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ATTLEAPS ([attleaps@caiso.com](mailto:attleaps@caiso.com))  
California Independent System Operator

**VIA EMAIL**

**Re: Comments of Constellation Energy Commodities Group, Inc.,  
Constellation NewEnergy, Inc., and Constellation Generation Group  
("Constellation") on *Advanced Transmission Technologies Lake Elsinore Advanced  
Pumped Storage CAISO White Paper Draft 2 for Stakeholder Meeting March 20,  
2007 ("ATT Whitepaper")***

Pursuant to the instructions in the ATT Whitepaper, Constellation is submitting these comments with respect to cost recovery and operations/management of the pumped storage facilities that are included in a project proposed by The Nevada Hydro Company, Inc ("TNHC") that has been designated by the Federal Energy Regulatory Commission ("FERC") as an "advanced transmission project" in the Energy Policy Act of 2005.

As described in the ATT Whitepaper, the TNHC project is composed of two parts: (1) the Talega-Escondido/Valley-Serrano 500 kV Interconnect project (TE/VIS Interconnect), which consists of an approximately 30-mile, high voltage transmission line that runs through public lands managed by the United States Forest Service and connects San Diego Gas & Electric Company's (SDG&E) transmission system with Southern California Edison Company's (SCE) system, and (2) the Lake Elsinore Advance Pump Storage project (LEAPS), which is intended to be a pumped hydro storage facility with an installed generating capacity of 500 MW and a pumping capacity of 600 MW. For clarity, Constellation states at the outset that the transmission component of the project is properly considered for inclusion in the Transmission Access Charge ("TAC"). Constellation's comments herein are focused on the LEAPS (pumped storage and generation) aspect of the project.

As a threshold matter, Constellation concurs with the CAISO that "market cost recovery is the most appropriate method of cost recovery for LEAPS."<sup>1</sup> There is no reasonable justification or regulatory authority for granting a pumped storage **generation** facility the same ratemaking and cost recovery protections that are afforded to **transmission**. Any strategically placed generation resource can provide transmission benefits such as reducing congestion or eliminating the need for transmission expansion, and to encourage or permit such resources to simply "change their stripes" from the generation category to transmission is simply inappropriate. Indeed, the

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<sup>1</sup> See ATT Whitepaper, page 4.

characterization of this generation resource as a transmission asset will undermine the development of the competitive wholesale generation market, including CAISO's implementation of LMP, which is supposed to signal the need for locational generation expansion. Furthermore, in light of the fact that California's energy policy is focused on ensuring that generation resources that serve California loads are competitively procured, there is no compelling or overriding reason that this pumped storage generation project should be permitted to circumvent those competitive procurement processes. Accordingly, Constellation does not support cost recovery through TAC for any portion of the pumped storage project.

While the CAISO states a preference that LEAPS not be afforded recovery of costs through TAC, the CAISO goes on to say that the "CAISO would only be willing to recommend any cost based recovery through the TAC for the LEAPS pumped storage facility if further study demonstrates that LEAPS provides compelling value that is not attainable through other sources and would not likely be developed absent cost based recovery through the TAC."<sup>2</sup> With this statement, the CAISO keeps the door open for a determination that a subsidized, non-market based cost recovery mechanism may be appropriate for this project. Constellation presumes that the CAISO is leaving this door open because it has not yet made any determination as to whether it would recommend this project to the CAISO Board of Governors.<sup>3</sup> However, the CAISO should recognize that if an evaluation of the merits of the project leads CAISO to conclude that the pumped storage part of the project brings certain benefits *that are not reflected or recoverable in the market*, then the irrefutable conclusion must be that there is something seriously wrong with the market design and the price signals coming from the market place. If such is the case—CAISO should pause before acting and refocus its attention on fixing those market design flaws so that there is no need for generation investments subsidized under the guise of "transmission assets."

It should be apparent that Constellation supports the fifth operations/management option advanced by the CAISO, "where TNHC retained operational control of LEAPS subject only to the normal constraints that would be placed on a pumped storage plant".<sup>4</sup> This option is the best – and only – approach that the CAISO should adopt. However, if CAISO determines that the project will be given a preferential cost recovery status, then Constellation requests that the energy auction approach described in Option 2 be pursued. As Constellation noted at the March 20, 2007 stakeholder meeting, the California IOUs are already required to conduct such an energy auction approach when they enter into a Power Purchase Agreement for which

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<sup>2</sup> See ATT Whitepaper, page 5.

<sup>3</sup> In this regard, Constellation concurs with the comments made by several parties that this discussion of how to integrate LEAPS in advance of any determination as to whether the project would pass muster in the CAISO planning process puts the "cart before the horse."

<sup>4</sup> See ATT Whitepaper, page 6.

Comments of Constellation.

March 28, 2007

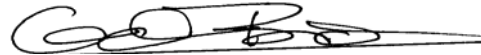
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the costs are to be recovered from all customers in their respective service territory (so-called “benefiting customers”).<sup>5</sup>

### Conclusion

Constellation appreciates the opportunity to submit these comments.

Should there be any questions regarding these comments, please contact the undersigned.



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<sup>5</sup> See Decision 06-07-029, issued by the California Public Utilities Commission on July 20, 2006.