

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company (U 338-E) for a Certificate of Public Convenience and Necessity Concerning the Devers-Palo Verde No. 2 Transmission Line Project.

Application 05-04-015
(Filed April 11, 2005)

Order Instituting Investigation on the Commission's Own Motion into Methodology for Economic Assessment of Transmission Projects.

Investigation 05-06-041
(Filed June 30, 2005)

SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

Pursuant to Rules 6(a)(3), 6(c)(1), and 6.3 of the Commission Rules of Practice and Procedure,¹ this ruling sets forth the scope and procedural schedule and designates the principal hearing officer for Application (A.) 05-04-015 and Investigation (I.) 05-06-041 following a joint prehearing conference (PHC) held on July 20, 2005. It establishes the category of A.05-04-015 and also addresses certain procedural issues for the proceedings. This ruling is appealable only as to category of A.05-04-015 under the procedures in Rule 6.4.

In delineating the scope of A.05-04-015, I have considered Southern California Edison Company's (SCE) application; the protests filed by the Office

¹ All citations to Rules refer to the Commission Rules of Practice and Procedure, which are codified at Chapter 1, Division 1 of Title 20 of the California Code of Regulations.

of Ratepayer Advocates (ORA), the City of Los Angeles Department of Water and Power (LADWP), Granite Construction Company, and 3M Composite Conductor Program (3M); the informal letters and e-mails² received regarding the project; SCE's consolidated reply to the protests; the filed PHC statements; and discussion at the PHC.

In addition to guidance in the Order Instituting Investigation (OII), I have considered the PHC statements and discussions at the PHC in finalizing the scoping memo for I.05-06-041.

Chaffin Farms filed a protest of A.05-04-015 on May 13, 2005 and filed a motion for leave to withdraw its protest on July 20, 2005. That motion is granted.

I. Background

In A.05-04-015, SCE seeks a certificate of public convenience and necessity (CPCN) authorizing construction of the Devers-Palo Verde No. 2 (DPV2) transmission line project. The DPV2 project would be a 230-mile, 500 kilovolt (kV) alternating current transmission line between California and Arizona. DPV2 would connect SCE's existing Devers substation near Palm Springs, California to the existing Harquahala Generating Company switchyard located approximately 49 miles west of Phoenix, Arizona. Generally, the proposed route between Devers and Harquahala runs parallel to SCE's existing Devers-Palo Verde No. 1 transmission route. Of the proposed 230-mile route, 128 miles are in California and 102 miles are in Arizona. Additionally, upgrades would be required to four of SCE's 230 kV transmission lines within California and to

² The Commission has received several letters and e-mails regarding the proposed project that do not meet the formal filing requirements in Article 2 of the Rules and which have been placed in the correspondence file of A.05-04-015.

certain existing electrical transmission facilities in California and Arizona. The four lines requiring upgrades are located within an existing 47-mile transmission corridor from Devers to SCE's San Bernardino and Vista substations, which are located approximately two miles from the City of San Bernardino.

SCE asserts four justifications for the DPV2 project, which can be summarized as follows:

1. That DPV2 would be cost-effective for California electricity customers because it would allow for greater access to low-cost, surplus generation in Arizona. SCE states that its evaluation of DPV2's economic benefits is consistent with the Transmission Economic Assessment Methodology (TEAM) developed by the California Independent System Operator (CAISO).
2. That DPV2 would enhance competition among the generating companies that supply energy to California and would facilitate SCE's resource procurement approach approved in Decision 04-12-048.
3. That the additional transmission infrastructure provided by DPV2 would support and induce the development of future energy suppliers selling energy into the California energy market and that DPV2 would increase liquidity in the market and, thus, help mitigate market power.
4. That DPV2 would provide resource reliability benefits, flexibility in operating California's transmission grid, and additional import capacity that may be needed during unanticipated conditions.

The protests and informal correspondence raise concerns regarding impacts of the project on health and safety, aesthetics, and property values. Granite Construction Company questions the impact of DPV2 on its operations. Mission Development has concerns about the effects of DPV2 on a project it is developing in the area. LADWP contests SCE's right to construct DPV2. 3M suggests that a conductor material it manufactures be used for DPV2. ORA intends to address issues related to the cost-effectiveness of DPV2.

On June 30, 2005, the Commission opened I.05-06-041 to consider appropriate principles and methodologies for assessment of the economic benefits of transmission projects, including DPV2, that are submitted for Commission approval. The Commission named SCE, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company as Respondents to the investigation. As established in the OII, the Commission will consider, in particular, the CAISO TEAM approach, both as an evaluative framework and as applied to assess the economic benefits of the DPV2 project. I.05-06-041 and A.05-04-015 will be coordinated to the extent appropriate. The Commission's inquiry in I.05-06-041 will in no way delay the timely assessment of DPV2.

II. Categorization, Need for Hearings, Ex Parte Rules, and Designation of Principal Hearing Officer

Under Rule 6.1, on April 21, 2005, the Commission preliminarily categorized A.05-04-015 as ratesetting as defined in Rule 5(c) and determined that the matter should be set for hearing. (Resolution ALJ 176-3151.) No party has disputed the Commission's preliminary categorization of A.05-04-015, and I affirm the preliminary categorization of ratesetting and the need for hearing.

In the OII initiating I.05-06-041, the Commission categorized the investigation as ratesetting as defined in Rule 5(c). Persons had ten days to appeal. (Rule 6.4(a).) No appeals were filed, so the categorization of I.05-06-041 as ratesetting is final. The *ex parte* rules as set forth in Rule 7(c) and Pub. Util. Code § 1701.3(c)³ and the reporting provisions of Rule 7.1 apply to both proceedings.

³ All citations to Sections refer to the Public Utilities Code unless otherwise indicated.

In the OII, the Commission found that hearings are necessary in I.05-06-041, pursuant to Rule 6(c)(1). In PHC statements and during the PHC, some parties questioned the need for hearings. In part because of the factual issues involved in use of the TEAM approach to evaluate DPV2, I confirm the need for hearings in the investigation.

In a ratesetting proceeding, Rule 5(k)(2) defines the presiding officer as the principal hearing officer designated as such by the assigned Commissioner prior to the first hearing in the proceeding. I have designated Administrative Law Judge (ALJ) Charlotte F. TerKeurst as the principal hearing officer in these proceedings. The provisions of § 1701.3(a) apply.

III. Scoping Memo for A.05-04-015

Sections 1001 and 1002 provide the basic scope of this proceeding. Section 1001 requires a determination of need in order for the Commission to grant a CPCN. The issue of need encompasses, but is not limited to, the four justifications for the DPV2 project that SCE submitted in its application, as summarized above. Section 1002 provides, in pertinent part, that the Commission, as a basis for granting any CPCN pursuant to § 1001, shall give consideration to the following factors: (1) community values, (2) recreational and park areas, (3) historical and aesthetic values, and (4) influence on environment. These issues are within the scope of the proceeding

General Order (GO) 131-D prescribes that, prior to issuing a CPCN, the Commission must find that the project is necessary to promote the safety, health, comfort, and convenience of the public. In addition, Section X of GO 131-D requires that the applicant describe the measures taken or proposed by the utility to reduce the potential exposure to electric and magnetic fields (EMF) generated

by the proposed facilities. The issues raised by GO 131-D are within the scope of the proceeding.

The scope of this proceeding also encompasses the requirements of the California Environmental Quality Act (CEQA). The proposed project would be located, in part, on land subject to jurisdiction of the federal government. The Commission and the Bureau of Land Management (BLM) have signed a Memorandum of Understanding to prepare a joint Environmental Impact Report/Environmental Impact Statement (EIR/EIS) in compliance with CEQA and the National Environmental Protection Act (NEPA). The EIR/EIS will be an informational document, with its analysis available to the Commission and to parties in the proceeding.

The EIR/EIS must identify the significant effects on the environment of the project, identify alternatives to the project, and indicate the manner in which significant environmental effects can be mitigated or avoided. The CEQA/NEPA process will identify potential land use conflicts and cumulative or growth-inducing impacts. CEQA requires that the Commission cannot approve the proposed project or an alternative unless it mitigates or avoids the significant effects on the environment, or finds that economic, social, or other conditions make it infeasible to mitigate those effects or that the agency is willing to accept potential significant effects because of the project benefits.

Applicability of § 625, regarding eminent domain, is within the scope of this proceeding.

Issues regarding cost estimates, cost tradeoffs for alternate routes, right-of-way acquisition costs, mitigation costs, cost allocation, and specification of a “maximum cost determined to be reasonable and prudent” pursuant to § 1005.5(a) are also within the scope of this proceeding.

IV. Additional Information Needed in A.05-04-015

SCE filed its Proponent's Environmental Assessment (PEA)⁴ and prepared testimony regarding DPV2 with its application. Energy Division issued a deficiency notice to SCE regarding information needed for environmental review on May 11, 2005, and SCE replied on July 12, 2005. Energy Division issued a second deficiency notice on July 25, 2005; SCE is expected to respond to the remaining deficiencies by August 31, 2005. At this time, SCE's application has not been deemed complete for environmental review purposes.

After reviewing SCE's filing in A.05-04-015, I direct SCE to submit additional information and testimony regarding project costs and other topics. The assigned ALJ may require additional information and testimony as needed from SCE or other parties.

First, SCE's showing regarding DPV2 project costs is inadequate. The entirety of SCE's cost showing consists of the one-half page Table 3-10, which provides summary, single-number costs for eight basic elements of the proposed project. The cost estimates do not include Allowance for Funds Used During Construction or operating costs. SCE provided no cost information regarding alternative routes and configurations. This minimal showing is insufficient to meet the requirements of GO-131D and § 1003.3(c) and (d), or to allow the Commission to meet its obligations pursuant to § 1005.5(a). Further, a detailed showing regarding expected project costs and the reasonableness of SCE's cost estimates is necessary in order for the Commission to assess the cost-

⁴ The application, the PEA, and other information about the environmental review process are available at the following address:

<http://www.cpuc.ca.gov/Environment/info/asp/dpv2/dpv2.htm>

effectiveness and, thus, the need for the proposed project. At the joint workshop scheduled for September 14 -15, 2005, SCE should provide information regarding the cost support that it can provide for the DPV2 project and project alternatives. Following discussion at the workshop, the ALJ will provide further direction regarding the detailed cost information SCE is to provide in supplemental direct testimony in A.05-04-015.

Additional information is also needed regarding SCE's EMF field management plan for the DPV2 project, attached as Appendix B to SCE's application. SCE should provide the following information no later than September 30, 2005, to Energy Division staff undertaking the environmental review of DPV2 and should submit supplemental direct testimony in Phase 2 containing this information:

- Cost of each "low cost" magnetic field reduction measure proposed for DPV2.
- Amount of reduction in EMF due to each "no" or "low cost" magnetic field reduction measure proposed for DPV2.
- Power-frequency magnetic field computer modeling results. SCE should provide results for a "base case" scenario including other existing or expected transmission lines in the area and a scenario that adds DPV2. SCE may model additional scenarios if it believes them to be useful. SCE may limit the analyses to those portions of the proposed route in California where the DPV2 project would be within 200 feet of any building. SCE's proposed "no and low cost" magnetic field reduction measures should be included in the case with DPV2. The analyses should be performed for medium loading conditions (the load is expected to be less 50% of the year). The study should be undertaken and results should be reported in a manner comparable to Attachment 203 in Exhibit 13 in A.02-09-043, PG&E's application for a CPCN for the Jefferson-Martin transmission project.

SCE should also submit information regarding how it would comply with § 625 regarding eminent domain, through supplemental testimony and/or briefs

as appropriate. SCE should address in supplemental Phase 2 direct testimony whether it plans to offer competitive services of any nature using any portion of the DPV2 project. SCE should also address whether it views the DPV2 project as “necessary...to meet its commission-ordered obligation to serve” as specified in § 625(a)(1)(B).

V. Scoping Memo for I.05-06-041

The preliminary scoping memo included in the OII, pursuant to Rule 6(c)(1), laid out the issues that the Commission identified to be addressed in I.05-06-041. In PHC statements and at the PHC, no party identified additional issues they believe should be within the scope of the proceeding.

As specified in the OII, this investigation will consider issues related to the assessment of the economic benefits of transmission projects that may come before the Commission. The Commission will examine basic principles applicable when assessing transmission projects proposed for their economic benefits. The general inquiry will be enhanced by the opportunity to apply suggested principles to the DPV2 project proposed in A.05-04-015.

The scope of I.05-06-041 shall include, but not be limited to, the issues identified in the OII, clarified as follows:

- What general principles or methodologies should be employed in assessing the economic benefits of transmission projects within the Commission’s jurisdiction?
- Is the CAISO’s TEAM approach a reasonable methodology for assessing the economic benefits of transmission projects?
- What validation is needed by the Commission in order to rely on a CAISO assessment of need in a Commission certification proceeding for a transmission project proposed for its economic benefits?
- If the Commission determines in a certification proceeding for a transmission project proposed for its economic benefits that a CAISO

assessment of need has been adequately validated, are there additional requirements that must be met in the Commission's determination of economic benefits and need for the project?

- For those certification proceedings for transmission projects proposed for economic benefits where there is no validated CAISO assessment of need, what requirements should the Commission adopt for consideration of economic benefits and need?

This investigation will subsume issues previously under consideration in I.00-11-001 regarding the economic evaluation of transmission lines. As provided in the order instituting I.05-06-041, the record on these issues developed in I.00-11-001 is fully available for consideration in this proceeding.

VI. Schedule

Section 1701.5 provides that, in a ratesetting proceeding, the issues raised in the scoping memo are to be resolved within 18 months from the date of the issuance of the scoping memo. I anticipate that completion of A.05-04-015 and I.05-06-041 will occur within 18 months.

Evidence regarding DPV2 will be received in two phases. Phase 1 will address need issues and the economic methodology used to assess cost effectiveness, with workshops, testimony, and evidentiary hearings to be held as needed on a consolidated basis with I.05-06-041. Phase 2, in A.05-04-015 only, will address environmental, routing, and other issues related to DPV2, with evidentiary hearings to be held as needed after the Draft EIR/EIS is released.

The schedule adopted below is driven by statutory requirements in CEQA and NEPA while affording interested parties a fair opportunity to participate in the proceeding. Any changes to the schedule will be reflected in subsequent rulings.

A.05-04-015 filed

April 11, 2005

First deficiency notice to SCE

May 11, 2005

A.05-04-015, I.05-06-041 CFT/tcg

I.05-06-041 adopted	June 30, 2005
SCE response to deficiency notice	July 12, 2005
Joint PHC	July 20, 2005
Second deficiency notice to SCE	July 25, 2005
Third deficiency notice to SCE	August 25, 2005
Scoping memo	August 26, 2005
SCE plans to respond to remaining deficiencies	August 31, 2005 – mid-September 2005
A.05-04-015 deemed complete	September 30, 2005
Notice of Preparation (CEQA)/Notice of Intent (NEPA) issued	October 2005
CEQA scoping meetings and agency meetings	October – November 2005
CAISO report on economic methodology (discussed at PHC)	September 7, 2005
Joint workshop on economic methodology, with application to DPV2	September 14-15, 2005
Workshop report	September 29, 2005
Comments on workshop report	October 13, 2005
Reply comments on workshop report	October 20, 2005
ALJ ruling on Phase 1 (A.05-04-015 and I.05-06-041) hearings	October 27, 2005
Concurrent Phase 1 direct testimony	November 22, 2005
Concurrent Phase 1 rebuttal testimony	December 21, 2005
Phase 1 evidentiary hearings	January 9 – 13, 2006
Concurrent Phase 1 opening briefs	February 10, 2006
Concurrent Phase 1 reply briefs and submission of Phase 1 record	February 24, 2006
Draft EIR/EIS released	May 1, 2006
Draft EIR/EIS review period	May 1, 2006 – June 29, 2006
Public participation hearings during 60-day Draft EIR/EIS review period	Mid-May to mid-June, 2006

Proposed Decision in I.05-06-041	May 2006
Phase 2 (A.05-04-015 only) SCE supplemental direct and other parties' direct testimony	June 1, 2006
Commission Decision in I.05-06-041	June 2006
Concurrent Phase 2 rebuttal testimony	June 30, 2006
Phase 2 evidentiary hearings	July 10 – 14, 2006
Concurrent Phase 2 opening briefs	Early August 2006
Final EIR/EIS released	August 11, 2006
Concurrent Phase 2 reply briefs and submission of Phase 2 record	Late August 2006
Proposed Decision on CPCN/certifying final EIR	November 2006
Commission Decision on CPCN/certifying Final EIR	December 2006

An ALJ ruling following comments on the workshop report will address the scope of hearings in Phase 1 based on the workshop and parties' comments on the workshop report. The ALJ ruling will also clarify, if needed, the demarcation of DPV2-related issues between Phase 1 and Phase 2 based on workshop discussions. While I anticipate a Commission decision in I.05-06-041 following the coordinated Phase 1 process, issues regarding cost-effectiveness and need for DPV2 may be addressed in a decision at that time or may be addressed in the later decision on SCE's CPCN request.

Evidentiary hearings will take place in San Francisco. Public Participation Hearings for DPV2 will be held in the affected communities. Dates and locations for Public Participation Hearings will be set in subsequent rulings. The ALJ may schedule a second PHC or require a case management statement prior to the evidentiary hearings.

Pursuant to Rule 8(d), parties requesting final oral argument before the Commission should include that request in their concurrent Phase 1 and/or Phase 2 opening briefs.

VII. Service Lists and Other Procedural Matters

The ALJ ruling setting the July 20, 2005 PHC established procedures regarding service and mailing lists, discovery, and assistance in participation in Commission proceedings. Parties should refer to that ruling for guidance on these matters.

It has come to my attention that the ALJ ruling provided an incorrect email address for the Commission's Process Office. The correct email address is Process_Office@cpuc.ca.gov. Please use this address if you need to contact the Process Office regarding the service list, as provided in the ALJ ruling.

Therefore, **IT IS RULED** that:

1. The Motion of Protestant Chaffin Farms for Leave to Withdraw Protest filed in Application (A.) 05-04-015 is granted.
2. This ruling confirms the Commission's preliminary finding in Resolution ALJ 176-3151, issued on April 21, 2005, that the category for A.05-04-015 is ratesetting and that hearings are necessary. This ruling, only as to category, is appealable under the procedures in Rule 6.4.
3. The *ex parte* rules as set forth in Rule 7(c) of the Commission Rules of Practice and Procedure (Rules) and Pub. Util. Code § 1701.3(c) and the reporting requirements of Rule 7.1 apply to A.05-04-015 and I.05-06-041.
4. Administrative Law Judge (ALJ) TerKeurst is the principal hearing officer in A.05-04-015 and I.05-06-041, pursuant to Rules 5(k) and 5(l).
5. The scope of A.05-04-015 includes the following as to the proposed project using Southern California Edison Company's (SCE) preferred route and

configuration, alternative routes and configurations, the no project alternative, and non-wires alternatives:

- Need for the project (§ 1001) including, but not limited to, the four justifications submitted in SCE's application.
- Consideration of the following factors contained in § 1002:
 - 1) Community values;
 - 2) Recreational and park areas;
 - 3) Historical and aesthetic values; and
 - 4) Influence on the environment
- Consideration, pursuant to General Order (GO) 131-D, of whether the project promotes the safety, health, comfort, and convenience of the public.
- Consideration, pursuant to GO 131-D, of measures to reduce the potential exposure to electric and magnetic fields generated by the proposed facilities.
- Consideration, pursuant to the California Environmental Quality Act (Public Resources Code § 21000 *et seq.*), of significant effects of the project on the environment; alternatives to the project; the manner in which significant environmental effects can be mitigated or avoided; and whether economic, social or other conditions make it infeasible to mitigate significant effects on the environment.
- How SCE would comply with § 625.
- Impacts on the transmission grid and other transmission users.
- Cost effectiveness and cost allocation.
- Project costs.
- Specification of a "maximum cost determined to be reasonable and prudent" pursuant to § 1005.5(a).

6. SCE shall submit additional information and testimony in A.05-04-015 regarding project costs and other topics as set forth above in this ruling.

7. The scope of I.05-06-041 includes the following:

- What general principles or methodologies should be employed in assessing the economic benefits of transmission projects within the Commission's jurisdiction?
- Is the Transmission Economic Assessment Methodology approach developed by the California Independent System Operator (CAISO) a reasonable methodology for assessing the economic benefits of transmission projects?
- What validation is needed by the Commission in order to rely on a CAISO assessment of need in a Commission certification proceeding for a transmission project proposed for its economic benefits?
- If the Commission determines in a certification proceeding for a transmission project proposed for its economic benefits that a CAISO assessment of need has been adequately validated, are there additional requirements that must be met in the Commission's determination of economic benefits and need for the project?
- For those certification proceedings for transmission projects proposed for economic benefits where there is no validated CAISO assessment of need, what requirements should the Commission adopt for consideration of economic benefits and need?

8. The schedule of A.05-04-015 and I.05-06-041 is as set forth above in this ruling.

9. A party may request final oral argument as set forth above in this ruling.

Dated August 26, 2005, at San Francisco, California.

/s/ DIAN M. GRUENEICH

Dian M. Grueneich
Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties for whom an electronic mail address has been provided, this day served a true copy of the original attached Scoping Memo and Ruling of Assigned Commissioner on all parties of record in these proceedings or their attorneys of record.

Dated August 26, 2005, at San Francisco, California.

KRIS KELLER

Kris Keller

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.