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

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In the Matter of the Application of San Diego Gas & Electric Company (U 902 E) for a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project.

Application 06-08-010 (Filed August 4, 2006)

# OPENING BRIEF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON EXHIBIT COMPLIANCE-1

Pursuant to the August 28, 2008 ruling of Administrative Law Judge Vieth, the California Independent System Operator Corporation ("CAISO") submits its opening brief on Exhibit Compliance-1 ("Exhibit C-1"). While many of the "cases" contained in Exhibit C-1 should be disregarded because the analysis is based on unrealistic assumptions that should not be relied upon to assess the cost effectiveness of the Sunrise Powerlink Transmission Project ("Sunrise"), the exhibit does include two cases that confirm that Sunrise will provide significant net economic benefits in excess of \$129 million per year. Accordingly, the CAISO continues to urge the Commission to grant a certificate of public convenience and necessity to San Diego Gas & Electric Company ("SDG&E") for Sunrise.

## I. INTRODUCTION

Exhibit C-1 was prepared by the CAISO pursuant to the June 20, 2008 *Revised Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge* ("Assigned *Commissioner/ALJ Ruling*"). The Assigned Commissioner/ALJ Ruling directed the CAISO to provide an economic analysis of nine cases using inputs and assumptions identified in the Appendix to the ruling ("*Original Ruling Appendix*").<sup>1</sup> In addition, the CAISO was directed to examine powerflow, transient stability, and other impacts on the operation of the grid caused by each alternative.<sup>2</sup>

The only differences in the assumptions for each of the nine cases identified in the *Original Ruling Appendix* were:

- Cases 1-4 assumed that SDG&E would not procure more than 20% renewable energy through the year 2020 (Cases 5-9 assumed SDG&E would increase renewable procurement from 20% to 33% over the study period); and
- Case 9 assumed the existing South Bay Power Plant would remain online only through 2011 (all other cases assumed the existing South Bay Power Plant would remain online through 2012).

Following an all-party conference call held on July 2, 2008, the CAISO submitted an Annotated Appendix to the *Assigned Commissioner/ALJ Ruling* ("*Annotated Ruling Appendix*") that was used for purposes of preparing Exhibit C-1. The *Annotated Ruling Appendix* corrected or clarified certain inputs identified in the *Original Ruling Appendix* but did not change any of the key inputs or assumptions for the nine cases identified in the ruling. The *Annotated Ruling Appendix*, however, did add four additional cases for analysis (Cases 10-13). With respect to these four additional cases, the CAISO revised the combustion turbine ("CT") cost assumption to reflect more recent cost information from the Phase 2 evidentiary record. In contrast, the nine cases in the *Original Ruling Appendix* directed the CAISO to use lower, out-of-date CT costs from Phase 1. Other than this change in CT costs, the four additional cases in the *Annotated Ruling Appendix* relied upon the same inputs as Cases 5-8 in the *Original Ruling Appendix*.

Given that there were only three inputs that changed across the 13 cases addressed in the *Annotated Ruling Appendix*, Exhibit C-1 essentially isolates the impact on net benefits from (1)

<sup>&</sup>lt;sup>1</sup> Assigned Commissioner/ALJ Ruling at 2-3 (Ruling  $\P$  6).

<sup>&</sup>lt;sup>2</sup> Assigned Commissioner/ALJ Ruling at 3 (Ruling  $\P$  6).

reducing renewable procurement from 33% to 20%; and (2) reducing the cost of CTs. Thus, for purposes of assessing the cost effectiveness of Sunrise, the relative merit of each case evaluated in Exhibit C-1 turns on whether the percentage of renewable procurement and CT cost assumed for the case is a reasonable assumption given Commission policy, current law, and the record in this proceeding. As discussed below, Cases 1-9, which assume that SDG&E will not procure more than 20% renewable energy through 2020 and/or use Phase 1 CT costs, are not sound and should not be relied upon to evaluate the cost effectiveness of Sunrise.

In contrast, Cases 10-13 assume 33% renewable procurement by 2020 and use more current CT costs from Phase 2. As a result, these cases provide a much more realistic analysis of the net benefits of the Enhanced Northern Route, the Modified Southern Route, and the Non-Wires alterative relative to the reference case. This analysis confirms the conclusions reached by the CAISO in its Phase 2 testimony that Sunrise (either the Enhanced Northern Route or the Modified Southern Route) provides greater net benefits than other proposed alternatives evaluated in this proceeding.

### II. DISCUSSION

## A. When Considered Within The Context Of The Phase 2 Record, Exhibit C-1 Confirms That Sunrise Will Provide Significant Annual Net Benefits

The *Assigned Commissioner/ALJ Ruling* finds that the economic analysis performed by the CAISO "was superior" to that performed by other parties in the proceeding.<sup>3</sup> Nevertheless, the ruling provides that "the current record does not adequately quantify the technical feasibility or the economic benefits of various alternatives using reasonable modeling assumptions."<sup>4</sup> While many of the inputs included in the *Annotated Ruling Appendix* differ from the inputs used

<sup>&</sup>lt;sup>3</sup> Assigned Commissioner/ALJ Ruling at 2 (Ruling  $\P$  6).

<sup>&</sup>lt;sup>4</sup> Assigned Commissioner/ALJ Ruling at 2 (Ruling  $\P$  6). The various alternatives referred to in the Assigned Commissioner/ALJ Ruling are (1) a CT Reference Case; (2) the Enhanced Northern Route for Sunrise; (3) the Modified Southern Route for Sunrise; and (4) a Non-Wires Alternative.

in the CAISO's Phase 2 analysis, Exhibit C-1 does not identify any deficiencies in the CAISO's Phase 2 analysis. Rather, Exhibit C-1 confirms the reasonableness of the CAISO's conclusions in Phase 2.

The primary changes the CAISO made to the modeling assumptions for its Phase 2 net benefits analysis were to (1) update the cost of CTs to reflect more recent cost information than was used by the CAISO in Phase 1; and (2) update the cost of Sunrise to reflect new information produced by SDG&E.<sup>5</sup> The CAISO did not make other changes to assumptions similar to those reflected in the *Annotated Ruling Appendix*, such as changes to loads and resources. Furthermore, the CAISO has not independently confirmed the reasonableness of these other assumptions. Nevertheless, as discussed below, the two Sunrise cases in Exhibit C-1 that assume both 33% renewable procurement by 2020 and updated CT costs (Cases 11 and 12) are consistent with the CAISO's Phase 2 net benefits analysis. Specifically, both demonstrate annual net benefits for Sunrise in excess of \$129 million. Thus, when considered within the context of the Phase 2 record, Exhibit C-1 confirms that Sunrise will provide significant annual net benefits.

### **B.** The 13 Cases Evaluated In Exhibit C-1

# 1. Cases 1-4 include unrealistic assumptions and should not be relied upon by the Commission

In Cases 1-4, Exhibit C-1 compares a reference case (Case 1) with the Enhanced Northern Route (Case 2), the Modified Southern Route (Case 3) and the Non-Wires Alternative (Case 4). These cases assume that SDG&E will not procure more than 20% renewable energy through 2020 and that the cost of CTs should be taken from the CAISO's Phase 1 testimony. Given existing Commission policies on renewable procurement and greenhouse gas emissions

<sup>&</sup>lt;sup>5</sup> In both of its Phase 1 and Phase 2 analysis, the CAISO assumed 33% renewable procurement by 2020.

reduction requirements in Assembly Bill ("AB") 32, it is simply wrong to assume that SDG&E will not procure more than 20% renewable energy through 2020. Similarly, it is not credible to rely upon Phase 1 CT costs in light of the more recent record in Phase 2 which presents more current CT cost information. Because these assumptions are defective, outdated, and do not reflect the most recent facts in the record, Cases 1-4 should not be relied upon to assess the cost effectiveness of Sunrise.

### a. 20% RPS assumption

Although the procurement of 20% renewable generation by 2010 reflects California's

current renewables portfolio standard ("RPS") requirement,<sup>6</sup> Energy Action Plan II, jointly

issued by the Commission and the California Energy Commission ("CEC"), anticipates

increasing RPS requirements to 33% by 2020. Specifically, Energy Action Plan II provides:

In the first [Energy Action Plan], we set a goal of accelerating the 20 percent target from 2017 to 2010. We are now identifying the steps necessary to achieve that target, *as well as higher goals beyond 2010, such as Governor Schwarzenegger's proposed goal of 33 percent of electricity sales by 2020.*<sup>7</sup>

In addition, Energy Action Plan II identifies the following "key action item":

Evaluate and develop implementation paths for achieving renewable resource goals beyond 2010, *including 33 percent renewables by 2020*, in light of cost-benefit and risk analysis, for all load serving entities.<sup>8</sup>

In a subsequent policy statement on greenhouse gas performance standards, the

Commission reiterated that it is "developing a plan to meet the Governor's goal of a 33 percent

renewable portfolio standard by 2020."9

<sup>&</sup>lt;sup>6</sup> See Cal. Pub. Util Code § 399.15(b)(1).

<sup>&</sup>lt;sup>7</sup> Energy Action Plan II at 8 (emphasis added).

<sup>&</sup>lt;sup>8</sup> Energy Action Plan II at 8 (Key Action #5) (emphasis added).

<sup>&</sup>lt;sup>9</sup> See Order Instituting Rulemaking 06-04-009, Attachment 2 ("Commission's Policy Statement on Greenhouse Gas Performance Standards, October 6, 2005") at 1.

More recently, in Decision 07-12-052 adopting long-term procurement plans for SDG&E, Pacific Gas and Electric Company, and Southern California Edison Company ("SCE"), the Commission stated, in no uncertain terms, that pursuing a 33% RPS target by 2020 is a policy goal that should be pursued immediately notwithstanding the lack of legislation mandating such a goal:

The Commission recognizes SCE's argument that, today, no legislation has been passed mandating that the [investor owned utility] procure towards a 33% renewables target by 2020. *However, the Commission agrees with Aglet that pursuing a 33% target is a policy goal of the Commission and one that should be pursued by the IOUs at this time.*<sup>10</sup>

While 20% RPS by 2010 is currently the law, the Commission has clearly directed SDG&E and the other California utilities to pursue a 33% renewable procurement goal by 2020. However, even if a 33% by 2020 RPS requirement does not become law or is no longer pursued by the Commission as a policy goal, the need to reduce GHG emissions consistent with AB 32 – *which is the law* - will necessarily require levels of renewable generation in excess of 20% and potentially more than 33%.

For instance, in Decision 08-03-018 (adopting interim greenhouse gas regulatory strategies), the Commission concluded that a 33% renewable procurement target would "contribute significantly to attainment of the emissions reductions required by AB 32."<sup>11</sup> Consistent with this conclusion, the record in this proceeding demonstrates that a 33% RPS requirement represents approximately 48 TWh more renewable resources than is the case with a 20% requirement.<sup>12</sup> If all of this renewable energy were replaced with energy from new combined cycle gas turbines, a 20% RPS requirement would result in approximately 19 million

<sup>&</sup>lt;sup>10</sup> Decision 07-12-052, mimeo at 255 (emphasis added).

<sup>&</sup>lt;sup>11</sup> Decision 08-03-018, mimeo at 36.

<sup>&</sup>lt;sup>12</sup> See CAISO Ex. I-2 at 68 (Table 4.6).

more metric tonnes of CO<sub>2</sub> than a 33% requirement.<sup>13</sup> As a practical matter, this means that SDG&E (and other utilities) will likely need to procure at least 33% renewables by 2020 to comply with AB 32 regardless of whether RPS requirements are actually increased to 33% by the legislature.

Thus, it is inconsistent with existing and well established Commission policy, and the emissions reductions mandated by AB 32, to assume that, for purposes of evaluating the cost-effectiveness of Sunrise - which is being amortized over a 58 year period - renewable procurement will not exceed 20% over the entire period between 2010 and 2068.

### b. Phase 1 CT costs

In its Phase 1 economic analysis, the CAISO used a representative CT cost of \$78/kW per year based on a 2003 CEC report entitled "Comparative Cost of California Central Station Electricity Generation Technologies."<sup>14</sup> The cost of CTs, however, was updated (increased) by the CAISO in its Phase 2 testimony to reflect more current information from the CEC and the market. Specifically, in December 2007, after the conclusion of Phase 1, the CEC issued an updated report with new cost information for CTs.<sup>15</sup> For purposes of its Phase 2 economic analysis, the CAISO used the average total fixed cost for CTs of \$162.10/kW per year based on information provided in the CEC's December 2007 report.<sup>16</sup>

Dr. Ren Orans who sponsored the CAISO's Phase 2 testimony on CT costs, was questioned in detail by ALJ Weissman during the evidentiary hearings about the reasonableness

<sup>&</sup>lt;sup>13</sup> 19 million metric tons of  $CO_2 = 47.7 \text{ TWh} * 7650 \text{BTU/kWh} * 117 \text{ lbs/MMBTU} * (1 tonne/2200 \text{ lbs}) * (1 MMBTU / 1,000,000 BTU) * (1,000,000 kWh / 1 TWh). 47.7 TWh is the additional output from renewable generation in the 33% RPS case versus the 20% RPS case ($ *See*CAISO Ex. I-2 the last row of Table 4.2. 2020 is the 33% RPS case, 2010 is the 20% RPS case). The 117 lb/MMBTU emission rate is from the CAISO's response to Aspen Request ISO-3. 7650 is the average of the minimum operating level and maximum capacity heat rates for a typical new combined cycle unit from Table 2.8 of the CAISO April 2006 Annual Report on Market Issues and Performance.

<sup>&</sup>lt;sup>14</sup> See CAISO Ex. I-2 at 24; Ex. CAISO Ex. I-12 at 6.

<sup>&</sup>lt;sup>15</sup> CAISO/Orans Tr. at 5538-39.

<sup>&</sup>lt;sup>16</sup> CAISO Ex. I-12 at 7.

of the CAISO's decision to update the CT costs. In response to this questioning, Dr. Orans testified that he had confirmed the reasonableness of the updated CT costs through an independent assessment of market information, which included review of a Commission decision granting SCE cost recovery for several new CTs.<sup>17</sup> As a result, the CAISO's Phase 2 CT costs provide a more accurate reflection of current market conditions (and materials and labor costs) than the CT costs used in Phase 1. Indeed, at the time of the Phase testimony, the CT costs derived from the 2003 CEC report were already four years out of date. It is particularly unreasonable to assume CT costs based on a 2003 CEC report when the same agency issued an updated report in 2007. Thus, it is clear from the Phase 2 record that the outdated Phase 1 CT costs are no longer reasonable and should not be used for assessing the net benefits of Sunrise.

The net effect of using the CAISO's Phase 1 CT costs to analyze net benefits is to substantially understate the cost effectiveness of Sunrise. In its Phase 2 testimony, the CAISO acknowledges that the use of the updated CT costs results in an *increase* in the total levelized benefits of Sunrise (relative to the CAISO's no project reference case) from the CAISO's Phase 1 analysis.<sup>18</sup> Thus, using Phase 1 CT costs in Exhibit C-1 to evaluate the cost effectiveness of Sunrise inappropriately reduces net benefits of Sunrise relative to the reference case.

# 2. Cases 5-8 and 9 demonstrate that Sunrise provides significant net benefits even assuming an unreasonably low cost for new CTs

For Cases 5-7 and 9, Exhibit C-1 assumes that SDG&E will procure 33% renewable energy through 2020.<sup>19</sup> Thus, these cases correct the fundamental flaw in the RPS assumption in Cases 1-4 discussed above. However, because Cases 5-7 and 9 use the CAISO's Phase 1 CT

<sup>&</sup>lt;sup>17</sup> CAISO/Orans Tr. at 5541. Other generation costs identified in the CEC's updated report, such as solar thermal costs, were not changed for Phase 2 because the CAISO was unable to independently confirm the reasonableness of these costs. *See* CAISO/Orans Tr. at 5545; 5554.

<sup>&</sup>lt;sup>18</sup> CAISO Ex. I-12 at 8-9. The CAISO's Phase 2 testimony also showed that total levelized benefits increased for several Sunrise alternatives. These alternatives are not the subject of the June 20, 2008 Ruling.

<sup>&</sup>lt;sup>19</sup> Specifically, these cases assume 20% renewable procurement in 2010, 27% in 2015, and 33% in 2020. As noted above, Case 9 assumes the existing South Bay Power Plant will remain online only through 2011 as opposed 2012,

costs, these cases erroneously understate the cost effectiveness of Sunrise. Notwithstanding this significant flaw, these cases nevertheless show Sunrise providing net benefits of at least \$20 million per year.<sup>20</sup> While the CAISO believes annual net benefits of \$20 million per year significantly understates the cost effectiveness of Sunrise, it does demonstrate that Sunrise is cost effective, even using an unreasonably low cost for new CTs.

# 3. Cases 4, 8 and 13 produce less net economic benefits than the comparable Sunrise cases

Cases 4, 8 and 13 represent a non-wires alternative to Sunrise. These cases differ from the Sunrise cases (both the Enhanced Northern Route or the Modified Southern Route) in that Cases 4, 8 and 13 include more renewable generation in the San Diego load pocket relative to the Sunrise cases.<sup>21</sup> While for the reasons discussed above the results for Cases 4 and 8 are flawed relative to the reference case as a result of the flawed RPS and CT cost assumptions used for those cases, the analysis is nevertheless useful for purposes of comparing the relative benefits of the non-wires alternative and Sunrise across a shared set of assumptions. In each instance, the non-wires alternative is significantly less cost effective than Sunrise (whether the Enhanced Northern Route of the Modified Southern Route).<sup>22</sup>

# 4. Cases 11 and 12 confirm the CAISO's Phase 2 analysis that Sunrise provides significant net benefits

As noted above, the CAISO updated the cost of CTs in its Phase 2 testimony but did not make changes to other inputs similar to those made in the *Annotated Ruling Appendix*. Because Cases 11 and 12 assume the procurement of 33% renewables by 2020 and use the updated Phase 2 CT costs, these cases, in effect, identify the impact that the other changes in the *Annotated* 

which is assumed for Cases 5-7. This represents the only difference in the assumptions for these four cases. <sup>20</sup> See "Summary of Net Benefits" table attached to Exhibit C-1.

<sup>&</sup>lt;sup>21</sup> The additional renewable resources located in the San Diego load pocket used for these cases was taken from the Draft Environmental Impact Report/Environmental Impact Statement ("DEIR/EIS") (*see* section E.6.1.7). *See* 

*Ruling Appendix* have relative to the CAISO's Phase 2 analysis. Thus, of all the cases evaluated in Exhibit C-1, the CAISO believes that Cases 11 and 12 provide for the most reasonable apples-to-apples comparison with respect to the CAISO's Phase 2 analysis.

In Phase 2, the CAISO's analysis showed that Sunrise produces net benefits in excess of \$143 million per year.<sup>23</sup> Consistent with that analysis, Cases 11 and 12 show annual net benefits in excess of \$129 million.<sup>24</sup> Most of the difference between the CAISO's Phase 2 estimate of net benefits and the estimates in Cases 11 and 12 are attributable to reduced energy benefits driven by assuming that only 75 percent of the coal contained in the WECC database would be actually built.<sup>25</sup> Accordingly, the results from Cases 11 and 12 confirm the CAISO's Phase 2 analysis that Sunrise provides significant net benefits, even without substantial new development of coal fired resources in the WECC.

# C. The Loads and Resources Tables in Exhibit C-1 Should Not Be Used To Determine SDG&E's Reliability Needs

The assumptions contained in the *Annotated Ruling Appendix* included adjustments to both SDG&E load and generation resources. In particular, the *Assigned Commissioner/ALJ Ruling* directed the CAISO to use the October 2007 CEC 1-in-10 load forecast, and the Energy Efficiency, demand response and California Solar Initiative assumptions set forth in SDG&E's 2006 Long Term Procurement Plan ("LTPP") filed on April 18, 2008 in compliance with Decision 07-12-052.<sup>26</sup> On the generation side, the South Bay Power Plant ("South Bay") was assumed to stay on line through 2012 for all cases where Sunrise was assumed to be placed in

<sup>&</sup>quot;SDG&E LnR Table – All Source cases" attached to Exhibit C-1 for load pocket capacity additions for these resources.

<sup>&</sup>lt;sup>22</sup> See "Summary of Net Benefits" table attached to Exhibit C-1.

<sup>&</sup>lt;sup>23</sup> CAISO Ex. I-13 at 22.

<sup>&</sup>lt;sup>24</sup> See "Summary of Net Benefits" table attached to Exhibit C-1.

<sup>&</sup>lt;sup>25</sup> See "Energy Benefits" table attached to Exhibit C-1 which show energy benefits reduction of 14 million for the 33% RPS case.

service in 2012. For Case 9, Sunrise was assumed to be on line in 2011 and South Bay retired in that same year. The CAISO was also directed to model both the Carlsbad Energy Center coming on line and the Encina facility retiring in 2013. For the Non-Wires Alternative (Cases 4, 8 and 13), the CAISO was directed to model generation identified in the DEIR/EIS "all-source alternative."

To comply with these directives, the CAISO used the format of its Locational Capacity Requirement ("LCR") table from its Phase 1 Rebuttal Testimony<sup>27</sup> to create three new tables containing the underlying assumptions that fed into the net benefits analysis for the 13 cases in Exhibit C-1. These new tables, identified as "L&R" tables at the August 22, 2008 workshop, set forth the load and resource assumptions for (1) Cases 1-3, 5-7, and 10-12; (2) Cases 4, 8 and 13; and (3) Case 9. Several minor revisions were made to the three tables based on comments received at the workshop, and these revisions are identified in the "Responses to Questions" included with the compliance packet submitted on August 26, 2008.

The "Surplus (Deficiency)" row in each of the three new "L&R" tables should not lead the Commission or the parties to the erroneous conclusion that the CAISO has revised the analysis shown in its Phase 1 LCR table and now projects different, and later, reliability need dates for Sunrise.<sup>28</sup> As is the case with the CT cost and renewable procurement assumptions discussed above, the CAISO does not support the generation adjustment assumptions identified in the *Annotated Ruling Appendix* that were not previously included in the CAISO's LCR table.

 <sup>&</sup>lt;sup>26</sup> Decision 07-12-052 was issued in Docket R.06-02-013 Order Instituting Rulemaking to Integrate Procurement Policies and Consider Long-Term Procurement Plans on December 17, 2007.
 <sup>27</sup> CAISO Ex. I-6 at 39 (Table 5).

 $<sup>^{28}</sup>$  This question was specifically posed by UCAN in the list of questions presented to the CAISO prior to the workshop: "Please explain if the ISO agrees that the claim that Sunrise need is driven by South Bay retirement is false for 2010 – because the surplus that year is already bigger than 702 Mw with South Bay, and so there would still be a surplus without South Bay."

For example, the 2013 online date for the Carlsbad Energy Center (providing a net 222 MW with the retirement of the Encina facilities) is a generation adjustment dictated by the Assigned *Commissioner/ALJ Ruling* and was not included in CAISO's LCR table.<sup>29</sup> Similarly, the renewable resources identified at lines 15c-15f of the L&R table for Cases 4, 8 and 13 do not meet the criteria used by the CAISO for reliability and grid planning purposes for all of the reasons addressed in the CAISO's Phase 2 testimony.

Indeed, in its Phase 2 opening testimony, CAISO witness Robert Sparks specifically explained the criteria used by the CAISO in determining the resources to be used in 5 and 10 year grid planning studies. For 5 year studies, the CAISO considers only those generation projects that are under construction, and for 10 year studies, projects must be under construction or have received regulatory approvals. The CAISO also considers whether a generation project has a Power Purchase Agreement (PPA).<sup>30</sup> The Encina repowering project has not yet received regulatory approvals, nor does the project have a PPA.<sup>31</sup> For the purposes of prudent transmission planning, this project should not be included in an analysis of SDG&E's reliability needs.

The CAISO Phase 2 testimony also provides that relying on the renewable resources identified in the All-Source alternative would be "extremely risky" given the fact that many of the projects do not have sites or are not currently being developed.<sup>32</sup> In particular, the solar thermal project near Borrego Springs will require over 1500 acres of land and 40 miles of transmission infrastructure upgrades. Given the speculative nature of this project and others

<sup>&</sup>lt;sup>29</sup> See lines 15a and 15b of the L&R tables.
<sup>30</sup> CAISO Ex. I-6 at 39, fn 59.

<sup>&</sup>lt;sup>31</sup> CAISO Ex I-6 at 39, fn.59; see also NRG, Docket No. 07-AFC-06,

http://www.energy.ca.gov/sitingcases/all\_projects.html#review.

<sup>&</sup>lt;sup>32</sup> CAISO Ex. I-8 at 10.

discussed in the CAISO's Phase 2 testimony, it is clear that the generation assumptions in the L&R table developed for Cases 4, 8 and 13 should not be considered for grid planning purposes.

Finally, the CAISO would note that while the CEC 1-in-10 load forecast information was used in developing both the CAISO's Phase 1 LCR table and the L&R tables included in Exhibit C-1, the demand response peak load adjustments are optimistic rather than conservative, and that the anticipated load reductions might not materialize at the level reflected in the tables. For example, the L&R tables reflect forecasted peak load reductions for Price Sensitive Demand Response programs set forth on Table IV-3 of SDG&E's LTPP. These forecasts reflect the Commission's approved targets for 2007-2008 and the targets for 2009-2013 adopted in Decision 04-09-060,<sup>33</sup> and were described by SDG&E as being "very aggressive" in testimony submitted in that proceeding.<sup>34</sup> Nonetheless, even with such optimistic load reduction forecasts, all of the tables support the conclusion that SDG&E will experience capacity deficiencies when South Bay is taken out of service. Clearly, these capacity deficiencies would be exacerbated by unanticipated load growth or the failure of demand-side load reduction programs to produce the forecasted results.

In summary, the L&R tables included in Exhibit C-1 do not support the conclusion that there will be no reliability deficiency in the San Diego load pocket in 2010 even without South Bay, given the risk associated with the aggressive load reduction programs embedded in the CEC forecast. The "surplus" of 52<sup>35</sup> MW that allegedly would remain with South Bay offline in 2010 is dependent on speculative demand response reductions in peak loads. Furthermore, the Sunrise implementation date is now projected by SDG&E to be 2011 and both the CAISO's LCR table and the L&R tables in Exhibit C-1 project capacity deficiencies in 2011 if South Bay retires.

<sup>&</sup>lt;sup>33</sup> SDG&E LTPP, Original Sheet 143.

<sup>&</sup>lt;sup>34</sup> Decision 07-12-052, mimeo at 61.

<sup>&</sup>lt;sup>35</sup> The loss adjustment in line 19 would increase by 18 MW if South Bay were removed from service.

Thus, the new L&R tables should not be used to supersede the CAISO's Phase 1 LCR table, and do not in any way erode the conclusions set forth in the Phase 2 Rebuttal Testimony of CAISO witness Robert Sparks that retirement of South Bay is contingent upon the completion of Sunrise, along with the other projects identified in the Attachment to that testimony.<sup>36</sup>

Respectfully submitted,

/s/Judith B. Sanders

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<sup>&</sup>lt;sup>36</sup> CAISO Ex. I-9 at 20.

# **CERTIFICATE OF SERVICE**

I hereby certify that i have served, by electronic and united states mail, a copy of the foregoing Opening Brief of the California Independent System Operator Corporation on Exhibit Compliance-1 to each party in docket no. A.06-08-010.

Executed on September 5, 2008 at Folsom, California.

<u>/s/Susan L. Montana</u> Susan L. Montana An Employee of the California Independent System Operator Corporation

#### Sunrise Powerlink Proceeding A.06-08-010

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