

February 24, 2003

Attn: Commission's Docket Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Docket # A.01-03-036, In the Matter of the Application of SAN DIEGO GAS AND
ELECTRIC COMPANY (U 902-E) for a Certificate of Public Convenience and Necessity
Valley-Rainbow 500 kV Inter-Connect Project

Dear Clerk:

Enclosed for filing please find an original and eight copies of the California Independent System Operator Response to the Petition for Modification of San Diego Gas & Electric Company of Decision 02-12-066. Please date stamp one copy and return to California Independent System Operator in the self-addressed stamped envelope provided.

Thank you.

Sincerely,

Jeanne M. Solé
Regulatory Counsel

Cc: Attached Service List

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

In the Matter of the Application of SAN DIEGO
GAS AND ELECTRIC COMPANY (U 902-E) for
a Certificate of Public Convenience and Necessity
Valley-Rainbow 500 kV Inter-Connect Project

Application 01-03-036

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR RESPONSE TO THE PETITION
FOR MODIFICATION OF SAN DIEGO GAS & ELECTRIC COMPANY OF DECISION
02-12-066**

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Dated: February 24, 2003

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

In the Matter of the Application of SAN DIEGO GAS AND ELECTRIC COMPANY (U 902-E) for a Certificate of Public Convenience and Necessity Valley-Rainbow 500 kV Inter-Connect Project	Application 01-03-036
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**CALIFORNIA INDEPENDENT SYSTEM OPERATOR RESPONSE TO THE
PETITION FOR MODIFICATION OF SAN DIEGO GAS & ELECTRIC
COMPANY OF DECISION 02-12-066**

In accordance with California Public Utilities Commission Rule 47, the California Independent System Operator Corporation ("CA ISO") respectfully submits this response to the petition for modification of the San Diego Gas & Electric Company ("SDG&E") of Decision 02-12-066. SDG&E requests the Commission to modify D. 02-12-066 to reduce the existing in-basin generation count by 221 MW to reflect the placement of South Bay Unit 4 into extended cold storage status beginning January 1, 2003, to proceed to Phase 2 in light of recent and dramatic increases in costs associated with Reliability Must Run ("RMR") Units, and to reflect the fact that Otay Mesa is not under construction and that Calpine has failed to meet its first milestone under its contract with the California Department of Water Resources. SDG&E's petition is consistent with the CA ISO's briefs in this matter and the application for rehearing filed by the CA ISO on January 23, 2003. Accordingly, the CA ISO supports SDG&E's petition.

In its application for rehearing, the CA ISO requested rehearing on a number of grounds, including the fact that the Commission failed to consider the possibility that existing generation could retire. The CA ISO noted that the possibility of retirements has been startlingly confirmed recently, with a determination by Duke Energy South Bay

("DESB") to place South Bay Unit 4, a 299 MW unit, into extended cold shut down status. The CA ISO noted that this information became available after the close of hearings, and after briefing, when DESB on October 31, 2002, made its annual filing with FERC in docket ER03-117-000 to update its rates under its RMR Agreement with the CA ISO¹. This filing stated that DESB intends to place South Bay Unit 4 into extended cold shut down status in 2003. The CA ISO noted that DESB's plans for 2004 are not yet known and asked the Commission to take administrative notice of DESB's filing.

The CA ISO agrees with SDG&E that this new information supports modification by the CPUC of Decision 02-12-066. The development clearly puts the ongoing operation of existing generation in San Diego into question, and supports either a change in the existing generation figure adopted by the decision as stated by SDG&E in its petition for modification, or at a minimum, a recognition in D.02-12-066 that existing generation may retire as argued by the CA ISO in its application for rehearing.

The CA ISO's application for rehearing also indicated in footnote 6 that the inability of older units to compete with newer more efficient generation is further supported by the substantial additional capacity that opted in 2003 to convert under the RMR Agreement from Condition 1 status to Condition 2 status. Condition 1 RMR Units are paid a fraction of their fixed costs and may participate freely in market transactions. See RMR Agreement Section 3.1 and Schedule B. Condition 2 RMR Units are paid all of their fixed costs, are restricted from participating in market transactions and may not retain any revenues from such participation. *Id.* Accordingly, Condition 2 Units are those that cannot successfully compete in the market. The CA ISO's application for rehearing

¹ The filing is available on the FERC website at <http://feris.ferc.gov>.

noted that in late November, the CA ISO received notices from four RMR Owners electing Condition 2 status for their RMR Units in 2003.²

SDG&E's petition for modification points out that the conversion of RMR Units from Condition 1 to Condition 2 indicates a steep increase in RMR costs that should be considered by the Commission in Phase 2. The CA ISO agrees with SDG&E that the receipt by the CA ISO of notice from four RMR Owners of conversion from Condition 1 to Condition 2 status supports a modification of D. 02-12-066. The Commission should take administrative notice of the report filed by the CA ISO in FERC Docket ER03-222-000. This fact supports a revision of D.02-12-066 to further recognize the possibility of retirements of older, inefficient generation in California, and the related fact that maintaining old, inefficient generation on-line will become increasingly expensive and may not be the most cost effective approach to maintaining reliability in California.

Finally, SDG&E argues that D.02-12-066 must be modified in light of recent information indicating that Calpine is not proceeding with the construction of Otay Mesa. In both its opening and reply briefs, the CA ISO raised concerns about relying on the construction of Otay Mesa to meet the reliability needs of San Diego. The information submitted by SDG&E in its petition for modification regarding the status of Otay Mesa supports the position of the CA ISO that it is not prudent to rely on the construction of

² As required under the RMR Agreement, the CA ISO filed a report of these notices with the FERC on December 5, 2002 in Docket ER03-244-000. The filing is available on the FERC website at <http://feris.ferc.gov>.

Otay Mesa and provides the basis for modification of D.02-12-066 to recognize that the construction of Otay Mesa is far from certain³.

In sum, the CA ISO supports SDG&E's petition for modification which is consistent with the CA ISO's arguments in its briefs and application for rehearing.

February 24, 2003

Respectfully Submitted:

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³ The additional information also supports the CA ISO's argument in its application for rehearing that a rigid five-year planning horizon does not make sense for the Valley-Rainbow project. SDG&E's petition illustrates that circumstances are continuously evolving that could either accelerate or delay the need for the project to within or after the five years; however, by taking a longer term perspective it is clear that there is a need in San Diego within a time frame that requires the prompt assessment of alternatives in order to ensure that additional transmission facilities (or if they are found to be preferable, generation resources) are put into place before the reliability need in San Diego becomes a crisis.

PROOF OF SERVICE

I hereby certify that on February 24, 2003, I served by electronic and U.S. mail, the California Independent System Operator Response to the Petition for Modification of San Diego Gas & Electric Company of Decision 02-12-066, in Docket # A.01-03-036 In the Matter of the Application of SAN DIEGO GAS AND ELECTRIC COMPANY (U 902-E) for a Certificate of Public Convenience and Necessity Valley-Rainbow 500 kV Inter-Connect Project.

DATED at Folsom, California on February 24, 2003.

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