

122 FERC ¶ 61,187  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Sudeen G. Kelly, Marc Spitzer,  
Philip D. Moeller, and Jon Wellinghoff.

Southern California Edison Company

Docket No. ER08-375-000

ORDER ACCEPTING TARIFF REVISIONS, SUBJECT TO CONDITIONS AND  
ESTABLISHING PAPER HEARING

(Issued February 29, 2008)

1. On December 21, 2007, Southern California Edison Company (SoCal Edison) filed revisions to its Transmission Owner Tariff (TO Tariff)<sup>1</sup> to reflect proposed changes to its transmission revenue requirement and transmission rates to implement Construction Work in Progress (CWIP) rate incentives. The CWIP rate incentives were granted by the Commission's Order Granting Petition for Declaratory Order,<sup>2</sup> which also approved the creation of a stand-alone balancing account mechanism for these rate incentives. In this order, the Commission accepts SoCal Edison's proposed tariff revisions, suspends them for a nominal period, to be effective March 1, 2008, subject to refund and subject to the outcome of a paper hearing, as discussed herein.

**Background**

**Section 219 Requirement**

2. In Energy Policy Act of 2005 (EPA 2005), Congress added a new section 219<sup>3</sup> to the Federal Power Act (FPA) directing the Commission to establish, by rule, incentive-based (including performance-based) rate treatments for electric transmission. The

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<sup>1</sup>FERC Electric Tariff, Second Revised Vol. No. 6.

<sup>2</sup>*Southern California Edison Co.*, 121 FERC ¶ 61,168 (2007) (*Incentives Order*).

<sup>3</sup> Pub L. No. 109-58, § 1241, 119 Stat 594, 961, *to be codified at* 16 U.S.C. § 824s.

Commission issued Order No. 679,<sup>4</sup> which set forth processes by which a public utility could seek transmission rate incentives pursuant to section 219. In accordance with Order No. 679, on May 18, 2007, and as amended on August 16, 2007, SoCal Edison filed a petition for declaratory order seeking incentive rate treatment for three of its major projects, which have capital expenditures totaling \$2.5 billion. On November 16, 2007, the Commission issued the *Incentives Order* granting SoCal Edison's request for transmission rate incentives for the three transmission projects.

3. In the *Incentives Order*, the Commission found that, consistent with Order No. 679, SoCal Edison's proposals for the construction of three transmission projects, the Devers-Palo Verde II Project (DPV2 Project), the Tehachapi Transmission Project (Tehachapi Project) and the Rancho Vista transmission substation project (Rancho Vista Project) (collectively, Projects) would significantly improve the reliability of the California Independent System Operator Corporation (CAISO)'s bulk power transmission system, and reduce the cost of power to customers by reducing transmission congestion on the CAISO-controlled transmission grid.<sup>5</sup>

4. The *Incentives Order* granted rate incentives to SoCal Edison, including

(1) Return on equity (ROE) Project adders of 125 basis points for the DPV2 and Tehachapi Projects, and 75 basis points for the Rancho Vista Project;

(2) ROE adders of 50 basis points based on SoCal Edison's participation in CAISO;

(3) Recovery of 100 percent of any prudently-incurred abandonment costs for the DPV2 and Tehachapi Projects, if these projects, or any portion thereof, are cancelled due to factors beyond SoCal Edison's control; and

(4) Recovery in the transmission rate base of 100 percent of CWIP during the construction of these Projects.

5. In the *Incentives Order*, the Commission directed SoCal Edison to submit a section 205 filing to implement a stand-alone balancing account mechanism for the recovery of the CWIP revenue requirement. The Commission explained that SoCal Edison was to provide a detailed explanation of its accounting methods and procedures to

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<sup>4</sup> *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 (2006), *order on reh'g*, 119 FERC ¶ 61,062 (2007).

<sup>5</sup> *Incentives Order*, 121 FERC ¶ 61,168 at P 3.

(1) implement the stand-alone balancing account; (2) comply with 18 C.F.R. § 35.13(h)(38) and § 35.25 (2007); and (3) maintain comparability of financial information.<sup>6</sup>

## **SoCal Edison's Section 205 Incentives Rate Proposal**

### **CWIP Ratemaking Mechanism**

6. In this filing, SoCal Edison seeks to implement the portion of the Commission's *Incentives Order* authorizing SoCal Edison to recover in its transmission rate base 100 percent of CWIP for three of its major transmission projects through a stand-alone balancing account mechanism. SoCal Edison states that the rate adjustment is to be made to the Base Transmission Revenue Requirement (Base TRR). SoCal Edison proposes to use a formula rate to calculate an incremental CWIP revenue requirement associated with expenditures on facilities and land acquired for the Projects during the construction period. The resulting incremental CWIP revenue requirement (CWIP TRR) will be added to the existing Base TRR. SoCal Edison explains that under this proposed accounting mechanism, the new Base TRR will include the CWIP TRR and SoCal Edison's current Base TRR.<sup>7</sup> SoCal Edison also explains that, consistent with the Commission's approval of a stand-alone rate mechanism in the *Incentives Order*, it is not proposing to change other elements of the Base TRR.

7. SoCal Edison states that the incremental CWIP revenue requirement that is being added to the Base TRR is based upon SoCal Edison's projections of its project costs for 2008. It also explains that this rate treatment conforms to the Commission's determination in the *Incentives Order* that all of the Project costs, including costs related to segments of the Tehachapi Project, are eligible both for incentive and rolled-in rate treatment.<sup>8</sup> In accordance with SoCal Edison's proposed CWIP ratemaking mechanism (Ratemaking Mechanism), it will calculate its actual CWIP revenue requirement each month and then compare it to the incremental CWIP revenues it receives from all retail transmission customers. The difference between these two amounts will be included in a balancing account, with interest added to the account balances.

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<sup>6</sup> *Id.* P 61.

<sup>7</sup> The current Base TRR was adopted pursuant to a "black box" settlement in *Southern California Edison Co.*, 116 FERC ¶ 61,010 (2006).

<sup>8</sup> SoCal Edison December 21, 2007 filing at 4 n. 10 *citing to Incentives Order*, 121 FERC ¶ 61,168 at PP 44, 74, 147.

8. SoCal Edison also explains that each year SoCal Edison will submit a section 205 filing in order to establish the following year's rates, which will be based upon SoCal Edison's projected CWIP revenue requirement for that year. The projected CWIP revenue requirement for the following year's rates will be trued-up on an annual basis to reflect actual recorded costs through the use of a balancing account and subsequent rate filings. To establish these procedures, SoCal Edison states that it proposes to revise its TO tariff to reflect (1) implementation of a new CWIP Ratemaking Mechanism; (2) incorporation of new and revised definitions required by the CWIP Ratemaking Mechanism; (3) an increase in the Base TRR and the associated Base transmission rate levels applicable to retail and wholesale transmission customers taking service under the CAISO and TO Tariffs; and (4) an increase in the rates of certain Existing Transmission Credits that are subject to the High Voltage Existing Contracts Access Charge (HVECAC) as set forth in the TO Tariff.

9. SoCal Edison's proposal includes an increase of its currently-effective Base TRR applicable to retail customers by approximately \$45.1 million, and an increase in its currently-effective Base TRR applicable to wholesale customers by approximately \$45.0 million, equal to SoCal Edison's forecasted CWIP TRR for 2008.<sup>9</sup> SoCal Edison states that this CWIP TRR is incremental to SoCal Edison's currently authorized wholesale Base TRR of \$308 million and retail Base TRR of \$312 million, adopted pursuant to a "black box" settlement in Docket No. ER06-186-000, which results in an overall proposed wholesale and retail Base TRRs of \$353 million and \$357.1 million, respectively.

### **Return on Equity**

10. SoCal Edison states that it proposes to use a base ROE plus the ROE adder incentives that the Commission authorized in the *Incentives Order*. For the DPV2 and Tehachapi Projects, SoCal Edison requests an ROE of 13.25 percent, which represents a base ROE of 11.5 percent, plus 125 basis points for the authorized ROE Project adders, and 50 basis points for the authorized ROE incentive for SoCal Edison's participation in the CAISO. Further, for the Rancho Vista Project, SoCal Edison requests an ROE of 12.75 percent, which represents a base ROE of 11.5 percent, plus 75 basis points for the authorized ROE Project adder and 50 basis points for the authorized ROE incentive for SoCal Edison's participation in the CAISO. SoCal Edison argues that its requested base ROE of 11.5 percent is supported by testimony accompanying its filing, and its total ROE requests of 13.25 percent and 12.75 percent are within the zone of reasonableness.

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<sup>9</sup> The difference between the retail and wholesale Base TRR's reflect, in part, differences in past rate treatments of specific items between the CPUC and FERC.

11. SoCal Edison supports its ROE proposal using a Discounted Cash Flow (DCF) analysis, which it states is the methodology generally used by the Commission for determining the range of appropriate ROEs. SoCal Edison's proposed proxy group comprised 23 investor-owned utilities from throughout the country. As part of SoCal Edison's analysis, it used appropriate screening parameters that include (1) using only those utilities that are currently paying a common stock dividend; (2) using utilities that have electric revenues of at least \$1 billion; (3) using utilities that have similar bond ratings; (4) using utilities not involved in merger activity or major restructuring during the period of analysis; and (5) using companies categorized as electric utilities by Value Line Investment Survey. SoCal Edison then excluded those companies whose low-end and/or high-end DCF estimates are less than 100 basis points above the yields for their respective utility bonds as well as those utilities whose DCF estimates exceeded 17.7 percent. Employing these screening parameters, the number of companies in SoCal Edison's proxy group was reduced to sixteen, with a range of reasonable returns of 7.44 percent to 16.69 percent.

### **Accounting Procedures**

12. SoCal Edison states that pursuant to the *Incentives Order*, it is submitting a detailed explanation of its accounting methods and procedures to (1) implement the CWIP Ratemaking Mechanism; (2) comply with 18 C.F.R. § 35.13(h)(38) and § 35.25; and (3) maintain comparability of financial information. SoCal Edison includes in this filing testimony and exhibits for implementing the CWIP Ratemaking Mechanism. Further, to comply with 18 C.F.R. § 35.13(h)(38), SoCal Edison submits a Construction Program Statement that describes the transmission planning program and includes an assessment of alternatives to the selected Projects.

13. Order No. 679 and 18 C.F.R. § 35.25 require that a company requesting CWIP in its rate base must propose accounting procedures that ensure that customers will not be charged for both capitalized allowance for funds used during construction (AFUDC) and corresponding amounts of CWIP in rate base. To comply with this requirement, SoCal Edison explains its accounting procedures will distinguish costs of the Projects included in rate base from other costs not in rate base through a system of work orders.<sup>10</sup> Specifically, for the expenditures eligible to be included as CWIP in rate base, SoCal Edison states it will flag existing and future Project work orders so that its accounting system does not calculate AFUDC on the CWIP in rate base Projects after the effective date of the CWIP Ratemaking Mechanism. SoCal Edison contends that these accounting procedures will ensure that its accounting system will not calculate AFUDC on the CWIP related to the Projects while the CWIP Ratemaking Mechanism is in effect.

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<sup>10</sup> See Exhibit Nos. SCE-2 through SCE-6.

14. Further, SoCal Edison asserts that 18 C.F.R. § 35.25(g) requires that a company applying for rates based upon inclusion of CWIP in rate base must include the percentage of the proposed increase in jurisdictional rate level attributable to non-pollution control/fuel conversion CWIP, and the percentage of non-pollution control/fuel conversion CWIP supporting the proposed rate level. Accordingly, SoCal Edison proposes a wholesale CWIP TRR of \$45.0 million, which is a 14.6 percent increase over SoCal Edison's currently effective wholesale Base TRR of \$308 million. SoCal Edison's proposed retail CWIP TRR of \$45.1 million represents a 14.5 percent increase over SoCal Edison's currently effective retail Base TRR of \$312 million.

### **Comparability of Financial Information**

15. SoCal Edison notes in its transmittal<sup>11</sup> and supporting testimony<sup>12</sup> that in cases where the Commission has authorized 100 percent of CWIP in rate base, the Commission has required specific accounting treatment to promote comparability of financial information among public utilities. To comply with this requirement, SoCal Edison requests that it be allowed to use footnote disclosures in FERC Form No. 1 and FERC Form No. 3-Q instead of specific accounting entries to account for the effect of the CWIP ratemaking recovery for the Projects.<sup>13</sup>

### **Effective Date**

16. SoCal Edison requests that the proposed CWIP Ratemaking Mechanism be accepted and made effective on March 1, 2008. SoCal Edison also requests that, in the event the Commission determines a hearing is necessary, any suspension of the filing be ordered for a nominal period in order to preserve the benefits of the rate incentives granted by the Commission in the *Incentives Order*, to promote the goals of regulatory certainty and rate stability. Moreover, SoCal Edison argues that the CWIP Ratemaking Mechanism offers ratepayers protection from excessive rates and provides an annual true-up provision, which make an extended suspension of proposed rates unnecessary to protect customers.

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<sup>11</sup> SoCal Edison December 21, 2007 filing at 10.

<sup>12</sup> Exhibit No. SCE-5, testimony of Ms. Viera.

<sup>13</sup> See, e.g., *American Transmission Company LLC*, 105 FERC 61,388 (2003), *order on reh'g* 107 FERC 61,117 (2004), and *Trans-Allegheny Interstate Line Company*, 119 FERC ¶ 61,219 (2007), *order on reh'g*, 121 FERC ¶ 61,009 (2007).

### **Waiver Request**

17. SoCal Edison requests a waiver for provision of Period I and certain Period II cost statements required by 18 C.F.R. § 35.13(d). SoCal Edison explains that because the CWIP TRR is being developed for the first time in this application, and because it is not requesting recovery for this initial period, Period I data do not exist and are not relevant. Similarly, because the CWIP TRR is in an incremental rate and consists only of a return on rate base of the Projects, income taxes, franchise fees, and uncollectible accounts expense, the rate design for the incremental transmission rates associated with the CWIP TRR does not require new billing determinants. Therefore, SoCal Edison argues that certain Period II cost statements are not relevant or applicable to the development of the CWIP TRR for the Projects.

### **Notice of Filing and Responsive Pleadings**

18. Notice of the filing was published in the *Federal Register*, 73 Fed. Reg. 2236 (2008), with interventions and protests due on or before January 11, 2008. Timely motions to intervene were filed by California Department of Water Resources State Water Project (SWP), and the Metropolitan Water District of Southern California (Metropolitan). A late motion to intervene was filed by San Diego Gas & Electric Company (SDG&E). Motions to intervene and protest were filed by the Public Utilities Commission of the State of California (CPUC), the Transmission Agency of Northern California (TANC), the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the “Six Cities”), the Modesto Irrigation District (Modesto), the City of Santa Clara, California (Santa Clara), doing business as Silicon Valley Power (SVP) and the M-S-R Public Power Agency, (collectively, “SVP/M-S-R”), and the Northern California Power Agency (NCPA). SoCal Edison filed a motion for leave to answer and answer to the protests.

### **Discussion**

#### **Procedural Matters**

19. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2007), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Rule 213(a)(2) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2007), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept SoCal Edison’s answer because it has provided information that assisted us in our decision-making process.

### **Return on Equity**

20. Several intervenors argue that SoCal Edison's proposed 11.5 percent base ROE is excessive. The CPUC states that SoCal Edison's proposed ROE relied, in part, on a recent CPUC decision that authorized an 11.5 percent ROE for SoCal Edison's CPUC-jurisdictional assets. The CPUC argues that reliance upon the CPUC's decision mischaracterizes the CPUC ROE determination, and fails to provide proper context for the CPUC's approval of 11.5 percent. The CPUC also argues that the proposed cumulative ROEs of 13.25 percent and 12.75 percent exceed the upper end of the zone of reasonableness. Further, the CPUC contends that SoCal Edison's ROE analysis utilizes models other than the DCF model, and that such non-DCF methodologies have been rejected by the Commission. Additionally, the CPUC states that the proxy group used by SoCal Edison in its DCF analysis contains the following flaws: (1) inclusion of companies with assumed growth rate of 13.3 percent or higher; (2) inclusion of companies that are much riskier than SoCal Edison; (3) SoCal Edison has not shown that some of the companies have the same amount of balancing account protection; and (4) California's laws governing procurement plans assist SoCal Edison in ways that are not available to other companies, making their inclusion in the proxy group inappropriate. As a result of these issues, the CPUC requests that the Commission establish hearing procedures, and that the rates be made subject to refund.

21. The Six Cities argue that, using the DCF analysis, SoCal Edison has relied inappropriately on a combination of the mean and the midpoint of the proxy group ROE estimates.<sup>14</sup> The Six Cities argue instead that the Commission's policy<sup>15</sup> is that the median should be used in cases such as this where the ROE is derived for a single utility bearing risk that is approximately the same as the average level of risk in the proxy group.<sup>16</sup> Additionally, the Six Cities state that the Commission has emphasized that the median should be used in cases where the ROE is set for a single electric utility.<sup>17</sup> As such, the Six Cities contend that the proxy group relied upon by SoCal Edison would

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<sup>14</sup> Regarding SoCal Edison's requested base ROE of 11.50 percent, TANC, Modesto, SVP/M-S-R, and NCPA concur with the Six Cities arguments and requests for relief.

<sup>15</sup> See *Northwest Pipeline Corp.*, 99 FERC ¶ 61,305, at 62,276 (2002).

<sup>16</sup> The median is the point where there are exactly the same number of values in the distribution that are higher and lower. The midpoint is the simple average of the highest and lowest with a distribution, whereas the mean is the average of all values.

<sup>17</sup> See *Midwest Independent Transmission System Operator, Inc.*, 106 FERC ¶ 61,302 at P 9-10 (2004).



result in the calculation of a median of 10.02 percent. The Six Cities conclude that the use of the 10.02 percent median is consistent Commission policy and is most appropriate for use in this proceeding. Therefore, the Six Cities request that the Commission accept SoCal Edison's filing subject to refund pending the outcome of hearing and settlement judge procedures.

22. SoCal Edison states in its answer that all the attacks on its ROE analysis are unfounded. Regarding the CPUC's arguments, SoCal Edison denies that it relies on the CPUC decision to justify its proposed ROE, and that it fully supports its proposed ROE request with the Commission-approved DCF model. Additionally, concerning the CPUC's argument that the overall ROEs are outside the range of reasonableness, SoCal Edison states that the DCF estimates in the CPUC decision do not define zone of reasonableness in the same way that it is defined before the Commission, i.e., using individual company estimates. SoCal Edison thus asserts that the CPUC's range was derived simply by taking three overall average DCF estimates derived by SoCal Edison, Federal Executive Agencies, and the Division of Ratepayer Advocates. Therefore, the CPUC's reasonable range argument confuses overall average estimates with individual company estimates, and is thus an "apples to oranges" comparison. SoCal Edison avers that when the CPUC decision is properly reviewed, the upper end of the reasonable range is found to be even higher than the upper end of the zone of reasonableness in the proposed DCF analysis performed in this case. SoCal Edison concludes that because the CPUC's protest relies on a faulty interpretation of the Commission's use of the term "zone of reasonableness," the Commission should summarily reject the CPUC's arguments.

23. Finally, in response to the CPUC's arguments that SoCal Edison's proposed DCF analysis contains certain flaws, SoCal Edison asserts that, consistent with the *ISO New England* order,<sup>18</sup> it excluded companies with DCF results above 17.7 percent. SoCal Edison also responds that when constructing its comparable group of companies, it included companies with the same bond rating (BBB+), as well as companies one rating below (BBB) and one rating above (A-) SoCal Edison's rating. SoCal Edison states that this method is consistent with Commission precedent and should be accepted.<sup>19</sup>

24. In response to the Six Cities argument that the median, rather than the midpoint, should be used in the development of the proposed base ROE, SoCal Edison states that the Commission did not state that (1) the median is the most refined measure of central

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<sup>18</sup> *ISO New England*, 109 FERC ¶ 61,147, at P 205 (2004).

<sup>19</sup> *Consumers Energy Co.*, 86 FERC ¶ 63,004, at 65,023 (1999), *aff'd* 98 FERC ¶ 61,333, at 62,412 (2002).

tendency; (2) central tendency is the only relevant factor in setting an ROE for a single utility; and (3) it would use the median to set the ROE for a single utility. SoCal Edison also states that the Commission has not reversed its policy established in *Southern California Edison Co.*,<sup>20</sup> and followed in *Allegheny Power*,<sup>21</sup> of using the midpoint for determining the ROE in a DCF analysis for a single utility. Therefore, SoCal Edison concludes that its use of the midpoint of the DCF range is appropriate and consistent with Commission precedent.

### **Determination**

25. As we explained in our recent determination in a proceeding involving Atlantic Path 15,<sup>22</sup> as well as our orders in *Bangor Hydro* and *Midwest ISO*, the appropriate proxy group for use in calculating an ROE using the DCF method is comprised of companies from the region in which the utility is located.<sup>23</sup> We find that being located in the same geographic and economic region is a relevant factor to consider in determining whether companies face similar business risks. Once the appropriate proxy group is identified, it should be screened to ensure that only companies with comparable risks are included.

26. As we stated in our recent order on *Atlantic Path 15*,<sup>24</sup> the use of an established proxy group, such as the WECC-wide proxy group, will allow for an up-front determination of the appropriate ROE for entities seeking general rate changes and those seeking incentive rates under Order No. 679, such as SoCal Edison in the instant filing. The Commission has previously found the WECC region to be integrated both electrically and commercially.<sup>25</sup> We find that this approach will provide a significant

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<sup>20</sup> *Southern California Edison Co.*, 92 FERC ¶ 61,070, at 61,260-62 (2000).

<sup>21</sup> *Allegheny Power*, 106 FERC ¶ 61,241, at P 24 (2004).

<sup>22</sup> *Atlantic Path 15, LLC*, 122 FERC ¶ 61,135, (2008) (*Atlantic Path 15*).

<sup>23</sup> See *Bangor Hydro Electric Company*, 117 FERC ¶ 61,129, at P 38 (2006) (*Bangor Hydro*), and *Midwest Independent System Operator ROE Order*, 100 FERC ¶ 61,292, at P 9-12 (2002) (*Midwest ISO*).

<sup>24</sup> *Atlantic Path 15*, 122 FERC ¶ 61,135, at P 23.

<sup>25</sup> See, e.g., *Order on the California Comprehensive Market Redesign Proposal*, 100 FERC ¶ 61,060, at P 2 (2002) (“We cannot rule in isolation on the California market design, as California is an integral part of a trade and reliability region in the West. Because of this interdependency of market and infrastructure, conditions in and changes to the California market affect the entire region”); *Removing Obstacles to Increased*

(continued)

measure of regulatory certainty in the determination of the appropriate ROE and will improve the Commission's ability to decide cases quickly for entities seeking financing of necessary infrastructure. Further, we believe this approach will simplify rate proceedings and reduce litigation costs, while still producing reasonable ROE allowances. Finally, this approach is consistent with the evolution of our precedent in this area, particularly our orders in *Bangor Hydro* and *Midwest ISO*.

27. Our analysis and calculation of the just and reasonable ROE for SoCal Edison is based on a WECC-wide proxy group, with appropriate consideration for risk. Specifically, we have utilized the screening parameters we accepted in our recent *Atlantic Path 15* Order, including (1) using only those utilities that are currently paying cash dividends; (2) using utilities that are covered by two generally recognized utility industry analysts; (3) using utilities that had similar senior bond and/or corporate credit ratings; (4) using utilities that had not announced a merger during the six-month period used to calculate dividend yields; and (5) using utilities that have both a Thompson Financial First Call (IBES) growth rate and are covered by Value Line. While these screening parameters resulted in a nine-company proxy group in *Atlantic Path 15*,<sup>26</sup> here, they result in a six-company proxy group.<sup>27</sup> Therefore, we find that a reasonable range of returns on equity for SoCal Edison appears to be from 7.97 percent to 13.67 percent. This result is derived by using the DCF results from the revised proxy group as shown in *Atlantic Path 15*, Exhibit No. ATL-7. Thus, SoCal Edison's proposed overall ROEs (including the incentive adders) of 12.75 percent for the Rancho Vista Project, and 13.25 percent for the DPV2 and Tehachapi Projects fall within the upper end of this zone.

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*Electric Generation and Natural Gas Supply in the Western United States*, 94 FERC ¶ 61,272, at 61,973 (2001) (“In Order No. 2000, the Commission recognized that many of the economic and reliability issues confronting the electric industry could only to [sic] be addressed on a regional basis. . . . Any long-term solution to address the crisis and, more importantly, to prevent its recurrence, must be developed on a west wide basis”) (footnote omitted).

<sup>26</sup> The nine companies in the proxy group are: Black Hills Corporation, Edison International, IDA Corporation, Inc., PG&E Corporation, Portland General Electric Co., Pinnacle West Capital, PNM Resources, Sempra Energy, and Xcel Energy, Inc. See Docket No. ER08-374-000 Exhibit No. ATL-4.

<sup>27</sup> Black Hills Corp., Edison International, and Pinnacle West Capital have been deleted from the proxy group because their corporate credit rating of BBB- is two rating levels lower than SoCal Edison's corporate credit rating of BBB+. The Commission believes that companies within one credit rating level can be considered comparable in risk.

However, because we are providing an up-front analysis of the company's ROE at this time, as compared to our typical practice of setting the development of the ROE for hearing, in order to give all parties an opportunity to present evidence to rebut the proposed ROE determination as set forth above, we order a paper hearing on the range of reasonableness of SoCal Edison's ROE. Interested parties should submit comments within forty five days of the issuance of this order. Such comments should specifically address the use of a WECC-wide proxy group for determination of the appropriate ROE for SoCal Edison, the screening parameters used, and other related issues relevant to determining SoCal Edison's appropriate ROE. Other comments submitted on SoCal Edison's ROE will be addressed in a subsequent order following the paper hearing. The paper hearing shall not include issues already decided in the *Incentives Order*, such as whether SoCal Edison is entitled to the ROE adders.

28. Accordingly, we will nominally suspend the proposed rates, effective March 1, 2008. This will give the interested parties in the above-ordered paper hearing rate protection consistent with our determination in *West Texas Utilities Company*.<sup>28</sup>

### **Accounting Procedures**

29. The CPUC argues that SoCal Edison's proposal of the CWIP ratemaking mechanism does not provide sufficient detail to evaluate whether SoCal Edison will double recover costs by accruing AFUDC after they are included in its CWIP balancing account or whether SoCal Edison is including the same costs in both FERC and CPUC rates. CPUC states that parties need to conduct discovery on these issues so that they can scrutinize the costs in SoCal Edison's CWIP balancing account to ensure there is no double recovery of costs or any unreasonable costs included therein.

30. In its answer, SoCal Edison argues that it has clearly demonstrated that its accounting procedures will work to ensure that no double recovery will occur once the CWIP Ratemaking Mechanism goes into effect. SoCal Edison states the CPUC's argument lacks any specific concerns and should be disregarded by the Commission.

### **Determination**

31. The Commission finds that SoCal Edison's proposed accounting procedures in Exhibit Nos. SCE-2 through SCE-6 of its filing sufficiently demonstrate that it has accounting procedures and internal controls in place to prevent double recovery, contrary to CPUC's assertions. However, in order to give all parties the opportunity to examine the prudence of such costs, SoCal Edison must include a descriptive list of the costs included as CWIP in rate base, as a part of its annual filing. SoCal Edison must also

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<sup>28</sup> 18 FERC ¶ 61,189, at 61,373 (1982).

submit, within thirty days of the issuance of this order, a descriptive list of the costs included as CWIP in rate base, as of February 29, 2008.

### **CWIP Balancing Account – Account 182.3**

32. SoCal Edison proposes to establish a CWIP Ratemaking Mechanism that will calculate its actual CWIP revenue requirement each month and then compare it to the incremental CWIP revenues it receives from all retail transmission customers. The difference between these two amounts will be included in a balancing account, with interest added to the account balances. Then, the amount in the balancing account as of September 30 of each year will be included in the following year's rates.

### **Determination**

33. We accept SoCal Edison's proposed CWIP Ratemaking Mechanism. However, SoCal Edison does not indicate how the CWIP Balancing Account will be accounted for within the context of the Commission's Uniform System of Accounts (USofA). Therefore, we direct SoCal Edison to use Account 182.3, Other Regulatory Assets, as its "balancing account" and to make separate entries to record, on a monthly basis, its actual CWIP revenue requirement and its incremental CWIP revenue, together with accrued interest, as appropriate. This accounting will provide financial transparency to the recovery of SoCal Edison's return on CWIP.

### **Comparability of Financial Information**

34. Public utilities that receive a current return on CWIP recover this cost in a different period than when they would ordinarily be charged to expense under the general requirements of the Commission's USofA.<sup>29</sup> To promote comparability of financial information between entities, the Commission has required a specific accounting treatment or the use of footnote disclosures to recognize the economic effects of having CWIP in rate base.<sup>30</sup> To comply with the Commission's requirement for comparability of financial information, SoCal Edison seeks to use footnote disclosures to account for the economic effects of its CWIP ratemaking incentive, consistent with disclosures previously authorized by the Commission. SoCal Edison's proposal is not protested.

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<sup>29</sup> The USofA requires an AFUDC to be capitalized as a cost of a construction project and depreciation over the service life of the asset.

<sup>30</sup> See, e.g., *American Transmission Company LLC*, 105 FERC 61,388 (2003), *order on reh'g* 107 FERC 61,117 (2004), and *Trans-Allegheny Interstate Line Company*, 119 FERC ¶ 61,219, *order on reh'g*, 121 FERC ¶ 61,009 (2007).

### **Determination**

35. The Commission directs SoCal Edison to provide footnote disclosures in the notes to the financial statements of their annual FERC Form No. 1 and their quarterly FERC Form No. 3-Q which (1) fully explain the impact of the transmission rate incentives it receives insofar as the incentives provide for a deviation from the general requirements of the USofA; (2) include details of amounts not capitalized because of the transmission rate incentives for the current year, the previous two years, and the sum of all years; and (3) include a partial balance sheet consisting of the Assets and Other Debits section of the balance sheet to include the amounts not capitalized because of the transmission rate incentives.

### **Capital Structure**

36. The CPUC protests SoCal Edison's filing asserting that it is ambiguous as to what capital structure SoCal Edison is using. CPUC states that it is unclear whether CPUC is using the "projected" capital structure shown in SoCal Edison's Ex. 7 or the CPUC approved capital structure. CPUC states that if SoCal Edison is using a capital structure other than the CPUC-approved capital structure, then it is acting contrary to a CPUC rule that prohibits a utility from deviating from its proposed capital structure without a waiver, which SoCal Edison has not requested.

37. SoCal Edison states in its answer that the CPUC's concerns are unfounded because it will be using the CPUC-approved capital structure and not the projected capital structure cited by the CPUC. SoCal Edison also notes that any CPUC rule addressing capital structure does not in any way dictate the capital structure that SoCal Edison must utilize in establishing Commission jurisdictional rates.

### **Determination**

38. The Commission finds that the CPUC's concerns regarding SoCal Edison's capital structure are misplaced. In his testimony, Dr. Hunt states that "[SoCal Edison's] requested capital structure equals the ratemaking capital structure that has been authorized for [SoCal Edison's] retail jurisdiction by the CPUC, and it is the target capital structure that [SoCal Edison] seeks to achieve in financing its business."<sup>31</sup> Moreover, SoCal Edison, in its answer, explains that it used "the CPUC-approved capital structure of 43% long-term debt, 9% preferred stock, and 48% common equity. . . ."<sup>32</sup> We, therefore, conclude that on the basis of information provided by Dr. Hunt, through

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<sup>31</sup> Ex. SCE-7 at 5:5-7.

<sup>32</sup> SoCal Edison Answer at 17.

his testimony, and from SoCal Edison's answer that the capital structure used by SoCal Edison is the capital structure approved by the CPUC.

### **Single Issue Ratemaking**

39. TANC states that SoCal Edison's filing constitutes "piecemeal ratemaking" because it attempts to establish a new Base ROE. TANC contends that because SoCal Edison's most recent ROE was determined by a black box settlement, SoCal Edison has no current ROE on file with the Commission. TANC states that while the Commission has approved ROE incentive adders and a CWIP Recovery Mechanism, this does not exempt SoCal Edison from its responsibility to establish a new base ROE through a comprehensive rate filing.

40. TANC claims that a comprehensive approach would be appropriate because the Commission has supported such a comprehensive approach in the past, and because single issue ratemaking may distort the utility's overall rate case and could result in rates that are unjust and unreasonable. While TANC acknowledges that the Commission stated in Order No. 679 that it would relax its policy of rejecting single issue rate filings, TANC states that SoCal Edison's case is not a good candidate for a single issue rate filing. TANC states that because SoCal Edison has no base ROE on file with the Commission, its filing is different from filings where an incentive ROE adder would be added on top of an existing base ROE. TANC argues that generating a new base ROE opens the door for a comprehensive rate filing.

41. TANC also argues that while SoCal Edison did request and receive permission from the Commission to submit a single issue rate filing with regard to CWIP recovery, it did not justify or request permission for incentive ROE adders. TANC asserts that because of this, good cause exists for the Commission to deny SoCal Edison's request with regard to CWIP recovery. TANC also notes that the allowance of CWIP recovery is more easily incorporated into current CWIP rates than an ROE adder because it does not require a new base ROE.

42. In its answer, SoCal Edison asserts that, contrary to TANC's claims, it is not making a single issue rate filing to change its base ROE and replace the black box settlement rate. SoCal Edison argues that it has proposed a base ROE for the limited purpose of applying it to the 2008 CWIP ratemaking mechanism. Therefore, SoCal Edison argues that if it were forced to file a full cost of service rate case as TANC suggests, it would negate the benefits of the Commission's granting of the single issue CWIP incentive, which was intended to provide upfront regulatory certainty, rate stability, and improved cash flow for extremely risky and expensive projects.

43. SoCal Edison also argues that it has already been granted these incentive ROE adders and that including them in the calculation for the ROE used to implement the

CWIP recovery mechanism is appropriate. SoCal Edison also notes that it has limited any request of ROE incentive adders to the ROE that will apply for 2008.

44. SoCal Edison also asserts the TANC's arguments regarding incentive adders constitute a collateral attack on the *Incentives Order* because TANC seeks to deny SoCal Edison the full benefit of the ROE project incentive adders for 2008. SoCal Edison argues that the only way for it to earn a return on CWIP expenditures is through the ROE that it proposes in the CWIP filing. SoCal Edison states that if it cannot include the incentive adders in the CWIP filing it will lose the value of the incentives until it files a full cost of service rate case. SoCal Edison argues that this would contravene the Commission's intent in granting the ROE incentives.

### **Determination**

45. The Commission agrees with SoCal Edison that its proposal of an ROE with ROE incentive adders for the purpose of recovering CWIP in a single issue filing is appropriate and consistent with our intent in the *Incentives Order*, and consistent with our approval of 100 percent recovery of CWIP for DPV2 and the Tehachapi projects.<sup>33</sup> As there is no ROE on file with the Commission, it is entirely appropriate that SoCal Edison propose an ROE for the purpose of recovering CWIP as a single issue filing. Moreover, requiring SoCal Edison to file a comprehensive rate case would negate the incentives approved by the Commission. This requirement also would impede the Commission in achieving the incentives program laid out in Order No. 679, which is to provide incentives for transmission infrastructure investment to ensure the reliability of the bulk power system and reduce the cost of delivered power to consumers.<sup>34</sup> It also will help achieve rate stability for SoCal Edison's customers by avoiding rate shock when the additional incentives are included in the rate base during the next comprehensive rate filing.

### **Waiver**

46. We grant SoCal Edison's unopposed requests for waiver of section 35.13 of the Commission's regulations ("Filing of Changes in Rate Schedules"). Because SoCal Edison is not requesting CWIP recovery associated with the Projects in its Base TRR for the time period covered by Period I, we agree that there is no need for or benefit from requiring SoCal Edison to submit this filing. Further, we agree that the cost statements for which SoCal Edison requests waiver for Period II are not applicable to the

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<sup>33</sup> *Incentives Order*, 121 FERC ¶ 61,168 at P 57.

<sup>34</sup> Order No. 679, 116 FERC ¶ 61,057 at P 1.



development of the CWIP for the Projects. We, therefore, find good cause to grant these waiver requests.<sup>35</sup>

### **Paper Hearing**

47. As noted above, we find that a paper hearing will most efficiently and expeditiously permit all parties an opportunity to address the Commission's preliminary analysis of SoCal Edison's proposed overall ROEs (including the incentive adders) of 12.75 percent for the Rancho Vista Project and 13.25 percent for the DPV2 and Tehachapi Projects as being within the upper end of the zone of reasonableness. This paper hearing shall not include issues already decided in the *Incentives Order*, such as whether SoCal Edison is entitled to the ROE adders.

### **The Commission orders:**

(A) SoCal Edison's proposed tariff sheets are hereby accepted for filing and suspended for a nominal period, to be effective March 1, 2008, subject to refund, as discussed in the body of this order.

(B) SoCal Edison's request for waiver of the requirements of section 35.13(d) of the regulations to provide Period I cost statements and waiver of section 13.13(h) of certain Period II cost statements is hereby granted for good cause shown, as discussed in the body of this order.

(C) The Commission directs SoCal Edison to implement the accounting procedures as identified herein.

(D) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R., Chapter 1), a paper hearing shall be held as discussed in the body of the order. The Commission directs all interested parties to file a brief on the issues set for paper hearing within forty-five days of the issuance of this order. Each party's presentation should separately state the facts and arguments advanced by the party and include any and all exhibits, affidavits, and/or prepared testimony upon which the party relies. The statement of facts must include citations to the supporting exhibits, affidavits and/or prepared testimony. All materials must be verified and subscribed as set forth in 18 C.F.R. § 385.2005 (2007).

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<sup>35</sup> See *United Illuminating Co.*, 119 FERC ¶ 61,182 at P 93 (2007).

(E) SoCal Edison is directed to submit, within thirty days from the issuance of this order, a compliance filing regarding a list of the costs included as CWIP in rate base, as discussed in the body of this order.

By the Commission. Commissioner Kelly dissenting in part with a separate statement attached.

Commissioner Wellinghoff concurring in part and dissenting in part with a separate statement to be issued at a later date.

( S E A L )

Kimberly D. Bose,  
Secretary.

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Southern California Edison  
Company

Docket No. ER08-375-000

(Issued February 29, 2008)

Kelly, Commissioner, *dissenting in part*:

This order addresses, among other things, Southern California Edison's request for incentive returns on equity (ROE) for three separate projects—Devers-Palo Verde II, Tehachapi Transmission, and Rancho Vista. All three projects were granted incentive treatment, including ROE adders, in a Commission order on Southern California Edison's petition for declaratory order.<sup>1</sup> I did not support granting the ROE adders in that order and on that basis I dissent in part from this order.

I note that the majority has applied similar methods of determining incentive ROEs in the instant proceeding and in an order addressing the Potomac-Appalachian Transmission Highline, L.L.C. (PATH) transmission project.<sup>2</sup> In addressing requests to implement incentive rate authorization for the PATH and Southern California Edison projects, the majority has decided to forgo a full evidentiary hearing before an Administrative Law Judge to determine the appropriate ROE. This is a departure from "our typical practice of setting the development of the ROE for hearing."<sup>3</sup> My decision not to support incentive ROE adders for the Southern California Edison projects notwithstanding, I do not believe that such a departure is a prudent means of determining an ROE and have articulated my views on this more thoroughly in my separate statement regarding the order on the PATH proceeding.<sup>4</sup> In the instant proceeding, parties have an opportunity to present evidence to rebut the proposed ROE determination in a paper hearing. The majority has not distinguished, or even attempted to distinguish, between this proceeding and the PATH proceeding and explain why one proceeding requires a paper hearing and why the other one does not. I believe that such disparate treatment reinforces the notion that the Commission has adopted an ad hoc approach to granting transmission incentives in general.

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<sup>1</sup> *S. Cal. Edison Co.*, 121 FERC ¶ 61,168 (2007).

<sup>2</sup> *See Potomac-Appalachian Transmission Highline, L.L.C.*, 122 FERC ¶ 61,188 (2008).

<sup>3</sup> *S. Cal. Edison Co.*, 122 FERC ¶ 61,187, at P 27 (2008).

<sup>4</sup> *Potomac-Appalachian Transmission Highline, L.L.C.*, 122 FERC ¶ 61,188 (Kelly, Comm'r, concurring and dissenting in part).

For these reasons, I respectfully dissent in part from this order.

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Suedeem G. Kelly