Exhibit No.: _____
Commissioner: Loretta Lynch
Administrative Law Judge: Meg Gottstein
Witness: _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

JOINT REPLY TESTIMONY ON BEHALF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR, SAN DIEGO GAS AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA EDISON COMPANY AND THE CALIFORNIA ENERGY COMMISSION

Submitted by the California Independent System Operator, San Diego Gas and Electric Company, Southern California Edison Company, and the California Energy Commission

June 8, 2001

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Submitted by the California Independent System Operator, San Diego Gas and Electric Company, Southern California Edison Company, and the California Energy Commission

(Sponsoring witnesses: Ronald Cottom, Don Kondoleon, Linda Brown, Jeffrey Miller[1])

I. INTRODUCTION

This reply testimony has been prepared jointly by the California Independent System Operator (CA ISO), the Southern California Edison Company (SCE), the San Diego Gas and Electric Company (SDGE), and the California Energy Commission (CEC) (the "Opening Parties"). The testimony responds to the testimony of Jim Kritikson filed on behalf of Coral Power, L.L.C ("Coral") and Wayne R. Schmus filed on behalf of Save Southwest Riverside County ("SSRC"). Both Coral and SSRC represent discrete special interests and focus much of their testimony on in-state constraints. The Opening Parties aver that: 1) with regards to regional transmission links to the Southwest and Mexico, which are the subject of the hearings this summer, it is misplaced to undertake an in-depth assessment of the in-state grid implications before determining generally the reliability and/or economic justification for potential projects; and 2) the need for in-state transmission upgrades is evaluated annually in the CA ISO Coordinated Grid Planning Process.

[1] The qualifications for these witnesses were circulated as part of the Opening Testimony of the Opening Parties.

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Accordingly, the testimony of SSRC and Coral does not support a conclusion by the CPUC other than that advocated by the Opening Parties, namely that

- additional regional electric transmission links from Southern California to the Southwest (Arizona and Nevada) and/or Mexico cannot be justified at this time based solely on reliability considerations;
- additional regional electric transmission links from Southern California to the Southwest and/or Mexico may be justified on economic grounds to reduce the cost of electric service to California users;
- given the cost of additional regional electric transmission links from Southern California to the Southwest and/or Mexico, a thorough economic analysis is required to determine whether such links are justified; the Opening Parties have in place a cooperative process (which includes the California Public Utilities Commission) to undertake this analysis.

II. RESPONSE TO MR. SCHMUS ON BEHALF OF SSRC

Mr. Schmus' testimony relates to in-state constraints, arguing on the one hand that the scenarios presented by the Opening Parties do not address the need for in-state projects including a proposed Valley to Rainbow 500 kV project, and on the other that in-state constraints should be assessed in reviewing regional transmission links. The Opening Parties agree with Mr. Schmus that the scenarios do not directly address the Valley-Rainbow project, and that ultimately, the detailed assessment of a regional transmission link must include assessment of related in-state upgrades. However, the Opening Parties believe it is necessary to undertake the assessment of regional transmission links in an orderly, efficient manner; reviewing first on a macro level whether a regional transmission link is likely to be justified, on reliability or economic grounds, before undertaking a more detailed and complex project assessment and development process, including an assessment of necessary in-state upgrades.

Mr. Schmus mischaracterizes the opening testimony filed jointly by the Opening Parties ("Opening Testimony") stating that "[t]he scenarios for this proceeding assume that there are no transmission constraints in southern California, the in-state portion of the study region." Prepared Direct Testimony of Wayne R Schmus on Behalf of Save Southwest Riverside County (Opening Testimony of SSRC) at

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1. In fact, the Opening Testimony states only that the scenarios do not take into account internal transmission constraints within California; the scenarios are intended to address only whether a regional transmission link to the Southwest and/or Mexico is justified. See e.g. Opening Testimony at 19.

The Opening Parties have not and do not assume that there are no transmission constraints in Southern California. Rather, in-state transmission constraints have been and will continue to be addressed annually by the utilities and the CA ISO in the CA ISO Coordinated Grid Planning Process. Nonetheless, the Opening Parties agree with Mr. Schmus that the scenarios do not directly address the need for in-state projects such as the Valley Rainbow project. The Opening Parties expect that the need for the Valley Rainbow project will be determined by the CPUC in the proceeding on a Certificate of Public Convenience and Necessity for the Valley Rainbow project, Docket A 01-03-036.

In declining to address in-state constraints, the Opening Parties do not intend to under state their importance, but rather to undertake the assessment of the need for regional transmission links in a targeted and resource efficient manner. If regional transmission links are found to be potentially justified based on reliability or economics, addressing in-state constraints is a necessary component of fully developing the details of a feasible project and conducting an in-depth assessment of potential projects. However, if regional transmission links are not justified based on reliability or economics, then it is unnecessary to determine the extent of in-state upgrades required to complement them. Before spending significant resources assessing the in-state grid implications of regional transmission links, which are likely to be multiple and complex, the Opening Parties have begun by determining whether regional transmission links can be justified. As stated above, in parallel with any assessment of regional transmission links, in-state transmission constraints are assessed annually in the CA ISO Coordinated Grid Planning Process.

Mr. Schmus argues that the Request for Proposals to develop a methodology to undertake an economic assessment for regional projects should include an assessment of in-state constraints. Again, the Opening Parties believe that given the magnitude, cost and complexity of regional transmission links, it

is important to undertake an assessment of the need for such projects on a macro level before undertaking the more detailed effort of scoping out in detail the full parameters of the project, including needed in-state transmission upgrades. Detailed scoping work including assessment of in-state transmission upgrades must be undertaken before the need for a project and its full outlines can be finalized. However, before more detailed work is undertaken, it is important to determine generally whether a regional project is likely to be justified on an economic and/or reliability basis.

III. RESPONSE TO MR. KRITIKSON ON BEHALF OF CORAL

Mr. Kritikson also raises issues about in-state transmission constraints. Mr. Kritikson contends that a May 16, 2001 order from the Federal Energy Regulatory Commission (FERC) provides the basis for moving forward quickly on both in-state upgrades and regional transmission links. Mr. Kritikson's testimony ignores the process in place to address in-state upgrades and provides no numbers to confirm that a transmission link to Mexico is economically justified.

Like Mr. Schmus, Mr. Kritikson mischaracterizes the Opening Testimony, stating that the Opening Parties assume "that new in-state generation will be sufficient to maintain electric system reliability, without examining the ability of the in-state transmission system to deliver power from new generation." Prepared Testimony of Jim Kritikson on Behalf of Coral Power, L. L. C. (Opening Testimony of Coral). Then, Mr. Kritikson argues that the CPUC should expand the scope of the hearings to address in-state projects of interest to Coral, including a 230 kV line from Miguel to Mission. Mr. Kritikson argues that such projects should not be the subject of the economic assessment that the Opening Parties are developing to assess major regional transmission links.

As stated above, the Opening Parties had no intent to and did not intimate that in-state transmission is adequate until 2008; in-state transmission upgrades were not addressed in the scenario work undertaken. This is because 1) the scope of these hearings is regional transmission links to the Southwest and/or Mexico and, as to these projects, it is important to determine whether they are justified at a macro level before undertaking a detailed examination of the precise nature and scope of the project including necessary in-state enhancements; 2) in-state constraints are assessed annually in the CA ISO

Coordinated Grid Planning Process; and 3) optional transmission system upgrades in which merchant generator developers could avoid transmission congestion are identified in generator interconnection studies done by the utilities and the CA ISO.

Mr. Kritikson's testimony does not present any detailed technical or economic analysis demonstrating the need for a Miguel-Mission 230kV project. The testimony merely states that such a project would be favorable to Coral. The technical and economic justification for a Mission-Miguel 230 kV project is being assessed in the context of the current annual CA ISO Coordinated Grid Planning Process. This process should culminate in a final SDG&E transmission expansion plan in the fall, a consolidated CA ISO grid-wide plan in early 2002, and review of the plan and recommended projects over $20 million dollars by the CA ISO Governing Board in early spring 2002. Additionally, Mr. Kritikson inaccurately states that a RAS is a poor substitute for transmission west of the Miguel substation. The CA ISO and utilities agree that use of RAS can be an acceptable substitute to transmission upgrades to relieve transmission constraints and may be more economic to California consumers.

Absent completing the detailed review of the project in the CA ISO Coordinated Grid Planning Process, the Opening Parties are not prepared to opine on the relative merits of the Miguel-Mission project. Nonetheless, it is worth noting that it appears -- subject to further review in the planning process - that the project would primarily benefit a discrete number of generators with potential projects in Mexico seeking to access Southern California – Mexico interconnections; thus one issue that must be assessed is who should bear the cost of the project.

Before the project can be endorsed by the CA ISO, including CA ISO support for inclusion of the cost of the project in the transmission access charge, its technical and economic justification from the stand point of California consumers must be fully vetted in the CA ISO Coordinated Grid Planning Process. However, any party (including Coral) may propose such an upgrade at any time pursuant to the CA ISO Tariff, Section 3.2.1.1 ("Economically Driven Projects"). In such cases, the cost responsibility for the project is determined in accordance with the CA ISO tariff.

Mr. Kritikson contends that FERC's May 16 order which offers an improved rate of return (ROE) for projects built within certain time frames supports moving forward with the Miguel to Mission line without further analysis. FERC's order was intended to incent investment in necessary projects; however, it does not obviate the need to determine whether a project is needed in the first place. Moreover, even if the CPUC authorized construction of the Miguel to Mission line today -- without regard for the requirements under the California Environmental Quality Act (CEQA) and the Public Utilities Code sections 1001 et. seq. in order to be eligible for the ROE incentive(s) from the FERC order the project would need to be placed in service by November 1, 2001 because this upgrade would be on existing rights of way. The earliest this upgrade would be possible would be approximately one year after issuance of all necessary approvals. Thus, the FERC order has no relevance for the Miguel to Mission line. Nonetheless, the Opening Parties support moving forward expeditiously with the review, approval and construction of needed in-state projects and have a process in place to accomplish this objective.

Mr. Kritikson also argues that the transmission import capability to Mexico should be increased. Mr. Kritikson acknowledges, however, that major transmission import capability projects would benefit from further economic assessment as recommended by the Opening Parties. The Opening Parties and Mr. Kritikson thus appear to agree with regards to the appropriate approach in the case of regional transmission links to Mexico. As in the case of the Miguel to Mission line, a regional transmission link to Mexico would primarily benefit a discrete number of generators; thus, it is necessary to determine the extent to which the costs of such links should be assigned generally to ratepayers. Certainly, before the CA ISO could support inclusion of the cost of such a project in the transmission access charge, it would require adequate documentation of the reliability and/or economic benefits of the project to California consumers.

Mr. Kritikson also suggests that SDG&E proceed with a 5.5 mile segment of a 69 kV tie-line and avail itself of the FERC ROE incentive in doing so. Contrary to Coral's suggestions, it would be

inappropriate for the Commission to consider such a small upgrade in the context of this proceeding, which has as its focus potential inter-regional transmission facilities.

VI. CONCLUSION

Contrary to the Testimony of SSRC and Coral, the Opening Parties have made no conclusions about the adequacy of in-state transmission capability in Southern California. Instead, the Opening Parties developed testimony to address the justification on a macro level for regional transmission links to the Southwest and Mexico, which the CPUC indicated should be the subject of the hearings this summer, and did not address in-state constraints. In-state constraints have been and continue to be addressed annually in the CA ISO Coordinated Grid Planning Process. Moreover, once the justification for a major transmission link to the Southwest or Mexico has been identified, detailed technical assessment of potential projects will follow during which related in-state transmission upgrades will be considered. Through this process the best project will be identified to provide the requisite additional import capability.