



November 20, 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 of the Valley-Rainbow 500 KV Interconnect Project

Dear Clerk:

Enclosed for filing please find an original and eight copies of the Ex-Parte Communication 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 the messenger.

Thank you.

Sincerely,

Jeanne M. Solé
Regulatory Counsel

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

Application of San Diego Gas and Electric Company)
for a Certificate of Public Convenience and Necessity) A. 01-03-036
for the Valley-Rainbow 500 KV Interconnect)
Project) (Filed March 23, 2001)
_____)

**NOTICE OF EX PARTE COMMUNICATION OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION**

November 20, 2002

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF
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**NOTICE OF EX PARTE COMMUNICATION OF THE
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CORPORATION**

In accordance with CPUC Rule 7.1, the California Independent System Operator (CA ISO) respectfully submits this Ex Parte Notice. On November 15, 2002, from 10:30 to 11:30 A.M., Jeanne M. Solé, Regulatory Counsel for the CA ISO, Robin Smutny-Jones, Director of State Affairs, and Jeffrey Miller, a Regional Transmission Manager in the Grid Planning Department of the CA ISO, met with the following advisors: Kevin Coughlan, Lynne McGhee, Laura Krannawitter, Manuel Ramirez, Belinda Gattin and Aaron Johnson to discuss the Proposed Decision and the Alternate Decision of Commission Duque in the above referenced proceeding. The meeting was granted at the CA ISO's request.

The attached agenda and map was provided. Ms. Solé stressed that the CA ISO supports the outcome of the Duque Alternate because it is important for the reliability of San Diego to proceed towards the identification of alternatives and their respective environmental, social and aesthetic impacts to maintain the reliability of the San Diego Area.

Ms. Solé noted that the CA ISO supports some portions of the Proposed Decision. In particular, Ms. Solé stressed that the CA ISO strongly supports the Proposed Decision's use of the N-1/G-1 reliability criteria which is consistent with the standards of the North American Electric Reliability Council ("NERC") and the Western Electricity Coordinating Council (now the "WECC"). Ms. Solé stressed that Public Utilities Code Section 345 requires the CA ISO to operate the 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."

Ms. Solé also stressed that persons arguing for use of a probabilistic criteria were misusing probabilistic analysis applying it simplistically in to the N-1/G-1 standard. Ms. Solé explained that the N-1/G-1 criteria is used as an umbrella to capture many different contingencies that can occur. Ms. Solé explained further as an example that critical contingencies can take place even during low load periods which are used for maintenance of facilities. Mr. Miller confirmed that while use of the probabilistic approach has been considered by the CA ISO, such use has been limited to situations where one radial line is under consideration; that people have been unable to agree on a methodology for use of a probabilistic analysis more widely; and that any change in the fundamental criteria would have to be accepted by the WECC and NERC. Ms. Solé stressed moreover, that it is inaccurate to portray the line as being useful only during a contingency, and noted instead that once a line is in place it is used immediately to operate the system and provide greater operating flexibility.

Ms. Solé went on to stress the CA ISO's concern with an automatic cut off deadline of five years. Ms. Solé noted that given the different characteristics of different kinds of lines, any automatic deadline is inappropriate. Ms. Solé explained a general consensus among participants that planning should look out well beyond five years to at least ten years. She noted that the controversy is limited to whether there should be a deadline beyond which demonstration of need does not provide justification for a Certificate of Public Convenience and Necessity ("CPCN"). Ms. Solé noted that different lines justify different deadlines – for example for a line that can be put into place in one year, demonstration that the line is needed five years out may not be sufficient to justify immediate permitting. However, Ms. Solé noted that in the case of the Valley-Rainbow line, the line had been shown to be needed within a four to six year window and that in the context of a large complex line, with important environmental, social and aesthetic aspects to consider, this showing justified proceeding to phase 2.

Ms. Smutny-Jones noted that the CA ISO has a longer-term vision for upgrading the bulk transmission system. Mr. Miller explained this vision. He indicated that in the long term Southern California would benefit from completing a 500 kV loop that would also re-enforce the links to the Desert Southwest. Such loop would improve delivery and distribution of power in Southern California. Mr. Miller noted that Valley-Rainbow could be the first link in this loop and that further pieces would be a connection from Rainbow to Miguel or Imperial Valley. In addition to these facilities, it may be beneficial to add a second Palo Verde-Devers 500 kV line or a second Southwest Power Link to facilitate the delivery of low cost power from Arizona to California. Ms. Solé explained that in the Commission's planning proceeding it was determined that there was

sufficient time to complete an economic assessment of a second line into the Southwest. Ms. Solé also acknowledged that the relative benefits of Valley-Rainbow as the first link of a longer-term plan would have to be assessed in phase 2 against the relative benefits of other alternatives.

Ms. Solé stressed that the Commission's procurement decision did not provide a justification for not proceeding to phase 2, because the decision states that projects requiring CPCN's will have to obtain them in any event. Thus, if a need were identified, the process would have to be commenced again. Ms. Solé stressed that the Commission has already undertaken some of the environmental assessment, and identification of alternatives needed for phase 2 and that it is most appropriate to proceed to phase 2 and use that information to determine the best alternative.

Mr. Miller stressed that in phase 2 an adequate range of alternatives including generation could be considered. Ms. Solé concurred and noted that the CA ISO did not proceed with a non-wires solicitation in this case in part because there was a recognition that the CPUC would undertake a review of alternatives in the CPCN process in any event, and that the CPUC could consider some of the potential energy benefits of generation in a manner that is not available to the CA ISO.

Mr. Miller noted the ongoing uncertainty about the future of Otay Mesa and provided a photograph that was provided to Commissioner Duque by SDG&E at the all-party meeting which indicates that there has been no real progress in the construction of Otay Mesa. Ms. Solé acknowledged that part of the challenge on need as to Valley-Rainbow involves an assessment of whether generation will materialize and even whether the Commission should direct SDG&E to contract with generation in lieu of

transmission. Ms. Solé noted that in the case of Valley-Rainbow, taking a broad look at the situation in San Diego provides the basis for a conclusion that both transmission and generation should be upgraded since there is much aging generation in San Diego. Mr. Miller noted that Duke South Bay in an update filing regarding its RMR Agreement with the CA ISO had indicated that it would take South Bay Unit 4 off line. While both Mr. Miller and Ms. Solé acknowledged that by maintaining the older units subject to a continuous RMR Agreement, the CA ISO might be able to delay the closure of some of the older plants, Ms. Solé noted that this might not be the best alternative in the long run since older plants are less efficient and dirtier than new plants. Ms. Solé noted also that older plants while still in service can lead to operational issues to the extent they begin to lose reliability. Mr. Miller noted that the cost of retaining the older units in San Diego could exceed the cost of constructing the Valley-Rainbow line.

Ms. Solé also noted that the lease has been terminated by the Navy for land on which certain units were located. Ms. Solé argued that the CA ISO has been unfairly criticized for not doing more to extend the lease. She indicated that the CA ISO is not all powerful and that in order to have a basis to argue for an extension of the lease, it would at least have had to show that the units were needed in 2003. Ms. Solé noted that customers pay for the costs of RMR Agreements and that it had not been shown that extending the RMR Agreements for two or three years during which they would not otherwise have been needed was justified.

Ms. Solé also noted that the Proposed Decision was correct in determining that California cannot rely on Mexico to solve the problem. Ms. Solé asserted however that this is not a conservative assumption but rather a reasonable one. Ms. Solé noted that the

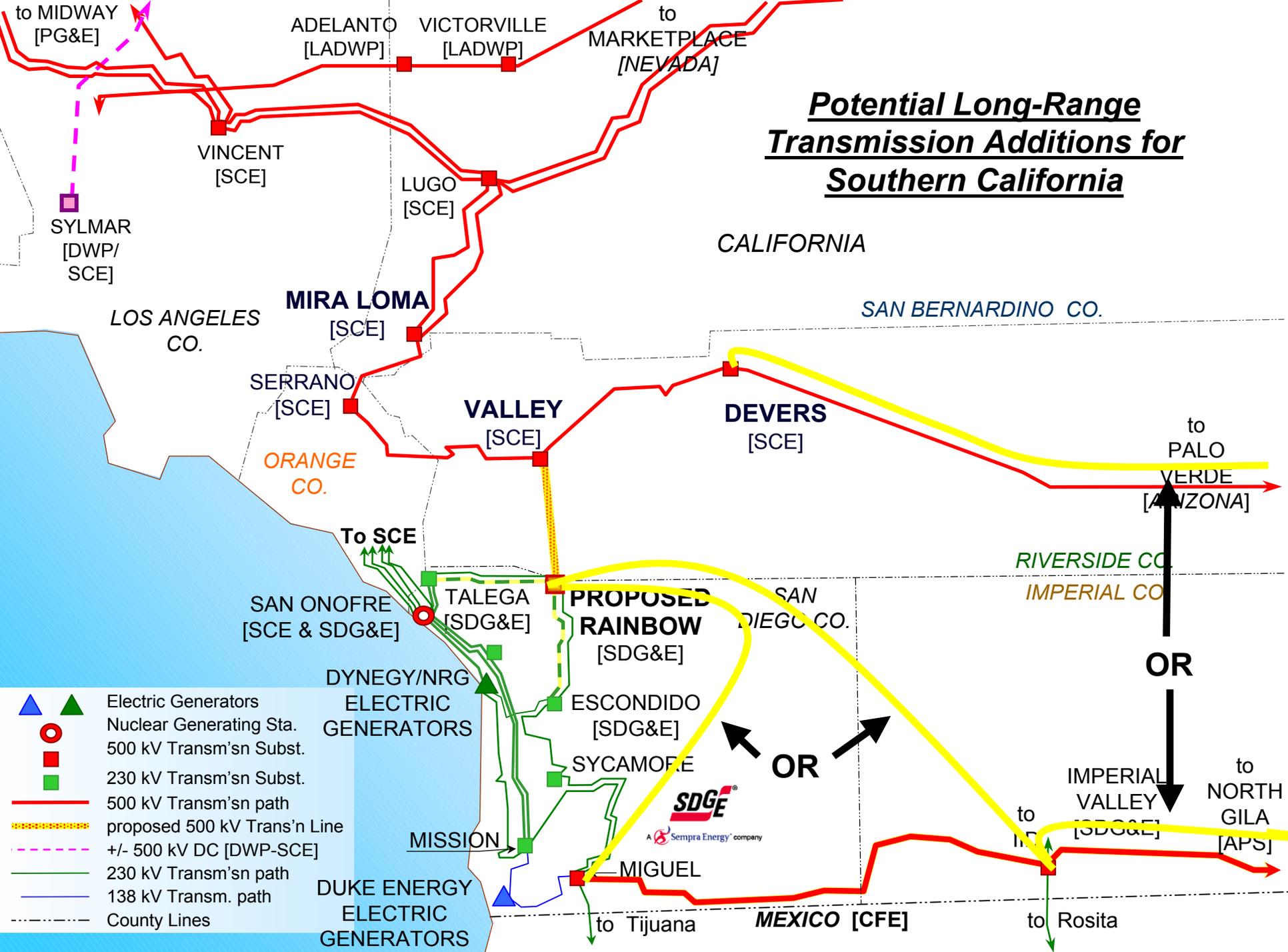
CA ISO has exported power to Mexico even when there are, on paper, excess resources in Mexico. Ms. Solé also stressed that Mexico clarified during the workshop that it has no plans to upgrade the La Rosita – Rumorosa line. Mr. Miller noted that Mexico had raised questions about who should pay for an upgrade for the benefit of California.

Finally, Ms. Solé stressed the importance of taking proactive steps to address San Diego's reliability needs. Ms. Solé noted that in prior cases, CPCN's were granted by the Commission when the system was already in a critical condition, and that this had caused concerns about mitigation features that could take longer to complete. Ms. Solé expressed the view that the electric system should be upgraded proactively, in a manner that allows for full consideration of the environmental, social and aesthetic impacts of alternatives and provides for facilities being in places before crises develop. Ms. Solé noted that the Commission has conditioned CPCN's in various ways in the past and that she was not aware of any legal impediments to the use of milestones in a Commission CPCN decision.

Dated at Folsom, California, this 20th day of November, 2002

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Potential Long-Range Transmission Additions for Southern California



-  Electric Generators
-  Nuclear Generating Sta.
-  500 kV Transm'sn Subst.
-  230 kV Transm'sn Subst.
-  230 kV Transm'sn Subst.
-  500 kV Transm'sn path
-  proposed 500 kV Trans'n Line
-  +/- 500 kV DC [DWP-SCE]
-  230 kV Transm'sn path
-  138 kV Transm. path
-  County Lines



OR

OR

DUKE ENERGY
ELECTRIC
GENERATORS

MEXICO [CFE]

to NORTH GILA [APS]

to PALO VERDE [ARIZONA]

RIVERSIDE CO.
IMPERIAL CO.

SAN BERNARDINO CO.

CALIFORNIA

LOS ANGELES CO.

MIRA LOMA [SCE]

VALLEY [SCE]

DEVERS [SCE]

SERRANO [SCE]

LUGO [SCE]

VICTORVILLE [LADWP]

ADELANTO [LADWP]

VINCENT [SCE]

SYLMAR [DWP/SCE]

SAN ONOFRE [SCE & SDG&E]

TALEGA [SDG&E]

PROPOSED RAINBOW [SDG&E]

ESCONDIDO [SDG&E]

SYCAMORE

DYNEGY/NRG
ELECTRIC
GENERATORS

MISSION

MIGUEL

to Rosita

to Tijuana

To SCE

MEXICO [CFE]

to NORTH GILA [APS]

to PALO VERDE [ARIZONA]

RIVERSIDE CO.
IMPERIAL CO.

SAN BERNARDINO CO.

CALIFORNIA

LOS ANGELES CO.

MIRA LOMA [SCE]

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to Rosita

to Tijuana

To SCE

Valley-Rainbow Proposed and Alternate Decisions
ISO Concerns 11/15/02

- Concur with the conclusion in the Duque Alternate
- Agree with a number of key items in the Proposed Decision
 - Use of appropriate reliability criteria (N-1/G-1)
 - ORA attacks ignore state law
 - N-1/G-1 is an umbrella standard not the sole contingency of concern
 - Once facilities are in place they provide value at all times
 - Adoption of SDG&E load forecast
 - Conclusion that it is not reasonable to rely on Mexico
 - Conclusion that Otay Mesa could become the N-1 Contingency
- Concern about the five year cut-off
 - Need a planning process that looks out at least ten years (Procurement proceeding looks out twenty years)
 - CPCN determination of need should consider the particular project
 - Valley-Rainbow
 - need between four to six years
 - large complex project, with significant environmental, social, and aesthetic considerations
 - adequate time required to address these
 - it is not appropriate to wait until there is a crisis to permit needed projects
- San Diego Generation is uncertain
 - Otay Mesa uncertain and only delays the need for a few years
 - Navy CT's are being removed
 - Duke has filed plans with FERC to mothball South Bay Unit 4
 - Much of the generation in the area is old and inefficient
- Delay to procurement proceeding just means that CPCN would need to be filed again after planning process is complete (could be a delay of four years) – environmental work that is underway would be lost
- Need for proactive planning to ensure we have a reliable grid – Valley Rainbow is a critical link in the ISO long term vision