



August 14, 2007

Via Electronic and U.S. Mail

Honesto Gatchalian, Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Draft Resolution E-4052: Southern California Edison Company's Request to Establish a Renewable Transmission Feasibility Study Costs Memorandum Account

Dear Mr. Gatchalian:

By this letter, the California Independent System Operator Corporation (CAISO) respectfully submits its comments on the first revised draft Resolution E-4052 (Resolution). The Resolution arises from Advice Letter 2062-E, as superseded by Advice Letter 2062-E-A, filed by Southern California Edison Company (SCE) for Commission approval to recover up to \$6 million to study the feasibility of accessing new renewable generating resources in portions of southern California, Nevada, and Arizona. For the convenience of the Commission and its staff, the CAISO's proposed modifications to the Resolution are set forth in red-line fashion in the attachment to this letter.

As an initial matter, the CAISO appreciates the Commission's consideration of the CAISO's previously late filed comments on the original draft Resolution (Original Resolution). In those comments, the CAISO expressed its strong support for proactive transmission planning to access renewable resources and for providing utilities with a mechanism to recover their costs to facilitate participation in such a planning process. Accordingly, the CAISO's prior comments concentrated on ensuring that the three-phased process outlined in the Original Resolution aligned with the CAISO's transmission planning process, in order to promote clarity and avoid duplication of effort.

The CAISO's current comments continue to focus on the need for coordination. However, unlike the Original Resolution, that attempted to outline a study process as part of the Original Resolution itself, the Resolution references and defers to the California Renewable Energy Transmission Initiative (CRETI) process set forth in the draft Mission Statement, dated July 11, 2007 (draft Mission Statement) to define the specific process SCE must follow. The Resolution implicitly, and by necessity, makes a finding that Phases 1 and 2 of the CRET process are sufficiently defined in the draft Mission Statement and acceptable to justify permitting SCE to recover its study costs. In contrast, the Resolution states that Phase 3 is still "in development." This distinct treatment may originate from the fact that, unlike Phases 1 and 2, in which the CAISO's prior comments were generally incorporated, the draft CRET Mission Statement did not (for the most part) reflect the CAISO's comments with respect to Phase 3. The CAISO appreciates the Resolution's clear message that Phase 3 remains flexible and that there

continues to be an ongoing opportunity to accommodate the CAISO's concerns. The CAISO believes that this message should be explicit and the CAISO's proposed modifications clarify the discussion of Phase 3 by noting that nothing in the Resolution constitutes an endorsement or approval of that phase.

With the acknowledgment that the Resolution does not approve Phase 3, the CAISO can conditionally support the Resolution. The support is conditioned because of the uncertainty regarding Phase 3. Given that Phase 3 is purportedly still in development, the CAISO reserves the right to withdraw its support to the extent that Phase 3 of the CRETl process is finalized in a manner that fails to properly align with the CAISO's transmission planning process. While the Resolution does not directly address Phase 3 and the CAISO intends to fully cooperate in its development, the CAISO simply cannot support the first two phases of a process that ultimately is in conflict with its authority and processes. In this regard, the CAISO is engaged in an ongoing process to comply with Order No. 890, issued by the Federal Regulatory Energy Commission. Among other things, Order No. 890 makes clear that the CAISO constitutes the transmission planning entity for its Participating Transmission Owners, including California's investor owned utilities. It is therefore essential that each phase of the CRETl process be closely synchronized with the CAISO's transmission planning process, to ensure consistency with regional needs, promote cost efficiency, and to avoid redundant regulatory efforts. The CAISO has also added language to the Resolution to clarify this interrelationship.

Thank you again for your consideration of the CAISO's recommended modifications to the Resolution. The CAISO further looks forward to working with the Commission and staff on refining the draft CRETl Mission Statement.

Sincerely,



Grant Rosenblum
Senior Counsel

Attachment (Red line document containing CAISO proposed modifications to Resolution and draft CRETl Mission Statement)

Cc: Paul Douglas, Energy Division, CPUC (via e-mail and U.S. Mail)
Michael Peevey, President, CPUC
Commissioner John Bohn, CPUC
Commissioner Rachelle Chong, CPUC
Commissioner Dian Grueneich, CPUC
Commissioner Timothy Simon, CPUC
Sean Gallagher, Director, Energy Division, CPUC
Akbar Jazayeri, SCE (via e-mail)
Bruce Foster, c/o Karyn Gansecki, SCE (via e-mail)
Service Lists R06-05-027, R06-02-012 (via e-mail)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

I.D.# 6651
RESOLUTION E-4052
August 23, 2007

R E S O L U T I O N

Resolution E-4052. Southern California Edison Company's Request to Establish a Renewable Transmission Feasibility Study Costs Memorandum Account to Record Costs of Studying the Feasibility of Developing Transmission to Access and Deliver Output From Eligible Renewable Resources Located in Western Nevada, Inyo and Eastern San Bernardino Counties, the Salton Sea Area in California, and Western Arizona.

By Advice Letter 2062-E filed on November 22, 2006 and a supplemental Advice Letter 2062-E-A filed on April 2, 2007 to replace Advice Letter 2062-E in its entirety. This advice letter is approved with modifications.

SUMMARY

Southern California Edison (SCE) has requested Commission approval to establish a Renewable Transmission Feasibility Study Costs Memorandum Account to record up to \$6 million to study the feasibility of accessing new renewable resources located in Western Nevada, Inyo and Eastern San Bernardino Counties, the Salton Sea Area in California, and Western Arizona.

Through this advice letter filing, SCE has signaled its desire to pursue a path of proactive transmission planning to access renewable resources. We commend SCE for taking the initiative to find transmission solutions for accessing renewable resources located far from the load centers. SCE's request distinguishes SCE as a leader committed to meeting the state's clean energy goals under the RPS and AB32.

This Resolution approves SCE's request with modifications intended to fold SCE's proposed scope of work into a larger statewide effort that was formed, in part, as a result of SCE's advice letter filing. This Resolution

authorizes SCE to establish a renewable transmission memorandum account and record costs, up to \$4.5 million. We expect SCE to (1) participate in Phase 1 of the California Renewable Energy Transmission Initiative (CRETI – see Appendix A), which will involve a robust cost-effectiveness analysis that prioritizes California’s renewable resource areas; (2) to conduct their “Phase 2” work within the framework of the CRET; and (3) to focus their transmission studies on those priority areas identified in CRET Phase 1. We believe SCE’s proposal, as modified, is a crucial step towards meeting our greenhouse gas and renewable goals and that these studies could lead to cost-effective transmission and renewable resource development.

BACKGROUND

SCE requests authority to establish renewable transmission memorandum account and record up to \$6 million in study costs

SCE has requested authority to establish a Renewable Transmission Feasibility Study Costs Memorandum Account (memo account) to record up to \$6 million in costs associated with studying the feasibility of developing transmission capacity to deliver the output of renewable energy resources located in Western Nevada, Inyo and San Bernardino Counties, the Salton Sea area in California, and Western Arizona.

Specifically, this advice letter seeks authority to record in a memo account up to \$6 million in incremental Operations and Maintenance (O&M) costs, including outside consultant costs. SCE also wants to record the costs associated with evaluating the feasibility of building up to four high-voltage bulk-transfer transmission facilities to the four identified renewable resource rich areas even though SCE has not yet identified a transmission route or a specific renewable project. The costs of these studies will be incremental O&M costs, which are not currently reflected in SCE’s distribution or other rates.

According to the advice letter, the studies will identify:

- Initial transmission facility scopes
- Likely transmission routes
- Preliminary environmental surveys identifying potentially sensitive areas

- Cost estimates

SCE believes Commission Decision (D.)06-06-034 establishes authority to create a renewable transmission memo account in order to record transmission study costs

SCE believes that Commission Decision (D.)06-06-034 authorized SCE to file an advice letter to establish a memo account and record costs related to renewable transmission feasibility studies. SCE states that the costs it is seeking to record and later recover are not themselves eligible for California Public Utilities (PU) Code Section 399.25 rate recovery since the costs of the feasibility studies proposed do not result from the construction of specific transmission facilities. In addition, feasibility study costs of the type proposed cannot be capitalized under generally accepted accounting principles because these study costs will be incurred prior to selecting a site and prior to committing to a specific project. SCE interprets D.06-06-034 to authorize utilities to file advice letters seeking to record and recover feasibility study costs, provided that a reasonable belief has been established that, once a specific project is identified, the cost of building that project would be eligible for Section 399.25 backstop recovery.

SCE seeks cost recovery through the ERRA

SCE seeks cost recovery through its annual Energy Revenue Requirement Accounts (ERRA) Reasonableness proceeding for CPUC review. The ERRA is a balancing account to record and track energy procurement and procurement related costs. SCE proposes that, following an ERRA reasonableness review of SCE's actual costs recorded in the memo account, SCE will transfer amounts from the memo account to SCE's Base Revenue Requirement Balancing Account for rate recovery.

PROTESTS

Neither AL 2062-E nor AL 2062-E-A was protested. However, three supporting comments with proposed modifications were filed.

- Pacific Gas and Electric (PG&E) provided timely and supportive comments with modifications regarding AL 2062-E. PG&E filed its comments on December 12, 2007.

- SCE filed timely reply comments to PG&E's comments on December 19, 2007.
- California Wind Energy Association (CalWEA) provided timely and supportive comments with modifications regarding AL 2062-E-A. CalWEA filed its comments on April 23, 2007.
- Kern Wind Energy Association (KWEA) provided timely and supportive comments with modifications regarding SCE's AL 2062-E-A. KWEA filed comments on April 23, 2007.

Summary of Comments

Pacific Gas and Electric

On December 12, 2007, PG&E filed comments stating that SCE's interpretation of D.06-06-034 is "overly restrictive" in stating that feasibility studies which may or may not lead to the development of transmission facilities are not eligible for Section 399.25 rate treatment. Instead, PG&E asks the Commission to make an explicit finding in this Resolution that such study costs that "can be shown to be 'necessary for the achievement of RPS goals,' should be deemed eligible for recovery under Section 399.25..."¹ even if they (quoting SCE's Advice Letter) "do not result from the construction of a specific transmission facility."²

On December 19, 2007, SCE responded to PG&E's comments, stating that feasibility study costs incurred before a specific transmission project has been identified are not eligible for Section 399.25 backstop cost recovery because such costs cannot be capitalized in association with a specific project, since the project does not exist. SCE believes that PG&E's scenario assumes that such costs can be recorded and capitalized, but SCE emphasizes that its advice letter addresses costs that occur before a specific project has been identified and thus cannot be capitalized.

California Wind Energy Association

¹ See PG&E's Response to SCE's Advice 2062-E, p. 1

² See Advice 2062-E-A, *mimeo* p. 5

On April 23, 2007, CalWEA filed comments strongly supporting SCE's request to establish a memorandum account but suggesting the following modifications:

- SCE's Eastern San Bernardino study should include projects interconnecting as far east as the Eldorado/Mohave substations in Nevada
- SCE should coordinate with the efforts of San Diego Gas and Electric (SDG&E), Los Angeles Department of Water and Power (LADWP), Imperial Irrigation District (IID), and the Imperial Valley Study Group (IVSG) to expand transmission access to the Salton Sea/Imperial Valley area
- SCE's Salton Sea study should include the significant La Rumorosa wind resources south of the Imperial Valley

Kern Wind Energy Association

On April 23, 2007, KWEA also filed comments supporting SCE's request, but KWEA asks SCE to focus and prioritize study resources for specific areas they believe contain the greatest amount of RPS potential.

KWEA believes the highest priority resource areas are:

- East of Tehachapi into Southwestern Nevada
- Devers area
- South of Devers to the Imperial Valley and the Mexican Border

DISCUSSION

Proactive Renewable Transmission Planning

Transmission planning and development to access renewable resource areas faces many difficult challenges, including:

- 1) Renewable resource areas are often location constrained.
 - a. Many renewable resource areas are located far from the grid and load centers and often require extensive and expensive transmission upgrades.
 - b. In order to achieve cost-savings through economies of scale, and to limit environmental impacts and ultimate build-out time, large, multi-user transmission projects are needed to access renewable resource areas.

- c. All inclusive comprehensive transmission planning is needed to avoid inefficient, piecemealed transmission solutions.
- 2) Anticipation of developer commitment and its timing is difficult since resource development typically occurs over an extended period of time and faces complex hurdles, including permitting and financing challenges.
- 3) Permitting and construction of transmission facilities require substantially longer lead times than resource development.
- 4) Efficient proactive planning and procurement decisions require “big picture” judgment. This judgment is best informed by thoughtful planning processes that balance the costs and risks of generation versus those of transmission.

Considering all of the above factors, we agree with SCE that there is a need for more proactive planning for the procurement of renewable resources and related transmission facilities. Thus, we propose the following Resource Assessment and Transmission Planning Guidelines:

- 1) A robust cost-effectiveness analysis of the total costs and benefits of developing the renewable resource area (i.e. generation and transmission costs and benefits) should be performed and the result expressed on a dollars per megawatt-hour basis
- 2) The renewable resource potential of any particular renewable resource area should be adequately assessed to determine if it will (a) produce sufficient capacity and energy to warrant development; and (b) justify additional transmission capacity to access renewable resource areas
- 3) Transmission development should be coordinated with renewable resource procurement and the state’s RPS and AB32 goals to the extent practically feasible
- 4) Renewable-resource supply-diversity should be adequately valued and encouraged (i.e. off peak intermittent energy should be mixed with base load and on-peak energy)
- 5) Robust stakeholder processes should be used to identify economic resource potential, the projected transmission access needs of renewable developers, timing, and potential siting constraints
- 6) Efficient planning can best be achieved through a coordinated process involving public agencies, the California ISO, utilities,

developers, and other stakeholders. The CRETI has been established to facilitate such coordination

SCE's request to establish Memorandum Account to record costs for renewable transmission planning is reasonable and consistent with Commission policy

We agree with SCE that D.06-06-034 creates an opportunity for utilities to pursue renewable transmission planning, which includes feasibility studies related to renewable transmission route identification and renewable resource validation. In recognition of the long lead times necessary to build transmission projects, D.06-06-034 established Commission policy to encourage the proactive identification and study of new renewable resource areas for the state.

There is also ample Commission precedent for this request. SCE's request is consistent with the Commission's recent approval (March 1, 2007) of PG&E's request to study the feasibility of accessing renewable resources from British Columbia.³ In D.07-03-013, the Commission allowed PG&E to record up to \$14 million in feasibility studies in a new account related to accessing renewable resources in British Columbia. SCE's request is also consistent with Resolution E-3969, which the Commission approved February 16, 2006. In E-3969, the Commission authorized SCE to conduct biological studies related to the siting of the Tehachapi region transmission project. Lastly, SCE's request is consistent with FERC Order 890, which encourages transparent, coordinated transmission planning, both locally and regionally.

SCE is directed to participate in a statewide assessment of resource potential, rather than to perform those studies itself

As outlined in Guideline 1, above, a robust cost-effectiveness analysis of the total costs and benefits of developing a given renewable resource area (i.e. generation and transmission costs and benefits) should be performed before transmission to that area is considered. In its reply comments to this resolution, SCE indicated that it would require approximately 15 months to

³ See D.07-03-013

complete such an assessment of its 5 proposed resource areas. With the recent establishment of CRETI, however, an opportunity exists for performing such an assessment – Phase 1 of the CRETI process – on a statewide basis. Such an assessment, vetted by a public stakeholder process, would establish a “renewable resource base case” upon which later decisions regarding procurement and transmission needs could rely. Further, such an approach could decrease the amount of time required to finish SCE’s entire planning process, as we have reason to believe that such a study could be completed within 8 months.

We therefore direct SCE to participate fully in Phase 1 of the CRETI. SCE’s participation, both as a purchaser of renewable energy and as a transmission owner, will be crucial to ensuring the accuracy and applicability of the Phase 1 studies. Since SCE will not perform these studies itself, however, nor hire consultants to do the work, we decline to allow SCE to record these costs as incremental costs in a new memorandum account, as requested.

We approve SCE’s request to perform and track the costs of transmission planning, provided its efforts are aligned with the CRETI

As currently envisioned, the CRETI will continue with a Phase 2 that considers conceptual transmission plans for those Competitive Renewable Energy Zones (CREZs) identified as priorities in Phase 1. As a key participant in the CRETI and owner of much of the transmission grid in Southern California, SCE, in cooperation with the California ISO and its regional planning process developed pursuant to Order 890 of the Federal Regulatory Energy Commission, will be directed to perform much of the Phase 2 work needed for those CREZs within its service territory. It is for this process that we authorize SCE to establish a Renewable Transmission Feasibility Study Costs Memorandum Account, and to record therein the costs of proactive renewable transmission planning, up to \$4.5 million. We direct SCE, however, to adjust its efforts and schedule so as to align fully with the CRETI process and priorities. If Phase 1 of the CRETI determines, for example, that the five regions identified in SCE’s advice letter are not priority CREZs but five other regions in SCE’s service territory *are* priorities, SCE should study those priority CREZs identified by Phase 1.

Phase 2 - Identification of Transmission Routes and Relative Cost-Effectiveness

The purpose of Phase 2 of the CRETI, and the purpose for which SCE is authorized to record costs up to \$4,500,000, is to develop conceptual transmission plans through stakeholder consultations and to identify preliminary transmission routes through field surveys and additional stakeholder consultations. Phase 2 will also begin a more detailed examination of the cost effectiveness of resource procurement and transmission development for a particular CREZ as compared to other projects or resources, including, but not limited to, those described in California Public Utilities (PU) Code Section 1002.3. SCE is authorized to record costs for this work only after Energy Division staff has reviewed the CRETI Phase 1 report, agrees with the recommendations, and receives a detailed work plan and budget of SCE's costs for their share of the CRETI Phase 2 studies. SCE is directed to work with Energy Division staff to develop a schedule for completion of their Phase 2 tasks.

Once Phase 2 is complete, SCE is ordered to submit a report to the Energy Division detailing the results of the studies, the conceptual transmission plans, the preliminary transmission routes, and the relative cost-effectiveness of the proposed development plan.

Reporting Requirements

- Monthly progress reports with Energy Division through in-person or web-enabled meetings
- Final report that includes methodology, key findings, recommended transmission routes, and relative project cost-effectiveness, and next steps

Phase 3 – Development and Filing of Plan-of-Service

Phase 3 of CRETI will involve the development of definitive plans of service through the California ISO and publicly-owned utility transmission planning processes for specific transmission projects and the initiation of the approval and permitting process.

Because Phase 3 is outside the scope of SCE's request, and because the details of CRETI Phase 3 are in development, we refrain from detailing this phase in this resolution. Moreover, since CRETI Phase 3 is still in development, nothing in this resolution should be construed as endorsing or otherwise approving any aspect of Phase 3 as set forth in Attachment A.

However, We direct SCE, ~~however,~~ to consider at all points during its Phase 2 studies how that work will facilitate and add to the process of obtaining a Certificate of Public Convenience and Necessity (CPCN) or a Permit to Construct (PTC). For example, if done well, Phase 2 should serve to expedite or at least smooth the permitting process by revealing and scoping environmental siting hurdles, providing evidence of need for a particular project, and providing evidence of a project's cost-effectiveness when compared to other alternatives.

Cost Recovery Mechanism

Overview

SCE seeks authorization to record study costs of up to \$6 million in the Renewable Transmission Feasibility Study Costs Memorandum Account. SCE indicates that costs for similar work are normally recovered through the General Rate Case (GRC), in that they are reflected in SCE's revenue requirement request. SCE states that the circumstances that made these feasibility studies necessary arose after SCE's 2006 GRC was concluded, and therefore SCE was not able to include the estimated costs of these studies in its forecast of expenses in the 2006 GRC application.

As a result, SCE is requesting authorization to establish a memorandum account to track the costs in order to seek recovery from customers at a later date. In order for SCE to recover these costs from customers, SCE would include these costs in its annual ERRR Reasonableness proceeding for Commission review. In that reasonableness application, SCE would be required to show that the amounts were spent on activities described in their advice letter filing and are incremental (i.e. these feasibility costs were not recovered through some other authorized revenue requirement).

Rationale for cost-recovery through the GRC and not the ERRR

SCE has requested that all study costs be reviewed in the ERRR. In the proceeding leading up to D.06-06-034, SCE also requested that transmission costs related to 399.25 backstop cost-recovery be reviewed in the ERRR. D.06-06-034⁴ determined that "Review or audit of the costs should occur in

⁴ See D.06-06-034, *mimeo.* at p. 32

the utility's GRC, not the ERRA. The ERRA proceedings are intended as a six-month forecast of energy-related and procurement expenses, and are not suitable for review of or setting revenue requirements for transmission costs."

SCE had again requested cost-recovery through the ERRA in its request for a Certificate of Public Convenience and Necessity Concerning the Antelope-Pardee Project. In D.07-03-012, the Commission again rejected SCE's request to recover costs through the ERRA and directed them to seek recovery through the GRC:

The issues between SCE and DRA regarding use of the ERRA proceeding to audit accounts and to move costs from the memorandum account to a balancing account were appropriately resolved in D.06-06-034, which concluded that, to the extent applicable, review or audit of costs should occur in the utility's rate case, and not in the ERRA. Until that time, the costs should remain in the memorandum account. We affirm that determination here.⁵

As in D.07-03-012, we affirm the determination in D.06-06-034 that the ERRA is not the appropriate vehicle to review transmission costs, and we direct SCE to seek cost-recovery in the GRC, not the ERRA.

PG&E's comments are beyond the scope of the Resolution

Because we find that SCE's request is justified based on Commission precedent other than §399.25 authority, as described above, we do not address PG&E's comments regarding the scope of D.06-06-034 in this Resolution.

Description of cost recovery

Because the purpose of the Phase 2 studies is to identify preliminary transmission paths and upgrades taking into account biological and cultural surveys, it seems plausible that these costs would fall under

⁵ See D.07-03-012, *mimeo.* at p. 89

FERC's jurisdiction and that FERC would allow recovery of these costs through a general planning fund within the FERC transmission owner rate case process. Thus, to the extent that costs concern FERC jurisdictional transmission planning activities and may subsequently lead to specific projects, cost recovery shall be sought through FERC jurisdictional rates.

To the extent that SCE conducts their studies as directed in this resolution but is denied cost recovery at FERC, SCE may seek cost recovery through CPUC-jurisdictional rates through its GRC.

SCE required to file compliance advice letter

We direct SCE to file, within 60 days of the effective date of this Resolution, a compliance advice letter describing how SCE will implement the new Renewable Transmission Feasibility Study Costs Memorandum Account, subject to Energy Division determining that the revised tariffs are in compliance with this order. Further, we direct SCE to include with this filing a work plan detailing activities, budget, timelines, etc. for the Phase 2 studies approved herein. The compliance advice letter shall be served on the service list for R.06-05-027, R.06-02-012, and I.05-09-005.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding:

The 30-day period may be reduced or waived in an unforeseen emergency situation, upon the stipulation of all parties in the proceeding, for an uncontested matter in which the decision grants the relief requested, or for an order seeking temporary injunctive relief.

All parties who commented on the draft resolution mailed on May 8, 2007 have stipulated to reduce the 30-day comment period required by PU Code section 311(g)(1) to **19 days** (14 days for comments and 5 days for reply comments). Accordingly, this matter will be placed on the first

Commission's agenda 19 days following the mailing of this draft resolution. By stipulation of all parties, comments shall be filed no later than 14 days following the mailing of this draft resolution, and reply comments shall be filed no later than 19 days following the mailing of this draft resolution.

Comments on the first draft resolution were timely filed on May 29, 2007 by CalWEA, the Green Power Institute (GPI), PG&E, and SCE. Reply comments were timely filed by CalWEA, Independent Energy Producers (IEP), and SCE on June 4, 2007. IEP's reply comments, however, addressed issues in the resolution, and were not "limited to identifying misrepresentations of law or fact contained in the comments of other parties" as directed. Late comments from the California ISO were filed and accepted on June 12, 2007. SCE filed timely reply comments to the California ISO's late-filed comments on June 19, 2007.

The comments and reply comments from the California ISO, CalWEA, GPI, IEP, PG&E and SCE addressing the scope, detail, timing, and process of Phase 1 are now beyond the scope of this resolution, since a statewide resource assessment will now be performed through the CRETI, and is not authorized through this resolution. Similarly, the concerns expressed in comments from the California ISO, CalWEA, IEP, and SCE about the "open season" process suggested in Phase 3 and financing commitments are now irrelevant, since this revised draft defers a decision on the details of Phase 3 to the CRETI process. We encourage all interested parties, however, to participate in the CRETI through the stakeholder process that will soon be initiated, and to express their concerns and suggestions through that forum.

Most of the comments regarding the Phase 2 studies relate to the cost of the studies and the recovery of those costs. GPI suggests that SCE be allowed to record up to \$5 million in costs for Phase 2. We decline to adopt this higher figure, since SCE did not indicate that it would require more than \$4.5 million.

As for cost recovery, SCE expresses concern that its costs will not be allowed recovery by FERC, and requests that the resolution be modified "to provide SCE with full recovery of these costs through Commission-jurisdictional rates." CalWEA agrees that "the CPUC should make clear that the utility will be able to use the §399.25(b)(4) backstop if the FERC denies cost recovery." As discussed above, we decline to determine here

whether 399.25 cost recovery is applicable in this case, when a specific transmission project has not yet been identified. We agree in principle, however, with the need for such studies, and direct SCE to apply in its GRC for recovery through CPUC-jurisdictional rates of those costs not allowed recovery through FERC-jurisdictional rates.

FINDINGS

1. SCE filed Advice Letter 2062-E on November 22, 2006, and Advice Letter 2062-E-A on April 2, 2006 replacing 2062-E in its entirety. SCE requests Commission approval to establish a new Renewable Transmission Feasibility Study Costs Memorandum Account to record costs related to renewable transmission feasibility studies.
2. The cost for a feasibility study of renewable resources from these areas is not within SCE's existing funding to procure renewable resources and is incremental to potential in-state renewable resources currently subject to review and consideration in other proceedings.
3. The adopted transmission feasibility studies, as modified, are entirely supplemental and do not otherwise affect the existing renewable resource procurement processes.
4. Transmission study costs are generally reviewed in SCE's General Rate Case.
5. We reject without prejudice PG&E's comments on the Advice Letter.

CONCLUSIONS OF LAW

1. SCE made a reasonable case that there is sufficient Commission precedent to authorize establishment of a memorandum account to record costs associated with renewable transmission feasibility studies, given that it may lead to a specific transmission project.
2. SCE met its burden of proof to proceed with the renewable transmission feasibility studies as modified and adopted herein.
3. It is reasonable to authorize SCE to record up to \$4.5 million to prepare renewable transmission feasibility studies, as modified.
4. A renewable transmission memorandum account will allow SCE an opportunity to seek recovery of the renewable transmission feasibility studies as a part of its General Rate Case.

THEREFORE IT IS ORDERED THAT:

1. Advice Letter 2062-E-A is approved with modifications.
2. SCE shall record the study costs in a new Renewable Transmission Feasibility Study Costs Memorandum Account and may seek recovery of the costs in a subsequent General Rate Case.
3. SCE shall coordinate its efforts and schedules to the greatest extent possible with the priorities, process, and schedules of the California Renewable Energy Transmission Initiative.
4. SCE shall work with Energy Division staff to develop a schedule for completion of its Phase 2 studies.
5. Upon completion of its Phase 2 studies, SCE shall submit a report to Energy Division that details the results of the studies and identifies routes to access the prioritized CREZs.
6. SCE shall continue to vigorously pursue all pending and future resource procurement and renewable resource-related activities without regard to these studies.
7. SCE shall make a separate filing for authority to pursue any transaction or project derived from these studies, consistent with all then-applicable requirements.
8. The transmission planning efforts contained in this resolution are intended to feed into the existing publicly-owned utility and California ISO and publicly owned utility planning processes, including any changes to those planning processes that may result from compliance with Order No. 890 of the Federal Energy Regulatory Commission.
- 8.9. Within 60 days of the effective date of this Resolution, SCE shall file a compliance advice letter with the Commission's Energy Division, which shall describe how SCE will implement the new Renewable Transmission Feasibility Study Costs Memorandum Account, subject to Energy Division determining that the revised tariffs are in compliance with this order. Within the compliance advice letter, SCE shall include a work plan and budget. The compliance advice letter shall be served on the service lists for R.06-05-027, R.06-02-012, and I.05-09-005.
- 9.10. This Resolution is effective today.

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Dated August 23, 2007, at San Francisco, California.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of

California held on August 23, 2007; the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director

Appendix A

Mission Statement of the California Renewable Energy Transmission Initiative

California Renewable Energy Transmission Initiative
Mission Statement

July 11, 2007

Introduction

California has adopted energy policies that require substantial increases in the generation of electricity from renewable energy resources. Implementation of these policies will require extensive improvements to California's electric transmission infrastructure. The California Renewable Energy Transmission Initiative (CRETI) is a statewide planning process to identify the transmission projects needed to accommodate these renewable energy goals.

The CRETI will assess all competitive renewable energy zones (CREZs) in California and possibly also in neighboring states that can provide significant electricity to California consumers by the year 2020. The CRETI also will identify those CREZs that can be developed in the most cost effective and environmentally benign manner and will prepare detailed transmission plans for those CREZs identified for development.

The CRETI effort will be supervised by a Coordinating Committee comprised of California entities responsible for ensuring the implementation of the state's renewable energy policies and development of electric infrastructure, namely:

- California Public Utilities Commission (CPUC)
- California Energy Commission (Energy Commission)
- California Independent System Operator (CAISO)
- Publicly-Owned Utilities (POUs)

CRETI activities will be planned and executed by both investor-owned and publicly-owned utilities, renewable energy developers, and other stakeholders involved in implementation of state renewable energy policies. The CRETI will be an open and transparent collaborative process in which all interested parties are encouraged to participate. The CRETI will work within the existing planning processes at the CAISO, including any modifications to that planning process resulting from compliance with Order No. 890 of the Federal Energy Regulatory Commission, and the POUs to facilitate coordinating planning and minimize duplication of efforts. For further information, contact members of the Stakeholder Steering Committee identified below.

Background

California law requires retail sellers of electricity to obtain 20% of their supply from renewable energy sources by 2010.⁶ The Energy Action Plan adopted by the CPUC, the

⁶ SB 1078 (2002) established a statewide Renewable Portfolio Standard; SB 107 (2006) accelerated the 20% target date to 2010. POUs have also committed to achieve this goal.

CEC, and endorsed by the Governor, seeks to increase renewable energy to 33% of state supply by 2020. Several California cities have adopted similar goals. The reduction of greenhouse gas emissions required by AB 32 is likely to require increased procurement of renewable energy on the scale anticipated by the state Energy Action Plan.

The CRETI was initiated as a joint effort among the CPUC, the Energy Commission, the CAISO, IOUs, and POU's. It will operate as a stakeholder planning collaborative and will involve a broad range of participants, first to gather information and advice, and then to build active and consensus support for specific plans for renewable energy and related transmission development.

The CRETI will build on California's most recent experiences in developing renewable resource areas. In 2003, the Energy Commission adopted the Renewable Resources Development Report that identified renewable energy resources in every county, including 4,500 MW of wind power in the Tehachapi Wind Resource Area.⁷ In 2004, the CPUC ordered the formation of the Tehachapi Collaborative Study Group⁸ to develop a conceptual transmission plan to connect the Tehachapi Wind Resource Area to the state transmission grid using a collaborative stakeholder planning process. The CAISO approved the Tehachapi Transmission Plan in January 2007, and the CPUC approved the first phases of Tehachapi upgrades shortly thereafter. Southern California Edison Company filed an application for approval of the remaining Tehachapi upgrades in June 2007.

Mission and Purpose

Meeting California's renewable policy goals will require rapid development of renewable resource areas throughout the state and possibly in adjoining states. It will also require the construction of new transmission infrastructure to deliver energy from those renewable resource areas to the electric grid. This effort must be guided by an understanding of the economic and environmental impacts of this development so that it progresses in a logical and appropriate manner. The CRETI was formed in recognition of the large amount of work that needs to be done going forward to meet these goals.

The CRETI will coordinate planning and permitting processes for the CREZs, ensure consistency in the analytical processes, avoid duplication, include all interested parties, strive for consensus among those parties, and produce timely information through a transparent process that policy makers can rely upon to decide how California can best meet its renewable policy goals. Specifically, the CRETI will identify the next major CREZs to be developed and will work through the CAISO's and POU's planning processes to provide detailed transmission plans of service to access these zones.

⁷ Energy Commission Report 500-03-080; adopted November 19, 2003, pursuant to SB 1038 and SB 1078.

⁸ Pursuant to CPUC Decision (D) 04-06-010.

Process and Scope of Work

The CRETl's work will be organized into three phases:

Phase 1 – Identification and ranking of CREZs

- 1) Conduct a thorough review of the literature and other sources to collect and compile data on renewable energy resource potential in California and neighboring states;
- 2) Identify CREZs of interest, i.e. areas with potential to contribute significantly to California's renewable energy goals;
- 3) Develop a consistent set of criteria for describing and ranking CREZs, including resource and technology types, seasonal and diurnal generation profiles, costs, potential environmental impacts and other siting constraints, and other considerations;
- 4) Work with stakeholders to validate resources, identify developable potential, and estimate busbar electricity costs for each CREZ;
- 5) Provide rough estimates for the conceptual transmission requirements and related costs for each CREZ (estimates will not be based on complete conceptual plans, results of power flow studies, contingency analysis, etc.);
- 6) Rank all CREZs according to criteria developed, resulting in a renewable resource base case for California;
- 7) Submit results to the CAISO and POU's

Phase 1 Deliverable: Statewide renewable resource assessment

Phase 1 Outcome: Creation of a short-list of top-priority CREZs

Phase 2 – Refinement of CREZ analysis for priority zones and development of statewide conceptual transmission plan

- 1) Expand and refine the analysis of priority CREZs, including siting constraints;
- 2) Identify potential environmental, jurisdictional, and technological show-stopping issues for transmission and generation siting;
- 3) Prepare development resource mix scenarios and model capacity expansion;
- 4) Develop conceptual transmission plans in coordination with the CAISO and publicly-owned utilities for each CREZ;
- 5) Prepare least-cost best fit comparisons of CREZ development scenarios;
- 6) Submit results to the CAISO and POU's

Phase 2 Deliverable: Statewide conceptual renewable resources transmission plan with recommended CREZ development scenarios that is coordinated with, and informed by, the overall statewide transmission plan developed by the CAISO.

Phase 2 Outcome: Identification of conceptual transmission plans for priority CREZs

Phase 3 – Detailed transmission planning for CREZs identified to be developed

- 1) Perform exhaustive analyses of highest priority CREZ, including generation and transmission scenarios and siting alternatives;
- 2) Identify the transmission project sponsor(s) for each CREZ;

- 3) Prepare transmission plan(s) of service through existing CAISO and publicly-owned utility transmission planning processes and in coordination with regional planning efforts taking into consideration project phasing, the results of production cost models (as appropriate), power flow and contingency analysis, etc.;
- 4) Achieve stakeholder consensus on the need for each transmission project, including a determination of need by the CAISO or other relevant planning authority;
- 5) In consultation with the CAISO, initiate~~Initiate~~ WECC line-rating process if necessary.

Phase 3 Deliverables: Detailed transmission plans of service for each CREZ together with a consensus determination of need that is documented in the CAISO and POU transmission plans.

Phase 3 Outcome: Initiation of the permitting process for each transmission project.

Collaborative Planning Process, Governance and Communications

The *Coordinating Committee* will supervise the overall CRETl process. The primary purposes of the Coordinating Committee will be to

- ensure that the CRETl process produces the information needed for renewable energy and transmission development policy decisions by relevant organizations;
- keep the process on schedule; and
- provide direction on peripheral policy issues when necessary.

The Coordinating Committee will be comprised of representatives from the CPUC and the Energy Commission (representing Commissioner Grueneich and Byron's offices), a CAISO representative, and one or two representative(s) of the POU's. The Coordinating Committee will meet by conference call every other week, and will meet monthly after the Stakeholder Steering Committee meetings.

The *Stakeholder Steering Committee* (SSC) will be comprised of key stakeholder representatives: transmission owners/providers; generators; utilities/power purchasers; local, state and federal permitting agencies; landowners; and environmental and public interest organizations. The SSC will develop and adopt a work plan for the effort and ensure the active participation of its member organizations. The SSC will consult regularly with the Plenary Stakeholder Collaborative and form working subgroups to complete the scope of work and other tasks as necessary.

The SSC will meet monthly. Membership will be limited to approximately 20 people to facilitate work on substantive tasks. All California transmission owners/providers will participate on the SSC; all other classes of stakeholders will select one person to represent them on the SSC. The SSC will report its work and the progress of its working groups to the Coordinating Committee, to a Plenary Stakeholder Collaborative, and to scheduled CAISO and POU planning stakeholder groups.

The *Plenary Stakeholder Collaborative* includes all participants and interested parties. It will meet approximately once every six weeks to review progress, and provide input and

advice to the SSC and Working Groups. The definition of renewable resource areas and conceptual transmission plans to access them will represent, to the extent possible, a consensus of the Plenary Stakeholder Collaborative. Each participant in the Plenary Stakeholder Collaborative and the SSC, including the POU's and the CAISO, will pay its own costs.

The Center for Energy Efficiency and Renewable Technologies (CEERT) will serve as the CRETI project manager on behalf of the Coordinating Committee.⁹ It will recruit participation in, and support the work of all CRETI committees and working groups. It will organize and notice all meetings and ensure that agendas are prepared and are available in advance of the meetings of all working groups. It will facilitate all meetings and ensure that minutes of all meetings are recorded, are approved by participants, and are posted for public review. It will be responsible for keeping the overall effort on schedule, including timely completion of each phase of the initiative. CEERT will provide the analytical resources necessary to ensure that the analysis, data, and assumptions used across renewable resource areas are consistent to enable informed and relevant comparisons among the renewable resource areas. CEERT will also work with the CAISO and POU's to assure that the CRETI effort is appropriately represented in their planning processes.

To facilitate transparency, the Energy Commission will manage a website where information about the work of all CRETI committees and working groups will be available both for participants and the general public.

CRETI committees and working groups will adopt ground rules to support cooperative group interaction, encourage all participants to express their views, and prevent any party from imposing its interests or dominating discussion. CEERT will facilitate project meetings toward this end.

The CRETI will endeavor to make its work and decision-making as transparent as possible. Minutes of each meeting noting decisions of the group will be reviewed and adopted at the succeeding meeting to establish a written record of the group's progress. Data on planning assumptions will be shared among participants; working groups will devise appropriate methods to safeguard any competitively sensitive or confidential information. In sum, the CRETI will pursue its technical work in ways that help build stakeholder support for its recommended renewable resource area transmission development plans. Transparency and collaboration are essential to the development of the required broad support.

⁹ CEERT's work as the CRETI Project Manager is funded by a Public Interest Energy Research (PIER) contract with the Energy Commission. SCE participation follows CPUC Resolution E-4052. PG&E participation is funded in part by a PIER contract awarded by the Energy Commission.

Working group participants agree to work in good faith to achieve consensus support for a recommended development plan. If it proves impossible to arrive at a consensus recommendation, the CRETI reports will note disagreements with the majority plan and the case for alternative plans preferred by dissenting parties.

Participants

This joint planning process intends to bring the knowledge and interests of key stakeholders together to construct a renewables development plan including comprehensive transmission solutions that provide the greatest statewide benefit at the least cost. Stakeholder involvement is essential to development of plans that minimize environmental impacts of proposed generation and transmission development, thereby facilitating project permitting. The CRETI is intended to lay the foundation for timely approval and construction of a mix of renewable generation and associated physical transmission upgrades and for procurement of renewables by all retail providers of electricity. Consequently, active stakeholder support for the overall development plan is essential.

Participation is open to all interested parties. These include, but are not limited to:

- Transmission owners/providers active in California, Nevada and Arizona;
- Wind, solar, geothermal and biomass power companies/generators;
- All retail providers of electricity and other potential power purchasers;
- Counties and local jurisdictions;
- State and federal agencies, including representatives from Nevada and Arizona;
- Landowners;
- Environmental and public interest organizations;
- Energy Commission; CPUC; utility regulatory commissions of neighboring states;
- Other interested parties.

For Further Information:

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