November 8, 2002

Attn: Commission's Docket Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Docket # A.01-03-036, Application of San Diego Gas and Electric Company for a Certificate of Public Convenience and Necessity or the Valley-Rainbow 500 KV Interconnect Project

Dear Clerk:

Enclosed for filing please find an original and eight copies of the Comments of the California Independent System Operator Corporation in Docket # A.01-03-036, Application of San Diego Gas and Electric Company for a Certificate of Public Convenience and Necessity for the Valley-Rainbow 500 KV Interconnect Project. Please date stamp one copy and return to California ISO in the self-addressed stamped envelope provided.

Thank you.

Sincerely,

Jeanne M. Solé
Regulatory Counsel

Cc: Attached Service List

PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Conditional Application of SAN DIEGO GAS AND ELECTRIC COMPANY for a Certificate of Public Convenience and Necessity Authorizing the Construction of the Valley-Rainbow 500 kV Transmission Project	Application 01-03-036

COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR

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I. INTRODUCTION AND SUMMARY

In accordance with California Public Utilities Commission Rules 77.2, 77.3 and 77.4, the California Independent System Operator Corporation ("CA ISO") respectfully submits these comments on the Proposed Decision of Administrative Law Judge ("ALJ") Cooke, mailed on October 21, 2002 ("Proposed Decision"), and on the Alternate Proposed Decision of Commissioner Duque, also mailed on October 21, 2002 ("Duque Alternate").

This case involves an application request on the part of San Diego Gas and Electric Company ("SDG&E") for a Certificate of Public Convenience and Necessity ("CPCN") for a proposed Valley-Rainbow Project. Consistent with the California Public Utilities Commission's ("Commission" or "CPUC") Scoping Memo in this matter, this first phase of the proceeding is to address the issue of whether the Valley-Rainbow Project is needed. The Proposed Decision concludes that "[b]ecause SDG&E will continue to meet the WECC/NERC reliability criteria during the relevant planning horizon and the Valley-Rainbow Project cannot be justified on the basis of providing economic benefits to ratepayers, SDG&E's request for a CPCN should be denied without prejudice." Proposed Decision at 67. In contrast, the Duque Alternate concludes that "[b]ecause SDG&E will not continue to meet the WECC/NERC reliability criteria during the relevant planning horizon, SDG&E's request for a CPCN should continue to be processed." Duque Alternate at 65. The CA ISO strongly supports the outcome set forth in the Duque Alternate.

The most significant difference between the Proposed Decision and the Duque Alternate relates to whether or not a new 510 MW generating unit proposed to be built by Calpine Corporation ("Calpine"), the Otay Mesa Power Plant, should be considered in the reliability assessment. The Proposed Decision concludes that it should, whereas the Duque Alternate concludes that it should not, taking account of the evidence in the record of Calpine's substantial financial difficulties and the fact that Calpine has not obtained financing for the plant.

The CA ISO considers that both the Proposed Decision and the Duque Alternate adopt an arbitrarily limited planning horizon of five years. The Proposed Decision uses this limited horizon to justify dismissal of the application without regard for the type of project involved and the significant time and effort required to permit and build it. Adoption of this limited planning horizon will make it extremely difficult to permit major transmission projects in California. Moreover, a rigid five-year planning horizon is inconsistent with the testimony of even the key reliability witness of opponents of the Valley Rainbow Project, and with the Commission's own recent adoption of a twenty year planning horizon in the context of planning for utility procurement. D.02-10-062 at 48. Reasonable assumptions about supply and demand indicate that the Valley-Rainbow Project is needed for reliability within four to six years, depending on whether the Otay Mesa Power Plant materializes or not. In this context, given the magnitude of the Valley-Rainbow Project, the CA ISO considers that it is appropriate to proceed to Phase 2 to ensure that there is adequate time to assess environmental, social and aesthetic factors and to construct the project before the reliability need becomes critical.

Moreover, given that at best the plant would delay the year of need by a few years and that its future is uncertain, the CA ISO disagrees that it is reasonable to rely on an additional 510 MW from Otay Mesa to eliminate the reliability need. As the Duque Alternate documents, uncertainty remains as to the ability of Calpine to finance the plant which makes it risky to rely on the plant for purposes of deferring San Diego's reliability need. This risk is exacerbated by the considerable age of over half of the generation in the San Diego area.

Further, both the Proposed Decision and the Duque Alternate err in concluding that there is inadequate evidence that four combustion turbine units located on leased Navy land in San Diego will cease to be available. To the contrary, the record demonstrates that these units will not be available after October 2002.

Finally, neither the Proposed Decision nor the Duque Alternate recognize the CA ISO's responsibility to maintain reliability and undertake transmission planning, and the need to harmonize the responsibilities of the CA ISO and the CPUC. The CA ISO considers that this failure is counter to state and federal law and public policy.

In sum, the CA ISO urges the Commission to conclude consistent with the Duque Alternate that a reliability need has been demonstrated and to proceed with Phase 2. The CA ISO provides its detailed proposed changes to the Findings of Fact and Conclusions of Law of the Proposed Decision and the Duque Alternate in Appendices 1 and 2.

II. THE DUQUE ALTERNATE PROPERLY CONCLUDES THAT A RELIABILITY NEED HAS BEEN DEMONSTRATED IN SAN DIEGO AND THAT PHASE 2 SHOULD BE INITIATED.

The Proposed Decision and the Duque Alternate articulate the review that is appropriate at this stage of the proceedings in a common-sense manner as follows "we

must determine whether there is a reliability need under a reasonably foreseeable supply and demand forecast based on today's best information within an appropriate planning horizon." Proposed Decision at 8. The CA ISO agrees with this articulation, but notes that in undertaking its review, the CPUC should consider the entire record with due regard for "the utmost importance of reliability to the safety, health, and welfare of the state's citizenry and economy" Public Utilities Code Section 330(g), and without adopting an arbitrary five-year planning horizon.

A review of the entire record indicates a reasonable likelihood that need for a project such as Valley-Rainbow will materialize by 2006, and becomes increasingly certain by 2008. Nonetheless, the Proposed Decision arrives at the conclusion that a reliability need has not been demonstrated by dismissing the uncertainty that exists regarding 1) the future of Otay Mesa, and 2) the continued reliable operation in San Diego of units between 24 and 48 years of age; and by adopting a rigid five-year planning horizon. These determinations are inappropriate in light of the overriding importance given to reliability by state law.

A. The Five Year Planning Horizon is Unduly Limited.

Both the Proposed Decision and the Duque Alternate adopt a rigid five-year planning horizon. This time frame is contrary to the testimony of the key reliability witnesses, including the witness for opponents of the Valley-Rainbow Project Mr. Schmus and would make the siting of major transmission projects in California particularly difficult. Moreover, the time frame is fifteen years shorter than the twenty-year planning horizon recently adopted by the CPUC in its procurement proceeding. See D. 02-10-062 at 48.

The Proposed Decision indicates that even with the Otay Mesa Power Plant in place a reliability need would materialize in the San Diego area by 2009. If the appropriate adjustment is made to account for the discontinuation of the Navy units, need materializes in 2008. Given that 2002 is almost over, this means that even assuming optimistically that the Otay Mesa Power Plant is built on a timely basis, making other reasonable assumptions a reliability need materializes in San Diego within six years. However, by adopting a stringent five-year planning horizon, the Proposed Decision concludes that it is appropriate to dismiss SDG&E's CPCN application.

A stringent five-year planning horizon makes no sense in the context of a major transmission project such as Valley-Rainbow. As Mr. Schmus, the reliability witness for the opponents of the Valley-Rainbow Project testified, proper planning should look out at least ten years to determine options, particularly when long lead-time facilities are being considered. See Tr. (Schmus) at 1210:10-19. This is because permitting and construction take five to six years. Given the long lead times involved in a major project, at the initial stages of the application (such as the need determination phase in this case), one is necessarily looking out to a year of need four to five years in the future and there will be some uncertainty about the actual in-service date. If there is a rigid criteria to reject a project if it cannot be shown with substantial certainty to be needed within five years, utilities will have to wait to submit CPCN applications until there is next to no margin of error for regulatory and construction delays. In other words, the incentive will be to seek to skate-by rather than to anticipate needs and ensure that resources are in place before need becomes critical. Given the utmost importance of reliability, the CA ISO considers that this is the wrong incentive to send to utilities. Utilities should be

encouraged and supported in their efforts to ensure that electric service is provided reliably and to put into place the resources needed to maintain reliability before needs become critical.

The Proposed Decision and the Duque Alternate reject the notion of a ten-year planning horizon arguing that uncertainty increases as one looks out further in time. This is true, and in fact, the CA ISO does not believe that a rigid ten-year planning horizon applied mechanistically is the only or the appropriate alternative to a rigid five-year planning horizon applied mechanistically. Rather the Commission should look out five to ten years, take account of the nature of the project in question, and the relative range of uncertainty as to the year of need and the factors that will influence it, and make a reasoned decision in light of the existing information as to whether a reliability need has been demonstrated which justifies proceeding with permitting.

The Proposed Decision and the Duque Alternate suggest that the CA ISO's planning process looks out only five years. This suggestion is contrary to the testimony of CA ISO reliability witness Mr. Miller who explained that the CA ISO has recently started studying five to ten years because it recognized that five years is inadequate to assess significant projects that take more than five years to permit and build. Tr. (Miller) at 896: 1-6. Mr. Miller explained further that rather than adopting rigid cut-offs, the time frame considered in the CA ISO's determinations of need depend on the magnitude of the project. If the project is a small project that can be completed within a year, the CA ISO waits until a year before the project is needed to initiate it, whereas in the case of a larger

project, more advance notice is needed. Tr. (Miller) at 895-6.[1] A five-year planning horizon for a small project would be excessive. Nonetheless, a need likely to materialize in four to six years amply justifies a major backbone transmission project such as Valley-Rainbow.

Under the reasonably foreseeable supply and demand forecast based on today's best information it appears that a reliability need will materialize in San Diego within the next four to six years. It is clear that the exercise of assessing the environmental, social and aesthetic impacts of the alternatives in the case of the Valley-Rainbow Project will be a complex and hotly litigated exercise and that if the Valley-Rainbow Project is selected as the best alternative, there could be time-consuming proceedings for SDG&E to obtain the necessary rights of way. In this context it makes sense to move to Phase 2 to begin work on these important issues, rather than to delay further assessment of the problems until a later unspecified date when the reliability needs may have become critical and alternatives may be foreclosed either because there is no longer adequate time to put them into place or because of ongoing development.

The CA ISO notes, moreover, that the Commission can and should incorporate milestones into any CPCN decision to ensure that while progress continues to be made to ensure that the resources are in place to address reliability needs before they become critical, the utilities activities are properly timed and staged to avoid the unnecessary and premature expenditure of resources. The Proposed Decision and the Duque Alternate dismiss this mechanism positing that the CPUC could issue a CPCN for a project that would be built up to ten years after the assessment of environmental impacts is

[1] In the case of Tri-Valley, the CA ISO itself did not support permitting for a moderately sized project, the need for which materialized ten years into the future, because in that case there was ample time to consider the best alternative closer to the year of need. See D.01-10-029 at 57.

undertaken. However, as described above, the need in the case of the Valley-Rainbow Project is likely to materialize within a four to six year time period. If the Commission determined to proceed with Phase 2, the litigation regarding environmental impacts will take place during the course of 2003 and a decision is scheduled for the end of the year only a few years before the project will be needed.[2] As clarified herein, the CA ISO does not endorse a mechanistic ten-year planning horizon any more than it endorses a mechanistic five-year planning horizon. In this case, given the magnitude of the Valley-Rainbow Project, the fact that need is likely to materialize in between four to six years supports moving forward to Phase 2, and does not raise concerns that the environmental assessment will be stale by the time the project moves towards construction.

The five-year cut off adopted in the Proposed Decision and the Duque Alternate is also inconsistent with the Commission's recent decision in the procurement proceeding, which requires utilities to prepare long-term plans covering a twenty-year planning horizon. D. 02-10-062 at 48. Having recognized in Docket 01-10-024 the long term nature of sensible planning to ensure that the utilities can effectively meet their obligation to serve, it makes no sense for the Commission to adopt in this proceeding an artificially short and rigid five-year planning horizon in the case of a major facility that will serve the needs of San Diego consumers for many years.

In sum, it makes no sense to adopt a rigid five-year planning horizon standard in this case and use it as the basis to reject SDG&E's application. Utilities should not be given the incentive to wait until reliability needs are critical to undertake the actions needed to maintain reliability. In the case of a significant and complex project such as

[2] This schedule is optimistic as the CA ISO has heard indications that the Draft Environmental Impact Report is unlikely to be completed before the middle of 2003.

Valley-Rainbow, the demonstration that a project is likely to be needed within the next four to six years supports proceeding to Phase 2 to address the significant environmental, social and aesthetic issues that are raised by the application and to identify the best alternative to meet San Diego's reliability needs. In this manner, San Diego's reliability needs can be addressed in a reasoned and timely fashion rather than waiting for the reliability need to approach a critical level.

B. Uncertainty Remains Regarding the Future of the Otay Mesa Power Plant.

The CA ISO agrees with the Duque Alternate that uncertainty remains as to the future of Otay Mesa Power Plant. As the Duque Alternate documents, during the past eight months, Calpine's stock value has been reduced by over 75%, raising questions about the resources that will be available to Calpine to undertake timely construction of the plant; it is note-worthy that the status of Otay Mesa has changed frequently over the last several years.

Moreover, the contract between the California Department of Water Resources ("CDWR") and Calpine does not guarantee that the project will be constructed on a timely basis if Calpine is unable to finance the plant. The CA ISO agrees with SSRC that the obligation in the CDWR-Calpine contract to make "commercially reasonable" efforts to develop Otay Mesa is a separate contractual obligation from delivering power to CDWR and that the determination of whether an entity has undertaken "commercially reasonable" efforts is a fact specific inquiry. However, as the Duque Alternate documents, since Calpine renegotiated its agreement with CDWR the value of its stock has dropped dramatically, providing a basis on which the Calpine could argue that it is not commercially reasonable to proceed. Moreover the renegotiated agreement with

CDWR is clear that CDWR's sole remedy in the event of a default by Calpine with regards to the construction of Otay Mesa is limited to the ability to take over the project at cost. See Exh. 204, Calpine-CDWR Renegotiated Master Power Purchase and Sale Agreement, Special Condition 4(h). This result, while not inconsequential, would be of more limited concern if Calpine is unable to finance the completion of the project in any event.

Thus, as the Duque Alternate documents, uncertainty remains as to the future of the Otay Mesa Power Plant which makes it risky to rely on the plant to meet San Diego's reliability needs.

C. The Existing Fleet in San Diego is Vulnerable.

The uncertainty associated with the generation that can be relied on to meet load in San Diego is exacerbated by the age of over half of the generating units that are located in the area. The Proposed Decision concludes that there will be 2,415MW of existing generation in San Diego, but recognizes that over 1,635 MWs of this amount, or more than half, is between 24 and 48 years old. Nonetheless, the Proposed Decision and the Duque Alternate give no consideration to this fact.

As documented above, the CA ISO has remaining concerns about the future of the Otay Mesa Power Plant. However, the CA ISO has acknowledged that construction of the Otay Mesa Power Plant remains a distinct possibility. Nonetheless, the CA ISO remains concerned about the ability of the San Diego area to meet reliability criteria because looking broadly at the generating resources available to meet load, it is evident that the uncertainty regarding Otay Mesa is compounded by the age of the existing generating fleet. As Mr. Miller explained, the large proportion of generation in San

Diego that "is antiquated and inefficient when compared to modern combined cycle generating plants. When new and more efficient generation comes on line elsewhere in the Western Interconnection, the older and less efficient generation will be operated less and may be retired. Therefore, the existing generation cannot be assumed to be available indefinitely to meet the long-term needs of the area." Exh. 101, CA ISO Rebuttal Testimony at 5:22-28. While the CA ISO cannot point to the date on which particular units can be expected to retire, the CA ISO considers that the vulnerability of the existing fleet in San Diego provides a further justification for proceeding to Phase 2.

Further, both the Proposed Decision and the Duque Alternate err in concluding that inadequate evidence was presented to support the claim that four combustion turbines located on leased Navy property are no longer available because the Navy was unwilling to extend the existing lease. The CA ISO's witness Mr. Miller testified that it is his understanding that the Navy wishes to terminate the lease of the units and that the units would have to be moved out of Navy property. Tr. (Miller) at 859:19-28. Moreover, the CA ISO's response to a data request from the Office of Ratepayer Advocates indicates that CA ISO is seeking a one-month extension to the lease. Exh. 104, CA ISO Data Response to ORA 2.8. Such extension would be unnecessary if the lease were not terminating. Thus, the record supports the determination that the lease with the Navy has expired.

The Proposed Decision and the Duque Alternate further disregard the termination of the Navy lease on the grounds that the CA ISO has not done enough to extend the lease, citing a statement by Mr. Miller that "[w]e haven't made the decision about whether or not we want to try to keep these units for longer term. We have the Valley-

Rainbow line. We don't need to cross that bridge." Tr. (Miller) at 860:15-18. This statement has been taken out of context and construed by the opponents of the Valley-Rainbow Project in the worst possible light, as a failure on the part of the CA ISO to take necessary steps to preserve system reliability. However, prior to that statement, Mr. Miller had testified that the CA ISO would like to retain the Navy units, and was seeking a one-month extension. Tr. (Miller) 859:28 – 860:1. Moreover, Mr. Miller also explained that "[t]here are also legal issues about how far our ability goes in being able to ensure that those units are retained." Tr. (Miller) 860:19-21.

The CA ISO's response to an ORA data request more fully explains the problem: the CA ISO has not designated the Navy units as units needed to maintain local area reliability ("Reliability-Must Run" or "RMR" units) in 2003 because they are not needed in 2003 to maintain reliability. It is very possible that the same would be true for 2004. Thus, the CA ISO did not have the basis to insist that the Navy should extend its lease beyond 2002. To insist on a lease extension beyond 2002, the CA ISO would have had to extend the RMR contracts on the Navy units for a two to three year period in which the units might not be needed for local area reliability just to defer the need for a project such as Valley Rainbow for one year. Exh. 104, CA ISO Data Response to ORA 2.8. Moreover, as the CA ISO's brief documents, even if the CA ISO had sought to extend the RMR contract on the Navy units through 2005, there might be legal constraints on its ability to require the Navy, with whom the CA ISO has no agreement, to extend the lease for that period of time. Read in this context, Mr. Miller's statement merely reflects his view that by the time the units were needed as RMR units again in the 2005-6 time period, a better alternative might have emerged.

In sum, the CA ISO considers that given the utmost importance of reliability and the uncertainty associated with both new and existing generation, the determination in the Duque Alternate not to rely on 510 MW of additional generation in the coming years is supported by the record.

III. THE CPUC SHOULD AFFORD DUE DEFERENCE TO DETERMINATIONS OF NEED OF THE CA ISO.

Both the Proposed Decision and the Duque Alternate fail to accord consideration to the CA ISO's transmission planning activities and responsibilities. Instead, these documents state "[a]lthough we appreciate the ISO's efforts to evaluate this proposed project, we continue to disagree with the ISO's assertion that we must defer to its judgment about the need for transmission projects. Pub. Util. Code §1001 places ongoing responsibility on this Commission to evaluate the public convenience and necessity of proposed transmission projects, and therefore we independently assess the record developed in this proceeding to determine whether the Valley-Rainbow Project is needed on the basis of either reliability or economics."

This passage does not recognize the CA ISO's key role in transmission planning and maintaining reliability under federal and state law. Similarly, it ignores the adverse public policy implications that arise from a failure on the part of the CPUC and the CA ISO to harmonize their respective responsibilities as to transmission expansion. Since the CA ISO is charged with transmission reliability and planning, the CPUC should give due consideration to the CA ISO's determination of need. Conversely, since the CPUC retains jurisdiction over transmission siting, the CA ISO should participate in CPUC siting cases presenting the basis for its determinations, and should defer to the CPUC's assessment of routing and related environmental, social and aesthetic issues. The CA

ISO's legal and policy analysis to support this simple common-sense approach is set forth in its opening brief and is merely summarized here for the Commission's convenience. The CA ISO refers the Commission to its opening brief for more detail.

In a nutshell, the CA ISO is charged under state law with ensuring "efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Electric Reliability Council." Public Utilities Code § 345. Transmission planning is an integral part of assuring transmission grid reliability. Public Utilities Code § 345 explicitly notes that the CA ISO must ensure compliance with planning criteria as well as operating reserve criteria. Moreover, without adequate facilities it is not possible to "ensure efficient use and reliable operation of the transmission grid." Thus, it would not be possible for the CA ISO to ensure compliance with planning criteria if it did not have a meaningful role in identifying the facilities that must be built to meet the standards, and if it's determinations of need are ignored in the sitting process.

In addition, Public Utilities Code § 346 required the CA ISO to make appropriate filings with FERC to "seek the authority needed to give the Independent System Operator the ability to secure generating and transmission resources necessary to guarantee achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Electric Reliability Council." Consistent with this directive, the CA ISO filed a comprehensive tariff at FERC that provides for the creation of a transmission planning function led and coordinated by the CA ISO. These tariff provisions have been approved

by FERC. Moreover, given that FERC has directed that ISOs should coordinate transmission planning, and FERC determinations approving the transmission planning section of the CA ISO's tariff, see e.g. 81 FERC ¶ 61,122, pp 61,459 (October 30, 1997); 80 FERC ¶ 61,128, pp 61,430-35 (July 30, 1997), the CA ISO has planning responsibilities under federal as well as state law. Since state and federal law are in accord as to CA ISO responsibility for transmission planning, it is unnecessary to discuss federal preemption issues.[3]

The CA ISO recognizes of course that Public Utilities Code § 1001, et seq. provides that no electrical corporation shall begin construction of a line "without having first obtained from the [California Public Utilities Commission] a certificate that the present or future public convenience and necessity require or will require such construction". Thus, in CPUC CPCN proceedings, utilities must still show need, as well as address the environmental, social and aesthetic factors that must be considered by the CPUC under CEQA and Public Utilities Code § 1002.

The CA ISO's transmission reliability and planning responsibilities and the CPUC's continued responsibility for transmission siting under Public Utilities Code § 1001, et seq, are easily harmonized as required under California rules of statutory construction. See Maricela C. v. Superior Court, 66 Cal.App.4th 1138; 1143-4, 78 Cal.Rptr.2d 488, 491 (Ct. App. 1998). To give effect to the CA ISO's transmission planning responsibilities, the method by which utilities are to demonstrate need in the context of CPCN proceedings should be to demonstrate, with the assistance of the CA ISO, that need has been found by the CA ISO in the context of the CA ISO's coordinated

[3] If state and federal law were in conflict as to CA ISO responsibility for transmission planning, which they are not, federal preemption issues requiring further analysis would arise.

planning process. The statutory scheme requires the CPUC to give due deference to CA ISO determinations of need because, if the transmission facilities determined to be needed by the CA ISO to maintain reliability are not permitted by the CPUC, the CA ISO would have limited ability to meet its statutory responsibility to ensure compliance with operating and planning criteria. Conversely, the CA ISO should recognize and provide sufficient latitude for the CPUC's consideration of environmental, social and aesthetic impacts in determining project routes, and in the case of Valley-Rainbow, in assessing and selecting the alternative that best balances these considerations.

Recent legislation requiring the CPUC and CA ISO to coordinate and undertake prompt steps to assure an adequate transmission system supports the view that the legislature intends the CPUC and the CA ISO to adopt a coordinated and complementary approach to transmission planning and permitting. See Public Utilities Code Section 379.5.

Public policy also requires the CA ISO and the CPUC to develop a sensible approach to transmission planning and expansion and to cooperate to promote an efficient and expeditious process for the approval of necessary transmission projects. A failure on the part of the CPUC to accord proper weight to the transmission planning work of the CA ISO will create the potential for duplicative efforts, forum shopping and inconsistent results.

In sum, federal and state law as well as public policy require the CA ISO and the CPUC to work cooperatively to ensure that each entity can effectively undertake its responsibilities under state and federal law, in a manner that is respectful of the roles and expertise of each entity, that promotes regulatory efficiency, and that minimizes the

duplication of efforts and inconsistent results. The CPUC should afford due consideration and deference to the extensive planning work undertaken by the CA ISO consistent with its statutory responsibilities. Conversely, the CA ISO acknowledges the CPUC's important responsibilities identifying, assessing and making siting decisions that balance the environmental, social and aesthetic impacts of proposed transmission projects.

IV. CONCLUSION.

The CA ISO urges the Commission to adopt the determination in the Duque Alternate that a reliability need for the Valley-Rainbow Project has been demonstrated, and that Phase 2 should proceed. This conclusion is appropriate because a reliability need is likely to materialize in San Diego the next four to six years, and it is important to proceed to identify the best alternative to meet this need so that needed facilities can be implemented in a timely basis before the reliability need in San Diego becomes critical.

November 8, 2002

Respectfully Submitted:

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APPENDIX 1

APPENDIX 1: The CA ISO's Proposed Changes to the Proposed Decision's Findings of Fact and Conclusions of Law

Findings of Fact

3. The ISO transmission planning exercises study five to ten years~~cover a five-year period~~.

7. ~~No documentation was provided regarding the Navy's purported decision not to renew the leases for~~ The 67 MW of combustion turbines located on Navy property should not be considered because the Navy has indicated that it intends to terminate the lease.

8. Otay Mesa has received all regulatory approvals, but only minor construction has occurred on the project ~~and is under construction~~.

9. Calpine's stock price has diminished by over 75% since it renegotiated its contract with CDWR.

18. ~~CFE will soon have a strong incentive to upgrade the capacity of its east-west transmission lines in order to make room for its own east-to-west transfers.~~

19. There is no evidence in the record of plans by CFE to upgrade the La Rosita – Rumorosa line. ~~Upgrades on the CFE transmission system will increase the ability of SDG&E to rely on through-flow and exports from Mexico in the future.~~

Conclusions of Law

1. The Commission has jurisdiction over the proposed transmission project pursuant to Pub. Util. Code §1001 et seq, but it should give due deference to the determinations of need of the CA ISO because the CA ISO has responsibility to ensure efficient use and reliable operation of the transmission grid consistent with the achievement of planning and operating reserve criteria no less stringent than those established by the WECC and NERC.

2. In the case of a significant backbone project such as Valley-Rainbow, and given the utmost importance of electric reliability, the reliability need that has been demonstrated to arise between 2006 and 2008 justifies proceeding to an assessment of alternatives and their respective impacts in Phase

2.~~Because of the uncertainty of new generation and potential expansion of existing transmission after five years, were we to adopt a ten-year planning horizon we would always find a need for a transmission capacity expansion because we could never count on new resources coming online.~~

3. Adoption of the ISO's milestone approach can ensure that SDG&E's activities as to the Valley-Rainbow Project are staged to match need as it develops ~~to the appropriate planning horizon could result in SDG&E pursuing construction of the proposed project more than 10 years after the environmental review for the project occurred~~.

4. ~~It is reasonable to adopt a five-year planning horizon for this proceeding.~~

6. It is not reasonable to include 67 MW associated with the Navy units in the existing generation forecast.

7. The reasonable forecast of existing in-basin generating capacity is ~~2,415~~ 2,348 MW.

8. Record evidence indicates that the future of Otay Mesa is in question. Consistent with standard industry practice, it is not reasonable to rely on Otay Mesa coming online in 2005. ~~It is reasonable to assume Otay Mesa will come online in 2005, and therefore to include 510 MW of new generation in the forecast.~~

9. When Otay Mesa is built~~Beginning in 2005~~, an outage at Otay Mesa should be considered the G-1 event for purposes of this reliability analysis.

13. Utilizing reasonably foreseeable ~~but conservative~~ supply and demand forecasts (existing in-basin generation of 2,346 ~~415~~ MW~~, new in-basin generation of 510 MW in 2005~~, a Path 44 import limit of 2,500 MW, no resources from Mexico, and SDG&E's demand forecast), SDG&E will have a capacity deficiency in 2006 ~~9~~ under N-1/G-1 conditions.

14. Even if new in basin generation of 510 MW is added in 2005, SDG&E will have a capacity deficiency in 2008 under N-1/G-1 conditions.

14. These assumptions are reasonable. ~~but conservative because~~ they do not include any generation resources that do not already have all required permits or are not already online, even though there are more than 2,000 MW of generation units (500 MW Palomar, 500 MW AEP Resources, 925 MW repowering of Encina, 340 MW new facilities at South Bay) that may be developed or receive their regulatory permits in the near future. Nonetheless, they also do not recognize that over half the existing generation in San Diego is between 24 and 48 years old.

15. ~~These assumptions are reasonable but conservative because they assume that CFE will not upgrade its east-west transmission system even though the evidence demonstrates that it is in CFE's interest to do so to serve its own load~~.

16. ~~These assumptions are reasonable but conservative because they assume that Otay Mesa will become the G-1 event even though the evidence indicates that modifications will likely be made to eliminate the possibility that a condenser failure will cause all 510 MW to go offline.~~

17. ~~These assumptions are reasonable but conservative because they utilize SDG&E's peak demand forecast which forecasts an extremely strong rebound in demand in the next several years.~~

18. The Valley-Rainbow Project is ~~not~~ needed to meet WECC/NERC reliability criteria within four to six years and is ~~the relevant five-year planning horizon and cannot be~~ justified on the basis of reliability need.

24. Because SDG&E will not continue to meet the WECC/NERC reliability criteria during the relevant planning horizon ~~and the Valley-Rainbow project cannot be justified on the basis of providing economic benefits to ratepayers~~, SDG&E's request for a CPCN should continue to be processed~~be denied without prejudice~~.

25. ~~Because a project is not needed at this time,~~ the Energy Division should continue ~~halt~~ its preparation of the DEIR/DEIS for the Valley-Rainbow Project.

APPENDIX 2

APPENDIX 2: The CA ISO's Proposed Changes to the Duque Alternate's Findings of Fact and Conclusions of Law

Findings of Fact

3. The ISO transmission planning exercises study five to ten years~~cover a five-year period~~.

6. ~~No documentation was provided regarding the Navy's purported decision not to renew the leases for~~ The 67 MW of combustion turbines located on Navy property should not be considered because the Navy has indicated that it intends to terminate the lease.

9. Calpine's stock price has diminished by over 75% since it renegotiated its contract with CDWR.

13. There is no evidence in the record of plans by CFE to upgrade the La Rosita – Rumorosa line.

Conclusions of Law

2. The Commission has jurisdiction over the proposed transmission project pursuant to Pub. Util. Code §1001 et seq, but it should give due deference to the determinations of need of the CA ISO because the CA ISO has responsibility to ensure efficient use and reliable operation of the transmission grid consistent with the achievement of planning and operating reserve criteria no less stringent than those established by the WECC and NERC.

2. In the case of a significant backbone project such as Valley-Rainbow, and given the utmost importance of electric reliability, the reliability need that has been demonstrated to arise between 2006 and 2008 justifies proceeding to an assessment of alternatives and their respective impacts in Phase 2.~~Because of the uncertainty of new generation and potential expansion of existing transmission after five years, were we to adopt a ten-year planning horizon we would always find a need for a transmission capacity expansion because we could never count on new resources coming online.~~

3. Adoption of the ISO's milestone approach can ensure that SDG&E's activities as to the Valley-Rainbow Project are staged to match need as it develops ~~to the appropriate planning horizon could result in SDG&E pursuing construction of the proposed project more than 10 years after the environmental review for the project occurred~~.

4. ~~It is reasonable to adopt a five-year planning horizon for this proceeding.~~

6. It is not reasonable to include 67 MW associated with the Navy units in the existing generation forecast.

7. The reasonable forecast of existing in-basin generating capacity is ~~2,415~~ 2,348 MW.

14. Even if new in basin generation of 510 MW is added in 2005, SDG&E will have a capacity deficiency in 2008.

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