BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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)

COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON THE PROPOSED DECISION OF ALJ VIETH AND ALTERNATE PROPOSED DECISION OF COMMISSIONER GRUENEICH

Nancy Saracino, General Counsel
Judith B. Sanders, Senior Counsel
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
151 Blue Ravine Road
Folsom California 95630
Tel. (916) 351-4400
Fax. (916) 608-7296
Email: jsanders@caiso.com

Jeffrey P. Gray
DAVIS WRIGHT TREMAINE LLP
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: jeffgray@dwt.com

Attorneys for CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

November 20, 2008

TABLE OF CONTENTS

Page

DWT 12110702v3 0084953-000001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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)

COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON THE PROPOSED DECISION OF ALJ VIETH AND ALTERNATE PROPOSED DECISION OF COMMISSIONER GRUENEICH

Pursuant to Rule 14.3 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure, the California Independent System Operator Corporation ("ISO") respectfully submits these comments on the Proposed Decision of Administrative Law Judge Vieth ("Proposed Decision") and the Alternate Proposed Decision of Commissioner Grueneich ("Grueneich Alternate").[1]

I. INTRODUCTION

The record in this case is both exhaustive and clear: (1) there is an identified resource deficiency and long-term reliability need in San Diego Gas & Electric Company's ("SDG&E") service area beginning as early as 2010;[2] (2) the Sunrise Powerlink Transmission Project ("Sunrise") represents the best, most cost-effective long-term solution for meeting this need;[3] and (3) Sunrise will facilitate the development of significant amounts of renewable generation resources in the Imperial Valley that is critical for meeting renewable procurement and greenhouse gas ("GHG") emissions reduction requirements. In light of California's need for

[1] The Proposed Decision and Grueneich Alternate are sometimes referred to collectively as the "proposed decisions."
[2] ISO Ex. I-6 at 39 (Table 5).
[3] ISO Ex. 1-13 at 22 (Phase 2 Rebuttal Table 1).

DWT 12110702v3 0084953-000001

new renewable generation in general, and SDG&E's need for new resources to meet reliability and renewable procurement requirements in particular, the Commission should move quickly to grant SDG&E the authority necessary to move forward with Sunrise *now*, without further delay.

Notwithstanding the overwhelming evidence supporting Commission approval of Sunrise, the Proposed Decision would deny the application of SDG&E for a Certificate of Public Convenience and Necessity ("CPCN") to construct the project. As discussed below, the Proposed Decision reaches this outcome by making several analytical errors that significantly understate the reliability need facing the San Diego area and the net economic benefits associated with Sunrise.

As originally issued, the Grueneich Alternate would have placed a condition precedent to SDG&E beginning construction work on Sunrise.[4] This condition would have required SDG&E to file - and the Commission to approve - a new application demonstrating, "through binding commitments, that substantial amounts of Imperial Valley renewable generation will be developed and delivered via Sunrise starting on the day Sunrise is placed in service."[5] By Assigned Commissioner's Ruling issued November 18, 2008 ("November 18 ACR"), Commissioner Grueneich revised the conditions in her proposed alternate decision to remove the condition precedent requirement.[6]

The ISO commends Commissioner Grueneich for revising her alternate decision to eliminate the requirement that a new application proceeding be held before SDG&E could begin construction on Sunrise. Such a revision is critical to ensuring timely access to significant

---

[4] The Grueneich Alternate would have permitted SDG&E to engage in pre-construction activities under certain circumstances. *See* Grueneich Alternate at 263.
[5] Grueneich Alternate at 262.
[6] The ISO assumes that the November 18 ACR replaces the conditions contained in the Grueneich Alternate as originally issued. Accordingly, the ISO's comments on the Grueneich Alternate do not address the conditions. In

amounts of much needed Imperial Valley renewable generation. However, notwithstanding this important revision, the Grueneich Alternate suffers from many of the same analytical errors as the Proposed Decision. As a result of these errors, the Grueneich Alternate understates the reliability need in San Diego and the net economic benefits associated with Sunrise.

On November 18, 2008, Commissioner Peevey issued an alternate proposed decision ("Peevey Alternate") that grants SDG&E a CPCN to construct Sunrise without conditions similar to those contained in the Grueneich Alternate or the November 18 ACR.[7] Although the ISO is still in the process of reviewing the Peevey Alternate in detail, the ISO's initial review suggests that, in addition to removing conditions to the Commission's approval of Sunrise, the Peevey Alternate corrects many of the analytical errors contained in the Proposed Decision and Grueneich Alternate. As a result, the Peevey Alternate more accurately reflects the overall net benefits associated with Sunrise. For this reason, the Commission should adopt the Peevey Alternate and reject both the Proposed Decision and Grueneich Alternate.

II. THE PROPOSED DECISION AND GRUENEICH ALTERNATE SHOULD BE REJECTED

The Proposed Decision and Grueneich Alternate contain numerous errors, many of which the ISO is not addressing in its comments. Instead, the ISO is focusing on a few areas that it believes highlight significant deficiencies in the proposed decisions.

---

accordance with the November 18 ACR, the ISO may file comments addressing the revised conditions on December 1, 2008.

[7] Comments on the Peevey Alternate are due December 8, 2008. Although the ISO's comments on the Proposed Decision and Grueneich Alternate make reference to the Peevey Alternate, the ISO intends to file separate comments on the Peevey Alternate pursuant to the Commission's Rules of Practice and Procedure.

A. Common errors contained in the Proposed Decision and Grueneich Alternate

1. Both the Proposed Decision and Grueneich Alternate incorrectly find that there is not a reliability need in SDG&E's service area until 2014

The Proposed Decision and Greuneich Alternate each find that there is "no reliability need for new resources before 2014" in the SDG&E service area.[8] This conclusion is based on several unfounded baseline modeling assumptions and is not supported by the record. In contrast, the ISO has demonstrated, using conservative assumptions, that capacity deficiencies could be expected in the San Diego area as early as 2010.[9] The disparity in reliability need dates reflects key differences in assumptions regarding demand reduction programs, the continued viability of the South Bay Power Plant ("South Bay") and online dates for potential new generation; and aptly pinpoints the ISO's significant concerns about the reliability of the San Diego transmission system in the coming years.

The Proposed Decision and Grueneich Alternate arrive at the 2014 Sunrise reliability need date using a Loads and Resource ("LnR") table contained in Exhibit Compliance-1 ("Exhibit C-1").[10] In its comments on Exhibit C-1, the ISO identified several flaws in the underlying assumptions that were used to calculate the LnR table that serve to understate the reliability need in San Diego. In particular, the peak load demand reduction assumptions embedded in the 1-in-10 California Energy Commission ("CEC") forecast used in creating the

---

[8] Proposed Decision at 102; Grueneich Alternate at 104.
[9] ISO Ex. I-6, at 39 (Table 5)
[10] Proposed Decision at 102 (Table 5), Grueneich Alternate at 104. The MW surplus/deficiency results contained in Table 5 are taken directly from the Ex. C-1 spreadsheet entitled "SDG&E LnR Table (sdge LnR-Updated aug26ordrv3E3.xls)" at line 22 (found on the fifth unnumbered page of the exhibit). Although the ISO prepared Exhibit C-1, the input assumptions used to calculate the LnR tables were set out in the June 20, 2008 *Revised Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge* ("*Revised Scoping Memo*").

table were viewed by SDG&E as being "very aggressive" and, as a result, at risk for not materializing at the forecasted level.[11]

With respect to generation resources, the LnR table assumes the addition of the Carlsbad Energy Center in 2013 notwithstanding that the project should not be considered for planning purposes under the ISO's transmission planning criteria, has not received all regulatory approvals, and does not have a signed Power Purchase Agreement. In addition, the LnR table assumes the existing South Bay remains online through 2012, the year in which the table assumes Sunrise would come online. This assumption is inconsistent with the 2011 online date provided by SDG&E and places undue reliance on an old, inefficient generating unit to meet San Diego's reliability needs.

Although transmission planning is not an exact science, the ISO has demonstrated a reliability need in the San Diego area based on a set of reasonable and conservative assumptions. Correcting planning assumption errors in the LnR tables demonstrates a reliability need in the San Diego area as early as 2010.[12] Regardless of the exact date, however, ISO Chief Executive Officer Yakout Mansour stated at the November 7, 2008 oral argument that, from a reliability standpoint, San Diego will be "hanging by the teeth" without Sunrise in the 2010-2014 timeframe.[13] Given this demonstrated need, any decision based on a later reliability need date will serve only to increase the costs of the project and risks to San Diego consumers.

The reliability analysis contained in the Proposed Decision and Grueneich Alternate is based on speculative assumptions not supported by the record nor the ISO. Accordingly, the

[11] ISO Opening Brief on Compliance Ex. C-1 at 13.
[12] ISO Ex. I-6 at 39 (Table 5).
[13] ISO/Mansour, Tr. 6248-6249.

analysis in the proposed decisions should not be relied upon in determining the optimal in-service date for Sunrise.

2. Both the Proposed Decision and Grueneich Alternate understate net benefits associated with Sunrise by unreasonably imputing RPS compliance costs on the project

The Proposed Decision and Grueneich Alternate evaluate Sunrise assuming that RPS compliance benefits associated with Sunrise can be less than zero (*i.e.*, reflect a "cost").[14] Based on this assumption, both of these proposed decisions would find that under a 20% RPS scenario, Sunrise could "cost" ratepayers approximately $60 million per year.[15] The analysis employed by the Proposed Decision and Grueneich Alternate is flawed in several respects.

For example, it is unreasonable to conclude that Sunrise will produce RPS compliance costs because it necessarily assumes that higher cost renewable energy in the Imperial Valley would be delivered solely as a result of Sunrise being built. On its face, such an assumption is inconsistent with well established least cost dispatch principles. Furthermore, there is no incentive or legitimate business reason for any utility to procure higher cost renewable energy if other, lower cost, alternatives are available.

Thus, for purposes of calculating net economic benefits, it is both reasonable and appropriate to assume that RPS compliance benefits cannot be less than zero. This approach is consistent with the methodology used by both the ISO and the Division of Ratepayer Advocates ("DRA") in their respective RPS analyses,[16] as well as the Peevey Alternate.[17] Correcting this

[14] *See* Proposed Decision at 132; Grueneich Alternate at 144.
[15] Proposed Decision at 152; Grueneich Alternate at 153.
[16] *See Opening Comments of the Division of Ratepayer Advocates on Exhibit Compliance -1* at 6 (citing Table 4.3 on page 28 of Exhibit D-101, DRA's Phase 2 Direct Testimony, Volume 1 of 2).
[17] *See* Peevey Alternate at 146.

one error results in a $90 million per year adjustment in the net benefits analysis contained in both the Proposed Decision and the Grueneich Alternate for the 20% RPS Scenarios.[18]

3. Both the Proposed Decision and Grueneich Alternate understate net benefits associated with Sunrise by overstating operating and maintenance costs

The Proposed Decision and Grueneich Alternate adopt operating and maintenance ("O&M") costs for Sunrise that were proposed by the Utility Consumers Action Network ("UCAN").[19] These O&M costs are approximately $22 million per year more than the $3.9 million O&M cost used by the ISO in its economic analysis. According to the proposed decisions, "[i]t is unreasonable to assume that operating and maintenance costs for a 100+ mile long transmission line will be less than $4 million per year."[20] UCAN's estimate of O&M costs is unreasonably high and not supported by the record. As a result, both the Proposed Decision and Grueneich Alternate overstate O&M costs for purposes of evaluating the net economic benefits of Sunrise. The net effect of this error is a reduction in the net economic benefits of Sunrise.

The high level of O&M costs proposed by UCAN (and adopted by the proposed decisions) is driven by two fundamental flaws in UCAN's analysis. First, UCAN applies an average O&M cost derived as a percentage of rate base to a brand new transmission facility.[21] Such an approach is flawed because it ignores that newer transmission facilities have substantially lower O&M costs per dollar of net book than the average for existing facilities. Second, UCAN applies the percentage of O&M costs, derived from historical data, to the total

[18] The Proposed Decision imputes a $90 million per year compliance cost on Sunrise in all 20% RPS scenarios. *See* Proposed Decision at 133.
[19] Proposed Decision at 99; Grueneich Alternate at 101.
[20] Proposed Decision at 99; Grueneich Alternate at 101.
[21] UCAN Ex. U-4 at 174-75.

cost of Sunrise.[22] This approach, however, does not account for the recent run up in the costs of transmission construction materials which suggests that the ratio of O&M costs to capital costs is more likely to be declining in recent years.[23] As a result, the use of historical averages, based on the SDG&E entire transmission system, serves to unreasonably inflate the estimated level of O&M costs that will actually be incurred for a brand-new transmission line.

In contrast to the flawed UCAN analysis relied upon by the Proposed Decision and Grueneich Alternate, the ISO's O&M cost estimate relied upon SDG&E's revenue requirements models and are consistent with Sunrise cost information developed by SDG&E.[24] As the Peevey Alternate correctly recognizes, SDG&E is in the best position to estimate both capital and O&M costs for Sunrise.[25] Indeed, with respect to capital costs, both the Proposed Decision and Grueneich Alternate each find that "SDG&E has offered the best developed" costs estimates for the project.[26]

B. Additional errors in the Proposed Decision

1. The Proposed Decision incorrectly assumes that renewable procurement will not exceed 20% during the 58 year life of Sunrise

The Proposed Decision evaluates Sunrise assuming that RPS requirements will not exceed 20% over the life of the project and that SDG&E will procure no more than 20% renewables over this time period.[27] However, it is unreasonable to assume that SDG&E will not procure more than 20% renewable generation over the life of Sunrise.

---

[22] UCAN Ex. U-4 at 175-76.

[23] Recent increases in the cost of transmission materials is extensively addressed in the record. *See e.g.*, ISO Ex. I-16 at 63.

[24] ISO Ex. I-13 at 23.

[25] Peevey Alternate at 107-108.

[26] Proposed Decision at 99; Grueneich Alternate at 101.

[27] Proposed Decision at 155-156.

Although SDG&E is only required to procure 20% renewables under California's current RPS requirement,[28] existing Commission policy supports increasing RPS targets to 33% by 2020. For instance, Energy Action Plan II, jointly issued by the Commission and the CEC, anticipates increasing RPS requirements to 33% by 2020.[29] The Commission reiterated its commitment to a 33% RPS requirement in a subsequent policy statement on greenhouse gas performance standards.[30] In Decision 07-12-052, which adopted long-term procurement plans for SDG&E, Pacific Gas and Electric Company, and Southern California Edison Company ("SCE"), the Commission further stated 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.[31]

In addition to the Commission's stated policy, on November 17, 2008, Governor Schwarzenegger signed Executive Order S-14-08 to increase California's RPS target to 33% by 2020.[32] The Executive Order further directed government agencies "to take all appropriate actions to implement [the 33%] target in all regulatory proceedings, including siting, permitting, and procurement for renewable energy power plants *and transmission lines*."[33]

Furthermore, compliance with Assembly Bill ("AB") 32 will necessarily require levels of renewable generation in excess of 20% and potentially more than 33%. Indeed, the Commission has already concluded that a 33% renewable procurement target would "contribute significantly to attainment of the emissions reductions required by AB 32."[34]

---

[28] *See* Cal. Pub. Util. Code § 399.15(b)(1).
[29] Energy Action Plan II at 8.
[30] *See* Order Instituting Rulemaking 06-04-009 (April 17, 2006) Attachment 2 ("Commission's Policy Statement on Greenhouse Gas Performance Standards, October 6, 2005") at 1.
[31] Decision 07-12-052 at 255 (emphasis added).
[32] Exec. Order S-14-08.
[33] Exec. Order S-14-08 at ¶ 1 (emphasis added).
[34] Decision 08-03-018, mimeo at 36.

In light of the actions taken by the Commission and the Governor, and the realities associated with meeting the emissions reductions mandated by AB 32, it is unreasonable to assume that renewable procurement will not exceed 20% over the life of Sunrise. Correcting this one error would result in the Proposed Decision finding that Sunrise provides more net benefits than any of the alternatives considered in this proceeding.[35]

2. The Proposed Decision understates net benefits associated with Sunrise by assuming unreasonably low costs for new combustion turbines

In its Phase 1 economic analysis, the ISO used a representative Combustion Turbine ("CT") cost of $78/kW per year based on a 2003 CEC report entitled "Comparative Cost of California Central Station Electricity Generation Technologies."[36] In its Phase 2 testimony, the ISO updated the cost of CTs 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 showing significantly increased CT costs.[37] 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.[38] Neither DRA nor UCAN disputed the reasonableness of the ISO's Phase 2 CT costs for modeling purposes. On the contrary, DRA affirmatively stated its support for using the updated costs.[39]

Notwithstanding the evidence supporting the use of the ISO's Phase 2 CT costs for purposes of evaluating the net benefits of Sunrise, the Proposed Decision arbitrarily adopts a CT

---

[35] Compare Cases 6, 7, 11 and 12 to all other Cases shown in Table 13, Proposed Decision at 150-151.
[36] *See* ISO Ex. I-2 at 24; ISO Ex. I-12 at 6.
[37] ISO/Orans Tr. at 5538-39.
[38] ISO Ex. I-12 at 7.
[39] *See Reply Comments of the Division of Ratepayer Advocates on Exhibit Compliance -1* at 2, note 2 ("DRA agrees that the CAISO's 'Phase 2 CT Costs' are more realistic than the CT costs the CAISO assumed in Phase 1. In fact, in its own Phase 1 Direct Testimony, DRA introduced evidence that CAISO and SDG&E Phase 1 CT costs were too low by a significant amount. *See* Exhibit D-67 (Appendix C, Redacted Public Version, to Phase 1 Direct

cost that represents the average of the ISO's Phase 1 and Phase 2 CT costs.[40] This position was not proposed by any party in the proceeding nor is it supported by the record. However, as a result of this error, the Proposed Decision significantly understates the net benefits associated with Sunrise. Correcting this error and assuming 33% RPS results in a $54 million increase to the net benefits associated with Sunrise – even if no other errors in the Proposed Decision are corrected.[41]

III. CONCLUSION

The record in this proceeding is clear: Sunrise is needed to meet reliability needs and provide critical access to important renewable generation resources located in the Imperial Valley. The Proposed Decision and Grueneich Alternate, however, contain analytical errors that understate the reliability need facing San Diego and do not account for the full range of benefits

\\

\\

\\

Testimony, Volume 1 of 5) and Exhibit D-68C (Confidential Appendix C to Phase 1 Direct Testimony, Volume 1 of 5)").

[40] Proposed Decision at 94.

[41] *See* Proposed Decision at 150-151 (Table 13).

to be realized from Sunrise. Accordingly, the ISO recommends that the Commission reject the Proposed Decision and Grueneich Alternate and instead approve the alternate proposed decision issued by Commissioner Peevey.

Respectfully submitted,

/s/ Jeffrey P. Gray

Nancy Saracino, General Counsel
Judith B. Sanders, Senior Counsel
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
151 Blue Ravine Road
Folsom California 95630
Tel. (916) 351-4400
Fax. (916) 608-7296
Email: jsanders@caiso.com

Jeffrey P. Gray
DAVIS WRIGHT TREMAINE LLP
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email:jeffgray@dwt.com

Attorneys for CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Dated: November 20, 2008

CERTIFICATE OF SERVICE

I, Judy Pau, certify:

I am employed in the City and County of San Francisco, California, am over eighteen years of age and am not a party to the within entitled cause. My business address is 505 Montgomery Street, Suite 800, San Francisco, California 94111.

On November 20, 2008, I caused the following to be served:

COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR ON PROPOSED DECISION OF ALJ VIETH AND ALTERNATE PROPOSED DECISION OF COMMISSIONER GRUENEICH

enclosed in a sealed envelope, by first class mail on the parties listed as "Parties" and "State Service" on the attached service list who have not provided an electronic mail address, and via electronic mail to all parties on the service list who have provided the Commission with an electronic mail address.

/s/ Judy Pau
Judy Pau

cc: Commissioner Dian M. Grueneich (via US Mail and email)
ALJ Jean Vieth (via US Mail and email)