

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

Application of San Diego Gas & Electric)	
Company (U 902 E) for a Certificate of Public)	A.02-07-022
Convenience and Necessity for the)	
Miguel – Mission 230kV #2 Project)	
_____)	

**OPENING COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
ON THE DRAFT DECISION OF ALJ MALCOLM**

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In accordance with Rules 77.2 and 77.3, of the Commission’s Rules of Practice and Procedure, the California Independent System Operator (“CAISO”) respectfully submits its opening comments on the Draft Decision of Presiding Judge Kim Malcolm, mailed June 8, 2004 (“DD”).

I. Introduction

The CAISO strongly supports the DD’s proposed order granting San Diego Gas & Electric (“SDG&E”) a certificate of public convenience and necessity (“CPCN”) to construct the Miguel-Mission 230 kV #2 project (“Miguel-Mission”). The DD rejects, however, Miguel-Mission as proposed by SDG&E and instead recommends approval of an “environmentally preferred alternative” (“EPA”) route requiring SDG&E to underground existing 69 kV/138 kV transmission lines in Jamacha Valley and the City of Santee. SDG&E had noted that adoption of the EPA would delay the project eight to ten months and virtually ensure that the hoped-for in-service date of June 2006 will not be realized.¹

¹ “Declarations of San Diego Gas & Electric Company,” A.02-07-022 (April 16, 2004) at pp. 2.

The inevitable delay in completing Miguel-Mission that follows from selecting the EPA will perpetuate the severe financial burden and threat to system reliability now caused by chronic congestion at the Miguel Substation. CEQA expressly allows the Commission to consider these specific economic and social impacts in deciding whether to adopt changes to the proposed project. (14 C.C.R. § 15021(b).) Yet, nowhere in the DD does the Commission address whether the purported incremental environmental benefits of the EPA outweigh the tangible detrimental economic and reliability consequences that will result from the delay in completing Miguel-Mission. The CAISO agrees that the record in this proceeding and the arguments set forth in the Opening Comments of the Boarder Generation Group, dated June 21, 2004, and in the Comments of San Diego Gas & Electric Company, dated June 18, 2004, justify adoption of Miguel-Mission as proposed by SDG&E. Nevertheless, the CAISO recognizes and respects the Commission's authority to evaluate tradeoffs in performing its CEQA obligation to avoid or minimize environmental damage where feasible. (14 C.C.R. § 15021(a).) The CAISO, therefore, believes the DD must be augmented to explicitly address whether the reduction in environmental impacts associated with the EPA is sufficient to overcome the specifically identified benefits foregone by its adoption. This further analysis should not, however, delay the Commission's consideration of the DD at its July 8, 2004 meeting.

II.

The DD Fails To Explicitly Compare For CEQA Purposes The Benefits Of The EPA Against Its Indirect Costs Of Implementation

The DD correctly reiterates the finding in D.03-02-069 that Miguel-Mission provides economic benefits, reduces congestion and associated costs, enhances reliability, and improves management of the transmission system. (DD, mimeo. at p. 18.) The CAISO has repeatedly expressed alarm that the

current magnitude of intra-zonal congestion at the Miguel Substation threatens to degrade system reliability and is substantially increasing electricity costs borne by ratepayers.² President Peevey recently acknowledged this reliability concern in the June 10, 2004 Assigned Commission Ruling in R.04-04-003 (“ACR”). In the ACR, President Peevey referenced a CAISO letter noting its increasing reliance on real-time management of congestion that results in operational difficulties for the CAISO and raises concerns about reliability, particularly for the summer months when the system is stressed.³

The DD also alludes to the Martin Declaration, but only in the limited context of addressing the CPCN application for Miguel-Mission. (See, DD at VI.) The Martin Declaration stated that from July 2003 through March 2004, total redispatch costs resulting from intra-zonal congestion at the Miguel Substation totaled approximately \$34.4 million of which approximately 81% or \$28 million could have been avoided had Miguel-Mission been energized as of July 1, 2003.⁴ The CAISO does not forecast intra-zonal congestion costs into the future. The DD confirms, however, the CAISO’s assessment that fees to manage congestion are likely to continue until and unless additional transmission is constructed in the region. (DD at pp. 18-19.) This is particularly true given the recently announced implementation date of February 2007 for the CAISO’s proposed market redesign.⁵ Thus, the projected benefits of the CAISO’s market design in resolving the operational and cost effects of intra-zonal congestion at

² E.g., “Prehearing Conference Statement of the California Independent System Operator,” A.02-07-022 (Feb. 3, 2004); “Declaration of Michael Martin on behalf of the California Independent System Operator,” A.02-07-022 (April 5, 2004) (“Martin Declaration”); Letter from James Detmer, Vice President of Grid Operations for the CAISO to Commissioners (Feb. 20, 2004).

³ “Assigned Commissioner’s Ruling Regarding Reliability Issues,” R.04-04-003 (June 10, 2004) at pp. 1-2.

⁴ Martin Declaration at pp. 3-4.

⁵ See, “Market Design & Infrastructure Upgrade Program Update,” <http://www.caiso.com/docs/09003a6080/31/a9/09003a608031a928.pdf> at p. 5.

Miguel Substation are unlikely to be available to mitigate the negative cost implications resulting from the EPA construction schedule. Moreover, given that the delay engendered by the EPA is roughly commensurate with the time period studied in the Martin Declaration, it is not unreasonable to extrapolate that consumers may bear similar redispatch costs, i.e., \$28 million, as a result of adding eight to ten months to the June 2006 completion date for Miguel-Mission.

The DD also finds that annual net energy cost savings, exclusive of CAISO redispatch costs for congestion, for Miguel-Mission to be \$6.7 million for SDG&E customers and \$54.1 million for CAISO customers. (DD at p. 21.) The DD identifies the environmental benefits of the EPA as “improvements in visual impacts and the reductions of EMF exposure.” (DD at p. 18.) There is no mandate that the Commission adopt the environmental superior alternative set forth in an Environmental Impact Report (“EIR”). Rather, the CEQA Guidelines direct the Commission to consider specific economic, environmental, legal, social and technological factors, when deciding if changes to a project are feasible. (14 C.C.R. § 15021(b).) The Commission may reject any alternative identified in the final EIR based on these factors. (14 C.C.R. § 15091(a)(3).) Thus, the foregone annual net energy saving, together with the foregone savings in congestion costs, must be weighed against the incremental environmental benefits derived from pursuing the EPA over the project as proposed. The DD does not do this, and the CAISO believes that rational decision-making requires that the Commission perform an explicit analysis of the relative tradeoffs in the context of selecting the appropriate project route.

III. Conclusion

For the foregoing reasons, the CAISO respectfully contends that the DD is deficient and must be augmented to explicitly address whether the reduction in environmental impacts associated with the EPA is sufficient to outweigh the cost benefits foregone by not adopting the project as proposed by SDG&E. This further analysis should not, however, delay the Commission's consideration of the DD at its July 8, 2004 meeting.

June 25, 2004

Respectfully Submitted:

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