

We are not persuaded by SCE's arguments that Finding No. 17 should be deleted and that Section 451 is inapplicable here. Section 451 describes the Commission's duty to assure reasonable charges for "any product or commodity furnished or to be furnished or any service rendered or to be rendered" by a utility. Under the plain language of Section 451, a transmission line may be considered a product to be furnished, and the building of the transmission line may be included as a service "to be rendered" pursuant to authorization provided by Section 1005.5, subdivision (a) and other relevant statutes. Further, Section 1005.5, subdivision (a) provides that the Commission's original authorization of cost cap for construction must be "reasonable and prudent." Because Section 1005.5, subdivision (b) regarding applications to increase the cost cap of an approved project does not provide guidance on the legal standard by which the Commission may approve such cost caps, it is sensible to read subdivision (b) with subdivision (a) as well as the Section 451 discussion of reasonable charges for goods (i.e., a transmission line) and services (i.e., construction of the transmission line and related structures). Thus, we find it appropriate to use a reasonableness standard when considering modifying a project cost cap.

In its comments, SCE requests that the Commission delete Finding No. 30 based on a concern that this could be interpreted as limiting the amount SCE could recover at FERC. We appreciate SCE's concern and clarify that this Finding does not speak to recovery of costs at FERC at all. The Commission understands that transmission rates are FERC jurisdictional.

The purpose of this Finding is to inform SCE that if SCE feels that the amount approved here in this resolution will not enable it to recover all prudently incurred costs, SCE may file a formal application at the CPUC to raise the cost cap. In case SCE files a formal application at the CPUC, the Commission may consider all of the project costs in the formal application in addition to the full history of the project and make a re-determination. This by no means indicates denial of recovery of just and reasonable costs incurred by SCE in construction of the Devers Colorado River Transmission line Project. The Commission therefore denies SCE's request to delete Finding No. 30.

REPLY TO COMMENTS

SCE filed reply comments on January 24, 2014. SCE suggests that Finding No. 19 be modified to clarify that it is referring to a Petition, and not an Application. SCE disagrees with ORA's proposal that SCE be required to file a new Application when seeking substantial cost cap revisions. SCE agrees with the

Commission that it would be appropriate to consult with the Energy Division on whether an advice letter, application or a petition for modification is appropriate in future cases.

We have modified the language of Finding No. 19 to reflect SCE's reply comments.

FINDINGS AND CONCLUSIONS

1. On April 11, 2005 Southern California Edison (SCE) submitted an application for Certificate of Public Convenience and Necessity (CPCN) at the CPUC for a 500 kV interstate Transmission Line Project (Devers-Palo Verde No. 2) across Arizona and California.

2. On January 25, 2007 the CPUC issued D.07-01-040 granting the CPCN. The Commission approved a cost cap of $545.3 million (2005$). The project was conditional upon the Arizona Commerce Commission (ACC) granting permission to construct the Arizona portion of the project. In June 2007, the ACC denied SCE's request to construct the transmission project in Arizona.

3. On May 14, 2008 following ACC's denial, SCE filed a Petition for Modification (PFM) with the Commission, seeking approval to construct a California-only project, referred to as Devers Colorado River Transmission Project (DCR), with a focus on connecting renewable energy resources such as solar power projects in the Blythe area to the electricity grid.

4. CPUC reviewed the PFM and directed SCE to provide additional information, such as benefits from the California only project, changes to cost estimates, status of approval at the California Independent System Operator (CAISO) and renewable projects status of the Blythe Energy Projects. In response, SCE provided supplemental filings to the PFM with all the above information and a letter from the CAISO suggesting an acceptance of the project, should certain specified requirements be met.

5. On November 20, 2009, in D.09-11-004, the Commission granted SCE's request to build the California-only Project, but conditioned start of construction upon CAISO approval. On August 5, 2010, the CAISO sent a letter to the Commission indicating that SCE could proceed with the construction, and on August 9, 2010, the Commission formally authorized SCE to commence construction.

6. The DCR Transmission Project includes construction of a 110-mile 500 kV transmission line, a 42-mile 500 kV transmission line, a 500 kV Switchyard and a 500 kV series capacitor adjacent to the existing DPV1 series capacitor, and substation upgrades at the Devers and Valley Substations.

7. SCE filed a Permit to Construct Application on November 3, 2010 to expand the Colorado River Switchyard to a 500/220 kV substation.

8. SCE filed with the FERC an Offer of Settlement on July 2, 2012, to recover costs related to the abandoned project in Arizona.

9. On November 2, 2012, SCE filed a Tier 2 Advice Letter E-2804 seeking to revise the cost cap from $545.3 million in 2005 dollars to $944.80 million in 2012 dollars.

10. In revising the cost cap, SCE is escalating 2005 dollars to 2012 constant dollars using a weighted average of Labor and Non-labor escalation rates.

11. SCE's Advice Letter AL 2804-E was timely protested by Division of Ratepayer Advocates (DRA) on November 21, 2012.

12. DRA requested the Commission to suspend the Advice Letter for 120 days in accordance with GO 96-B, Section 7.5.2 in order to fully evaluate the AL and determine whether SCE's request for a cost increase for this project is "just and reasonable" as required by Public Utilities Code §§ 451 and 454.

13. DRA also requested to treat AL 2804-E as requiring Tier 3 treatment pursuant to General Order (GO) 96-B.

14. SCE replied to DRA's protest on December 3, 2012.

15. SCE contends that the advice filing should be evaluated under Public Utilities Code § 1005.5(b)[19] which allows the CPUC to revise a cost cap in a CPCN proceeding.

16. In its reply comments to the protest SCE argues that while the CPUC approves "a maximum amount determined to be reasonable and prudent for the facility[ ]" under Pub. Util. Code § 1005.5(b), it is the FERC that will ultimately decide how much of the costs the utility is authorized to recover in transmission rates.

17. It is appropriate to review advice filing 2804-E under Public Utilities Code Sections 451 and 1005.5(b).

18. Because SCE stated its intent to not make AL 2804-E effective until it has Commission approval of its request, a Tier 2 classification of this advice letter is acceptable at this time.

19. From our experience processing this cost cap revision request by SCE, we have learned that the advice letter may not be an appropriate vehicle when the revisions requested are substantial in nature. SCE should consult with the Energy Division on whether an application, advice letter or a petition for modification would be more appropriate when seeking such revisions.

20. SCE's revised cost estimate of $944.8 million is significantly high relative to the actual costs incurred through December 31, 2012, which is equal to $550 million in nominal dollars.

21. An update provided by SCE on May 1, 2013 shows that the two main transmission segments of DCR, Valley to Devers and Devers to Colorado River Substation, are 100% and 80% complete respectively.

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[19] Pub. Util. Code § 1005.5 (b) ("After the certificate has been issued, the corporation may apply to the commission for an increase in the maximum cost specified in the certificate. The commission may authorize an increase in the specified maximum cost if it finds and determines that the cost has in fact increased and that the present or future public convenience and necessity require construction of the project at the increased cost; otherwise, it shall deny the application.").

22. SCE has revised Preliminary Engineering and Licensing work cost estimates from $25.8 million, approved in D.07-01-040, to $34.8 million for this advice filing. Per SCE's methodology these cost estimates were increased to allow for project scope changes and were then adjusted for inflation to bring the estimates from 2005 to 2012 constant dollars. The work-papers show that these costs were expended through 2011 and no additional costs have been forecasted for 2012-2014. We approve the revised cost estimates for Preliminary Engineering and Licensing at $34.8 million.

23. SCE requests $449.1 million for Bulk Transmission which is 75% over $255.5 million authorized in D. 07-01-040. SCE's revised cost estimate is based on the contract that SCE signed as a result of a competitive procurement process. SCE selected the lowest bid and signed a fixed price contract. According to SCE, under the contract, the contractor absorbs construction-related risks associated with environmental and permit compliance. The request amount should be approved.

24. SCE requests $109.4 million (2012$) for Environmental Mitigation and Monitoring in this advice filing. SCE did not provide a separate line item cost estimate for the environmental compliance requirements as part of its DPV2 CPCN Application (A.05-04-015) in 2005. The decision establishing the original cost cap (D.07-01-040) as well as the decision issued on the PFM (D.09-11-007) granted SCE permission to seek revisions to the cost cap once it had finalized its engineering design-based construction estimate. The requested amount should be approved. However, we would like to note that the approved cost cap determined in D.07-01-040 included SCE's contingency funds that were to accommodate final design changes and environmental and mitigation monitoring costs.

25. D.07-01-040 approved $156.3 million for Substation related costs. After adjusting for inflation, SCE's revised cost estimate of $162.1 million for Substation is lower than what was approved as part of the original cost cap and should be approved.

26. SCE's revised cost estimate for Land, Telecommunications and Distribution are lower compared to the original estimates used in setting the cost cap at $545.3 in D.07-01-040 and should be adopted. All these

changes in cost estimates have resulted from the change in scope of the project due to the elimination of Arizona portion of the Project.

27. SCE's revised cost estimate includes $63.3 million in Corporate Overheads using a corporate overhead factor of 7.66%. We approve SCE's proposed Corporate Overhead Cost allocation factor of 7.66%. However, because the cost cap approved in this resolution is lower than what was proposed by SCE, the amount for corporate overhead cost approved here is lower than SCE's request. The new Corporate Overhead Cost is revised to $56.4 million.

28. The Commission finds that although majority of the project work is done and the overall risk is low there could still be some undetermined risk until project completion. Based on the uncertainties relating to remaining work in this project, the Commission is incorporating $17.1 million (2012$) in contingency funds to better reflect SCE's need to meet any risk and cost increases. With the addition of this contingency amount, the revised cost cap adopted in this resolution is $840 million (2012$).

29. SCE's cost cap should be revised to $840 million (2012$).

30. If SCE believes that the revised cost cap approved in this resolution will not enable it to recover all of the prudently incurred costs of this project, SCE may file a petition to modify the Commission's earlier decision establishing the cap. In case SCE decides to file a formal application the Commission may consider the full record regarding this project and make a redetermination. The revised cost cap then will be established in that formal proceeding.

THEREFORE IT IS ORDERED THAT:

1. The cost cap for Devers Colorado River Transmission Line is revised to $840 million (2012$) from $545.3 million (2005$) approved in D.07-01-040.

This Resolution is effective today.

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 February 5, 2014; the following Commissioners voting favorably thereon:

/s/ PAUL CLAON
PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
MICHAEL PICKER
Commissioners