

**PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Investigation into)
implementation of Assembly Bill 970 regarding) I.00-11-001
the identification of electric transmission and)
distribution constraints, actions to resolve those)
constraints, and related matters affecting the)
reliability of electric supply.)
_____)

**REPLY BRIEF OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
ON PHASE II ISSUES**

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I. INTRODUCTION AND SUMMARY

In accordance with California Public Utility Commission Rule 75, and the oral ruling of Administrative Law Judge (ALJ) Gottstein, the California Independent System Operator (CA ISO) respectfully submits its reply brief in the above captioned case.

In this phase of the proceeding, the California Public Utilities Commission (CPUC) assessed the possibility of need for regional transmission links from Southern California to the Southwest and Mexico. Opening briefs were filed by CA ISO, Southern California Edison Company (SCE), San Diego Gas and Electric Company (SDG&E), and Coral Power, L. L. C. (Coral).

This reply brief addresses the opening brief of Coral Power which suggests that the CPUC should endorse the addition of a second Miguel-Mission 230 kV line and the addition of transformers at the Imperial Valley substation. These upgrades are not needed to maintain reliability. Accordingly, they must be assessed from an economic standpoint. There is nothing in the record to demonstrate that the benefit to ratepayers of such upgrades, outweighs their cost. Absent such a showing, it is premature to determine that the upgrades should be funded by ratepayers. Nonetheless, the CA ISO supports timely consideration of the economic justification of the upgrades desired by Coral.

II. ADEQUATE ECONOMIC JUSTIFICATION IS REQUIRED TO SUPPORT ROLLING THE COSTS OF UPGRADES ADVOCATED BY CORAL INTO TRANSMISSION RATES.

Coral's testimony and opening brief focus primarily on the justification for the addition of a second Miguel-Mission 230 kV line and, belatedly, transformers at Imperial Valley. These upgrades are not currently necessary to maintain reliability. Furthermore, no specific information

has been offered about the benefits to ratepayers of such upgrades. Instead Coral cites general potential benefits and argues that these and a FERC order offering a rate of return on equity (ROE) premium for certain transmission facilities provide the basis for CPUC support for the upgrades. Without significant additional information, such support would be premature. Nonetheless, the CA ISO supports expeditious development of the additional information necessary to assess the benefits and beneficiaries of the facilities advocated by Coral.

The addition of a second Miguel-Mission 230 kV line and the addition of transformers at Imperial Valley are not necessary to maintain reliability in Southern California. In accordance with various directives from the CPUC, the Assigned Commissioner, and the ALJ, four of the five active parties in this case (SDG&E, SCE, the California Energy Commission (CEC) and the CA ISO, herein after "Opening Parties")¹ undertook a scenario assessment exercise and submitted joint opening and reply testimony. The assessment and joint testimony addressed conceptual major links from Southern California to the Southwest and from Southern California to Mexico, or more precisely in the case of Mexico, significant backbone lines that would be needed to utilize power from Mexico in Southern California and statewide. The assessment did not take into account in-state transmission requirements, except for major backbone lines needed to utilize power from Mexico in Southern California and statewide. Exh. 4, Joint Reply Testimony on Behalf of the California Independent System Operator, San Diego Gas and Electric Company, Southern California Edison Company and the California Energy Commission at 3.

In refraining from addressing in-state transmission constraints the Opening Parties neither opined that there are no in-state transmission constraints in Southern California , nor intended to

¹ Save Southwest Riverside County submitted testimony but did not undertake cross examination or submit an opening brief.

under state their importance. *Id.* Rather, the Opening Parties indicated that in-state constraints have been and will continue to be addressed annually by the utilities and the CA ISO in the Coordinated Grid Planning Process. *Id.*

While none of the written testimony by the Opening Parties or others addressed a reliability based need for the addition of a second Miguel-Mission 230 kV line, the issue was addressed during hearings. In response to cross-examination by Coral's attorney, Ms. Brown testified that a second Miguel-Mission 230 kV line is not needed for reliability. *Tr. (Brown) 1 Vol. at 70.* Ms. Brown explained that during interconnection studies for Otay Mesa, it was determined that output from the plant could be delivered to the load in the San Diego load center in all but one scenario, a double contingency on the Miguel -Mission and the Miguel-Sycamore 230 kV lines. *Tr. (Brown) 1 Vol. at 70-1.* SDG&E and the CA ISO are developing a remedial action scheme (RAS) to cut back output from Otay Mesa in the case of a double contingency. *Tr. (Brown) 1 Vol. at 71.* Moreover, Otay Mesa has the option to upgrade transmission facilities if this is preferable to being subject to the RAS. Thus, the addition of a second Miguel-Mission 230 kV is not needed for reliability.

Ms. Brown agreed that to the extent additional generation develops east of Miguel, such additional generation would also be impacted in the event of a double contingency on the Miguel-Mission and the Miguel-Sycamore 230 kV lines. *Tr. (Brown) 1 Vol. at 76.* However, additional new generators east of Miguel like Otay Mesa could be subject to a RAS, and would also have the option of upgrading transmission facilities.

While the addition of a second Miguel-Mission 230 kV line may not be needed for reliability, there is general agreement that the addition of a second Miguel-Mission 230 kV line would have benefits; certainly to developers, but also possibly to rate payers. As Ms. Brown's

testimony indicates, Otay Mesa (and other generators east of Miguel) would benefit to the extent that an upgrade west of Miguel eliminates the need for generator curtailments in the case of a double contingency on the Miguel -Mission and the Miguel-Sycamore 230 kV lines. Tr. (Brown) 1 Vol. at 71; see also Exh. 4, Joint Reply Testimony on Behalf of the California Independent System Operator, San Diego Gas and Electric Company, Southern California Edison Company and the California Energy Commission at 5. Ratepayers might benefit to the extent the availability of additional power during a double contingency event could result in lower prices during these times within the San Diego area. Tr. (Brown) 1 Vol. at 71-2. Ratepayers might also benefit, if access to additional generation reduces locational market power and reduces the need for payments under reliability must run contracts. Tr. (Miller) 1 Vol. at 84-8. Finally, as Mr. Miller testified, rate payers might benefit to the extent an upgrade west of Miguel postpones the need for more expensive lines from Rainbow to Miguel, or Rainbow to Imperial Valley. Tr. (Miller) 1 Vol. at 56. What has not been determined, however, and is absent from the record is 1) a detailed quantification of the extent and value of these potential benefits in the case of the specific upgrades sought by Coral, 2) an assessment of whether benefits to ratepayer from the upgrades outweigh their cost, and 3) a fair allocation of the upgrade costs.

As Mr. Miller explained, under the CA ISO Tariff, entities developing generation in Mexico and east of Miguel have the option today of sponsoring and undertaking to pay for an upgrade west of Miguel. Tr. (Miller) 2 Vol. at 198; Exh. 29, California ISO Conformed Tariff as of January 12, 2001, section 3.2.1.1. In these cases, the CA ISO provides a forum in which discussions about a fair sharing of costs can be addressed and resolved. Tr. (Miller) 2 Vol. at 200. Although this process has not be used to date, Tr. (Miller) 2 Vol. at 195, it is nonetheless available.

In the case of a project that is not needed for reliability, however, if proponents of a project are unwilling to assume responsibility for its cost and the costs must therefore be rolled in to rates of a participating transmission owner (PTO), the CA ISO requires a demonstration that the benefits of the project to ratepayers outweigh project costs. Tr. (Miller) 2 Vol. at 197-98, 201. Although FERC regulates transmission rates and will ultimately determine whether the costs of a project may appropriately be rolled into transmission rates, FERC would look to the CA ISO for a determination of whether a project is really needed. Tr. (Miller) 2 Vol. at 195. Accordingly, a PTO could be at risk moving forward with a significant project that has not been approved by the CA ISO whether such project is justified on reliability or economic grounds.

In the case of an upgrade to Miguel-Mission, entities calling for an upgrade have not indicated a willingness to assume the cost of the project. Tr. (Miller) 2 Vol. at 210. Thus, the project would have to be paid for by SDG&E and the costs rolled into SDG&E transmission rates. In this case, as explained above, a demonstration is required that the benefits to ratepayers of the project outweigh the project costs .

While the various sources of potential benefits of the addition of a second Miguel-Mission 230 kV line listed above have been identified, there has been no definition and quantification of these benefits and no demonstration that the benefits in fact outweigh the costs. Even the Opening Brief of Coral while it discusses each potential source of benefits for the addition of a second Miguel-Mission 230 kV line, they do not identify a specific, particularized quantification of the benefits. Without more precise information, the CA ISO cannot conclude that the upgrade is economically justified. Similarly, it would be premature for the CPUC to reach such a conclusion. There is very little information at all in the record on the need for and economic justification of additional transformers at Imperial Valley.

Coral intimates that a recent FERC order which offers a premium on the ROE for certain projects somehow provides additional justification for moving forward with the upgrades it advocates. The CA ISO will not undertake an assessment herein as to whether the premium offered by FERC would apply to the upgrades sought by Coral since this assessment is immaterial for purposes of determining whether the upgrades are in fact justified. The FERC order is intended to afford utilities a better incentive to expeditiously undertake necessary transmission facility upgrades. The CA ISO strongly supports this goal. However, the possible availability of an ROE premium for certain projects does not provide any information on whether any particular project is justified. In the case of upgrades sought by Coral there has been no demonstration that the cost should appropriately be rolled into SDG&E transmission tariffs. Whether or not SDG&E is eligible for an ROE premium for the projects provides no additional information on the matter.

In sum, the upgrades sought by Coral are not needed to maintain reliability. Accordingly the upgrades must be assessed from an economic standpoint. Project sponsors have not indicated that they will assume responsibility for the costs of the upgrades but rather suggest that the CPUC should support construction of the upgrades by SDG&E at ratepayer expense. Until it has been demonstrated that potential benefits to ratepayers of the upgrades outweigh their costs, it is premature to conclude that the costs should be rolled into SDG&E transmission rates. The ALJ has directed SDG&E to undertake an economic assessment of the upgrades sought by Coral and has indicating that this assessment will be the subject of hearings in the fall. The CA ISO will carefully monitor the results of the assessment and the hearings to determine whether an adequate showing of economic justification has been made.

III. CONCLUSION

The upgrades advocated by Coral (the addition of a second Miguel-Mission 230 kV line and the addition of transformers at Imperial Valley) are not needed for reliability. Further there has been no demonstration that the benefits to ratepayers of these upgrades outweigh their costs. Accordingly, it is premature to conclude that the cost for the addition of a second Miguel-Mission 230 kV line and the addition of transformers at Imperial Valley should be rolled into SDG&E transmission tariffs. The CA ISO will continue to monitor the development of information on the economic justification of the upgrades sought by Coral and intends to make a timely determination as to the economic justification of such upgrades when adequate information on the matter has been developed.

Respectfully submitted this 27th of July, 2001 by:

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