California ISO
Your Link to Power

California Independent
System Operator Corporation

July 31, 2007

Dian M. Grueneich, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Application 06-08-010; Application of San Diego Gas & Electric Company for a certificate of public convenience and necessity for the Sunrise Powerlink Transmission Project

Dear Commissioner Grueneich:

I am writing to express the California Independent System Operator Corporation's concern about a proposed delay in the Sunrise Powerlink application proceeding. In addition, I wish to clarify some assertions in the July 24, 2007 Assigned Commissioner's Ruling that relate to the CAISO's assumptions and conclusions.

As you know, the Assigned Commissioner's Ruling (ACR) extends the procedural schedule for the Sunrise proceeding by nearly seven months so that "newly disclosed environmental information" can be considered in the joint environmental impact report and environmental impact study (EIR/EIS) currently being prepared by the Commission and the United States Bureau of Land Management. Prior to the issuance of the ACR, the final EIR/EIS was set to be issued on November 20, 2007. This date has now been extended to June 6, 2008. This change to the procedural schedule delays the issuance of the Commission decision regarding the Sunrise project and, as the ACR acknowledges, will likely cause the 2010 in-service date for an important new transmission line to slip.

As the Commission is well aware, the CAISO has been actively participating in this proceeding and has conducted an in-depth independent analysis of the Sunrise project. Although the CAISO's witnesses have not yet testified orally in the proceeding, their analysis and written testimony demonstrates a reliability need in SDG&E's service territory beginning in 2010, and concludes that this need will be remedied by the Sunrise project.[1]

Relying, in part, on excerpts from the CAISO's testimony, the ACR concludes that the delay "is unlikely to affect in a significant way the achievements of the goals identified by SDG&E in pursuing this project" (ACR at 15 – 16). The ACR further suggests that the project can be delayed to at least 2013, if not later. The CAISO disagrees. With respect to delaying the in-service date, the ACR cites to CAISO testimony addressing net economic benefits associated with a 2010 in-service date, but did not consider the CAISO's reliability concerns. As discussed above, the CAISO's reliability analysis shows a resource deficiency beginning in 2010.

[1] See CAISO June 15, 2007 Rebuttal (conformed version), 37-40.

Furthermore, in addressing the economic impacts associated with deferring the in-service date for the Sunrise project, the CAISO's testimony provides that a 2010 in-service date produces the highest net benefits for ratepayers under cost escalation scenarios that the CAISO believes to be realistic. For example, based on information from the Edison Electric Institute and other sources, the CAISO believes that SDG&E could experience cost escalation rates substantially in excess of the 5.5% rate noted in the ACR, and that a 9% cost escalation rate is an equally plausible case.[2]

In addition, the CAISO's testimony points out that delaying the in-service date for the Sunrise project will exacerbate uncertainties associated with the development of much-needed new renewable resources and the cost of delivering such resources to SDG&E.[3] Thus, under likely cost escalation assumptions, the CAISO has found that the net economic benefits of Sunrise are greatest in 2010.

The CAISO understands and supports the Commission's desire to create a complete and full record in this proceeding, but remains very concerned about the impact of delay. The CAISO has independently determined that there is a reliability need for the Sunrise project as early as 2010, and firmly believes that it is in the best interest of ratepayers for the project to be completed by that date.

Because the Commission's decision in this case will have a direct impact on how the CAISO does its job and meets its statutory obligations, the CAISO urges the Commission to complete its environmental review as quickly as possible so that a final decision in this matter can be reached in time to meet SDG&E's 2010 reliability need.

Very truly yours,

Judith Sanders
Counsel

cc: President Michael R. Peevey
Commissioner John Bohn
Commissioner Rachelle Chong
Commissioner Timothy A. Simon
Administrative Law Judge Steven A. Weissman
Service List - Application 06-08-010 (via email only)

[2] Id., 63.

[3] Id., 65-67.