

Memorandum

To: ISO Board of Governors
From: Gary DeShazo, Director – Regional Transmission-South
Date: March 1, 2007
Re: ***Revised Cost of PG&E's 3rd Martin-Hunters Point 115 kV Cable Project***

This memorandum does not require Board action.

EXECUTIVE SUMMARY

The ISO Board of Governors approved the 3rd Martin-Hunters Point 115 Cable Project in November 2004 to address a PG&E reliability need at an estimated cost of \$35M pursuant to the following unanimous motion:

MOVED, that the Board of Governors,

- 1. Grants its approval of the Martin-Hunters Point 115 kV Underground Cable Project, as proposed, as the preferred transmission alternative to address identified reliability concerns within the internal San Francisco 115 kV cable system beginning in 2007, and directs PG&E to proceed expeditiously with design, environmental, and permitting activities for the proposed project.*
- 2. Approves ISO support of PG&E recovery of reasonably incurred costs associated with the permitting and construction of the Martin-Hunters Point 115 kV Underground Cable Project in relevant FERC rate cases.*

Subsequent to this Board approval, PG&E has completed a more in depth cost analysis for the Project and is now projecting a Project cost of \$80M.¹ This revised cost estimate reflects more accurate cost information on congested urban underground construction, permitting requirements, hazardous waste handling and environmental mitigations, as well as significantly higher underground cable costs. In addition, the proposed route is slightly longer than the original estimate. Nonetheless, the scope and need for this Project remains unchanged from that which were presented to and approved by the Board in November 2004. In reviewing this project again, Management has concluded it continues as the preferred transmission alternative consistent with the Board's prior approval. Management would, however, like to take this opportunity to inform the Board of the significant change in cost of this Project consistent with Board direction under such circumstances.

¹ Note the Project was originally scheduled for operation by the summer of 2007; however, permitting and determination of the project's route has led to the project presently scheduled for operation by the second quarter of 2009.

BACKGROUND

The Project consists of constructing a third 115 kV underground cable between Martin and Hunters Point Substations which will be approximately five miles in length. It is also an integral part of the ISO's Action Plan to retire existing, old generation within San Francisco and is required to reliably distribute additional power imported into Martin Substation via the Jefferson-Martin 230 kV line. ISO Management first presented an Action Plan to the ISO Governing Board on September 15, 2004, that identified a combination of 14 transmission projects and four new peaking generation units that are required to allow for the release of the existing Hunters Point and the Potrero generator units from their Reliability Must-Run (RMR) contracts. In response to a request that CCSF made during the September 15, 2004 Board Meeting, Management revised the Action Plan to release Potrero Unit 3 from its RMR contract with installation of the proposed new CCSF peaking generation units. This revised Action Plan was approved by the ISO Board on November 10, 2004. The new CCSF generator units are referred to as the San Francisco Electric Reliability Project (SFERP) and have been approved by the California Energy Commission.

The 3rd Martin-Hunters Point 115 kV cable has become a key part of the Action Plan. The project was approved individually by the ISO Board due to its cost estimate of more than the \$20 million threshold established for such approval. This is a "Reliability" based project required to meet North American Electric Reliability Council (NERC) reliability standards as compared to an "Economic" based project that would provide access to less expensive generation resources and therefore offset the cost of the project. This new cable was initially intended as a long-term solution to using emergency ratings for 115 kV cables in San Francisco. With the progression from Reliability Must-Run to Locational Capacity Requirements to maintain electric transmission system reliability, this new cable is now required to prevent loss of load in San Francisco upon a contingency event. ISO Staff technical analysis has determined that there will be adequate load serving capability for San Francisco without depending on the emergency ratings after the proposed Trans Bay DC Cable Project and the 3rd Martin-Hunters Point 115 kV are in operation.

As a result of completing the first portion of the Plan, the Hunters Point Power Plant has been retired. Based on the projected completion dates for the projects, the release of the Potrero Power Plant Unit #3 from its RMR contract is projected to occur by 2009. Mitigation of reliance on the existing Potrero Units 4-6 would occur when the 3rd Martin-Hunters Point 115 kV cable is in operation along with the projects identified in the Action Plan.

As with the other Action Plan projects, if the 3rd Martin-Hunters Point 115 kV Cable project or the proposed CCSF CT's are not permitted, built and in operation as planned, it will be necessary to retain all of the existing Potrero Power Plant generation.

CONCLUSION

Consistent with Board direction, Management takes this opportunity to inform you of a significant cost increase with respect to a previously approved reliability project and to note that the Project remains consistent with the prior approval despite the significant increase in costs.