From: CV Neighborhood 10 North [mailto:cv10north@yahoo.com]
Sent: Friday, October 13, 2006 9:35 AM
To: sunrise@aspeneg.com
Subject: Carmel Valley Neighborhood 10 North & Sunrise Powelink

To whom it may concern:

I am the President of the Homeowners Association which is located at Carmel Valley Neighborhood 10 (known as Carmel Country Highlands). Additionally, I am a California utility ratepayer living in Carmel Country Highlands. My neighborhood is bordered on the South by Los Penasquitos Preserve, on the East by Del Mar Mesa and on the West by Torrey Hills, which is the location of the "Penasquitos" substation as it is referred to by SDG&E's Sunrise Powerlink project. Since there is currently a set of lower voltage power poles running along the border of our neighborhood with Los Penasquitos Preserve, SDG&E has chosen this to be their preferred route for the 230Kv line between the Sycamore Canyon Substation and the Penasquitos Substation in their Sunrise Powerlink proposal.

While there are many valid questions challenging the need for this project altogether, what upsets this community the most is SDG&E's complete lack of any attempt to mitigate the impact of this project on our neighborhood and the Los Penasquitos Preserve. SDG&E representatives told me at their Open House that they will only consider undergrounding our transmission lines if forced to by the CPUC. They propose to add massive steel and concrete pilons holding 230Kv in addition to the ugly erector set style structures that already tower over people's homes and scar the Los Penasquitos Preserve. Their rationale for not needing to mitigate this impact is that we are already impacted by their transmission lines now.

I would like to point out that the existing overhead lines in this community were put in before the expansion of community development and they are no longer appropriate given the additional voltage proposed and number of homes now in close proximity. If EMF exposure is not a real enough concern for SDG&E or the CPUC to consider, there is also the increased wildfire risk in an area that already has a significant fire load (due to the dense vegetation of the Preserve) and that suffers from inadequate fire and rescue response times (due to the lack of a nearby fire station). There are the collision risks posed by birds and low flying military aircraft from MCAS Miramar, and, finally, there are the visual impacts of the taller, more intrusive metal and concrete pilons that are proposed to be added along the with additional 230Kv of power.

The implication that our fire, health, safety and aesthetic concerns somehow count less because we are already impacted by some transmission lines (as was suggested at the SDG&E Open House) is outrageous and I would argue quite the opposite. Undergrounding options do exist at a reasonable cost and the lack of the examination by SDG&E of any less invasive implementation in this neighborhood and the Preserve shows a complete lack of concern for local ratepayers, their home values and their treasured, shrinking open space.

There is evidence to suggest that new technology exists to accomplish this undergrounding effort at a cost equal to or not much more than the overhead line option. (please see ASEA Brown Boveri/ABB at:
http://search.abb.com/library/ABBLibrary.asp?DocumentID=9AKK100580A2085&LanguageCode=en&DocumentPartID=&Action=Launch
for further information). If what ABB proclaims is true, this new technology would be a benefit to SDG&E and ALL rate-payers and prevent the destruction of countless miles of wilderness.

The transmission corridor through our neighborhood is unique in that it negatively impacts residences and 2 Preserves (Del Mar Mesa and Los Penasquitos Preserves). Undergrounding ALL the lines would restore the beauty of the Preserve view corridor and improve the property value of the homes in the nearby community, reduce the fire risk to almost nothing, prevent collisions (from aircraft or birds) and disperse the EMFs more quickly from the undergrounding location to the edge of the right-of- way. Even without new technology, the effort to underground this (approx.) 3 mile segment of the Penasquitos line would probably cost less than 1% of the cost of this entire project.

We cannot support a proposal that takes such little stock of its impact on the community and ratepayers as to not explore mitigation options unless forced to by regulatory agencies. Let's not allow the further destruction of our

landscape and the perpetuation of outdated technology simply because it is all Sempra knows and is comfortable doing.

Joanne Fogel
President, Board of Directors
Carmel Valley Neighborhood 10 North HOA

From: CV Neighborhood 10 North [mailto:cv10north@yahoo.com]
Sent: Monday, October 16, 2006 5:29 PM
To: sunrise@aspeneg.com
Subject: Sunrise Powerlink

The Carmel Valley Neighborhood 10 Homeowners Association is concerned about the proposed route for SDG&E's Sunrise Powerlink through our neighborhood and along the Los Penasquitos Preserve. We feel strongly that such large utility infrastructure projects are completely inappropriate for placement in or immediately adjacent to residential neighborhoods and along routes such as the Los Penasquitos Preserve that carry such a large fire load.

We have been to the SDG&E Open House and listened to the project debated at our Community Planning Board Meetings and have not yet heard compelling proof that the Sunrise Powerlink project is needed and other environmentally friendly alternatives, such as the use of solar energy, have been fully evaluated. We have yet to see solid justification for this project.

In addition to the unacceptable visual impacts that the proposed addition of 120 foot high, 230Kv towers will bring, our neighborhood is concerned about potential health and safety effects associated with additional power lines and voltage in or near the community. This neighborhood is already impacted by a large amount of electromagnetic frequencies from transmission lines – and we are not open to allowing additional exposure to our residents. We understand studies have differed on the impacts of electromagnetic frequency to human health, and we are not accepting of even a slight potential risk.

Carmel Valley Neighborhood 10 is also outside of the acceptable emergency response time for fire and emergency vehicles with no future site being planned for our area. Three years ago we experienced a fire nearby in the Los Penasquitos Canyon Preserve that happened as a result of a downed power line. The preserve is already burdened with the existing power lines that run through it. Additional impacts cannot be mitigated.

After the need for the Sunrise Powerlink is justified to the community, we ask that that SDG&E be required to undertake the due diligence needed to build the infrastructure along routes that do not further impact our residents and the Los Penasquitos Canyon Preserve.

Sincerely,

Board of Directors
Carmel Valley Neighborhood 10 North HOA

Carmel Valley Neighborhood 10 North HOA

Poway Democratic Club.
PO Box 28
Poway CA 92074
e-mail: info@PowayDemocraticClub.org

Poway Democratic Club

Billie Blanchard, CPUC
Lynda Kastoll, BLM
c/o Aspen Environmental Group
235 Montgomery Street, Suite 935
San Francisco, CA 94104-3002
Via E-mail: sunrise@aspeneg.com

October 16, 2006

Dear Ms. Blanchard and Ms. Kastoll:

The Poway Democratic Club (PDC) offers the following comments on the scope of the Environmental Impact Report/Statement (EIR/S) being prepared by the CPUC and BLM for SDG&E's proposed Sunrise Powerlink project, in response to the Notice of Preparation.

This massive industrial project proposed by SDG&E to traverse 150 miles in San Diego County's east-central desert and backcountry and suburbs and open space in the north-central west-central county, will have very substantial and significant impacts on these lands and communities, which we know you have and will receive input about from across the County, as well as in Imperial County where the project would originate near El Centro at the existing Imperial Valley Substation.

As a chartered club of the San Diego County Democratic Party, the Poway Democratic Club supports and advocates for the Democratic Party's "6-Point Plan for 2006", which includes:

"*3. Energy Independence*
"We will create a cleaner, greener and stronger America by reducing our dependence on foreign oil, eliminating billions in subsidies for oil and gas companies and use the savings to provide consumer relief and develop energy alternatives, and investing in energy independent technology. "Energy independence puts America in the driver's seat to pursue affordable and efficient energy solutions that will benefit all Americans, improve America's security, reduce the burden on American families, and help clean our environment.

"American families should not have to pay the price for a failed national energy policy. They deserve an energy policy that creates a cleaner and stronger America that reduces our dependence on foreign oil and also creates new jobs for American workers. By clearing the pathways to innovation, investing in our workers and infrastructure, and providing American consumers with broader, more responsible choices, the Democratic plan will provide the tools to help move America forward, toward real energy security for the 21st century."
(http://www.democrats.org/a/national/clean_environment/energy/)

Here in San Diego and Imperial Counties, we are at the proverbial trailhead of the "pathways to innovation" cited above – we have the opportunity in the environmental review of this proposal to move FORWARD in clearing these pathways and providing consumers with broader and more responsible choices for electricity, toward a truly 21st Century energy infrastructure. Or we can continue to deploy the anachronistic electricity technology of the 20th Century, needlessly

scarring the priceless desert and backcountry of San Diego and Imperial Counties and frustrating the accomplishment of goals and standards set by law and regulation in California this year to leave this anachronistic system behind.

Following are our specific comments for how this EIR/S must move FORWARD to clear the pathways of innovation, as well as comply with the CA Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA).

1. The No Project Alternative, required to be evaluated in the EIR/S as an alternative to the Proposed Project, must assume the implementation of all laws and regulations relevant to the accomplishment of the stated Project Objectives. Of particular note are three laws recently enacted in California and the CPUC's adoption of the California Solar Initiative at the beginning of this year:

A. The California Legislature passed some of the strongest global warming bills in the country in 2006, which have been signed by the governor and are now law:

AB 32 - Global Warming Solutions
This landmark legislation to cap California's global warming emissions was finally signed into law by Governor Schwarzenegger on September 27. AB 32, authored by Speaker of the California Assembly Fabian Nuñez and Assembly Member Fran Pavley, sets in place the nation's first and only economy-wide global warming emissions reduction program. The law requires California to reduce its global warming emissions to 1990 levels by 2020—about a 25 percent reduction.

SB 1368 - Global Warming Emissions Standard for Electricity Generation
This very important bill, authored by Senate President Pro-Tempore Don Perata, requires the California Energy Commission to set a global warming emissions standard for electricity used in California—regardless of whether it's generated in-state or purchased from plants in other states. This law will help prevent new dirty coal plants from being built to serve California's growing electricity demand and will instead encourage development of clean electricity generation technologies including renewable energy.

SB 107 - Accelerated Renewable Energy Standard
Sponsored by State Senators Joe Simitian and Don Perata, SB 107 moves the timeline to reach the state's existing 20 percent renewable energy standard requirement up by seven years to 2010. UCS has been one of the bill's main advocates over the last year and a half and was responsible for crafting several amendments as the bill wound its way through the legislative process.

B. From the CPUC's website: "The California Public Utilities Commission is committed to solar resources for assuring the reliability of the state's electricity system.

"On Jan. 12, 2006, we approved the California Solar Initiative (CSI), a comprehensive $2.8 billion program that provides incentives toward solar development over 11 years. It also develops complementary policies and rules, sets new incentive levels, and addresses program administration. Learn about the California Solar Initiative! (http://www.cpuc.ca.gov/static/energy/solar/aboutsolar.htm) On Aug. 24, 2006, we adopted performance-based incentives to get the program up and running. Read our press release (http://www.cpuc.ca.gov/PUBLISHED/NEWS_RELEASE/59156.htm) and Fact sheet (http://www.cpuc.ca.gov/static/energy/solar/csi_factsheet_082406.pdf) on the decision.

"On March 2, 2006, the Commission opened a proceeding that will allow us to develop rules and procedures for the Solar Initiative and to continue our consideration more generally of policies for the development of cost-effective, clean and reliable distributed generation (DG)." (http://www.cpuc.ca.gov/static/energy/solar/index.htm)

2. *As required for Alternatives, the EIR/S must evaluate the feasibility of the Proposed Project to meet the Project Objectives, particularly those which provide environmental benefits.* Specifically, the EIR/S must scrupulously assess the feasibility of the renewable energy generation project(s) upon which SDG&E states this project route is based – the Stirling Solar Fields in the Imperial Valley which would use technology not yet commercially demonstrated nor manufactured. The EIR/S must also fully evaluate the impacts that result if SDG&E has not obtained the renewably-generated electricity from sources upon which this Project is predicated at the time this Transmission Line is operable – e.g., if electricity generated by fossil fuel plants is used instead. Paraphrasing SDG&E Vice President Jim Avery at a recent public meeting when pressed for an assurance that this will NOT happen: "Electrons will flow where electrons will flow."

3. *As required by CEQA, the EIR/S must evaluate the Cumulative and Growth-Inducing Impacts of the substantial surplus transmission capacity which the Proposed Project will produce at the juncture of the proposed 500 kV line (El Centro to the Santa Ysabel area) with the proposed 230 kV line which heads southwest to Del Mar.* There is already extensive information developed on what these Cumulative and Growth-Inducing impacts could be, based upon other projects SDG&E and others have proposed in North San Diego County and Southwest Riverside County, including the Rainbow Transmission Line which was denied by the CPUC several years ago and the current consideration of a transmission line associated with the LEAPS hydroelectric project in the Lake Elsinore area. *As with #2, the EIR/S should also fully evaluate the impacts of generating this additional electricity.*

In closing, we look forward to the CPUC's continuing leadership in "clearing the pathways to innovation" and providing Americans with broader, more responsible choices for the electricity needed to support our 21st Century economy. This is a rare opportunity to put the vision recently enacted by California's Legislature and that of the CPUC into concrete action. We here in San Diego and Imperial Counties are counting on you to make use of this opportunity, and we will continue to encourage you so to do along the way.

Thank you for this opportunity to offer comments on the scope of this EIR/S. If you have any questions about these comments, please contact PDC members Martha Sullivan or Marijo Van Dyke, as listed below.

Sincerely,

Pete Babich

Pete Babich
President

Martha Sullivan: sullivanms@aol.com, 858/945-6273
Marijo Van Dyke: mjvan@cox.net

October 18, 2006

Billie Blanchard/Lynda Kastoll
CPUC/BLM
c/o Aspen Environmental Group
235 Montgomery Street, Ste 935
San Francisco, CA 94104

RE: SUNRISE POWERLINK ALTERNATIVE "C"

My name is Vern Denham, I am the chair of the Pine Valley Community Planning Group. It has come to our attention by way of a newspaper article 2 weeks ago in the San Diego Union-Tribune that our rural community of Pine Valley California (population 1600) has been chosen as an alternative route for the San Diego Gas & Electric 500 KVA power line. According to information sent to me by a consultant for SDG&E approximately 38 homes in Pine Valley would be "TAKEN" for this project. Many of the homes in Pine Valley to be "TAKEN" are of historical significance, having been built of native rock in the 1930's and 1940's. Several more homes would be 'TAKEN' from the community of Guatay which would geographically split the community in half. In our sister community of Descanso a Methodist church, a pre-school, and the historic Descanso Elementary School, plus numerous private homes will need to be "TAKEN". The Pine Valley Community Planning Group will hear this matter for the first time at our November 14 monthly meeting. I request a 45 day extension from the October 20th deadline so that we who are affected by this project will be able to comment on it.

Sincerely,
Vern Denham

Pine Valley Community Planning Group
P. O. box 492
Pine Valley, CA 91962
1-619-473-8579

C. C.
Senator Barbara Boxer
Senator Dianne Feinstein
Representative Bob Filner
Supervisor Dianne Jacob

BORDER POWER PLANT WORKING GROUP

GRUPO DE TRABAJO DE TERMOELECTRICAS FRONTERIZAS

October 20, 2006

Susan Lee
Vice President, SF Office
Aspen Environmental Group
235 Montgomery Street #935
San Francisco, CA 94104

Subject: Ratepayers for Affordable Clean Energy (RACE) Comments on Sunrise Powerlink CPCN Application EIR Scope - A.06-08-010

Dear Susan:

This comment letter addresses issues that the RACE coalition would like to see addressed in the EIR prepared for the proposed Sunrise Powerlink.

1. Need to identify specifically what low cost generation assets will access the Sunrise Powerlink:

One RACE concern is the validity of claims that 1,000s of MW of low cost generation will be accessible if Sunrise is built. Our understanding is that most of this generation will be on long-term contracts in Arizona by the time Sunrise would be online in 2010, and that no new combined-cycle projects are anticipated in the near- or mid-term future. Coal generation appears not to be an option given recent California legislation that import power be as clean as combined-cycle power. SWPL is not being uprated between Palo Verde and Imperial County, so SWPL east of the SWPL-Sunrise Powerlink junction will remain at 1,900 MW. The only obvious growth area in this context would be more combined-cycle power plants in Mexicali. The EIR should address the likelihood of Sunrise preferentially debottlenecking transmission access for plants in Mexicali. The EIR should also assess this phenomenon in the context of Sunrise ultimately being extended to complete the "full loop" option described in the CPCN application, given CAISO continues to study this option and SDGE has identified completion of the full loop to SCE territory as a strategic objective of the Sunrise Powerlink project.

2. Need to take a fresh look at transmission options that were summarily rejected by SDGE:

Attached is the October 14, 2005 Utility Consumers' Action Network/Border Power Plant Working Group (UCAN/BPPWG) comment letter on the draft 2005 Integrated Energy Policy Report (IEPR). BPPWG is a RACE coalition member organization. This UCAN/BPPWG draft IEPR comment letter was also submitted to the Imperial Valley Study Group (IVSG) as the UCAN/BPPWG alternative report to the Sept. 30, 2005 IEPR final report. The UCAN/BPPWG letter report was submitted two weeks after the final IVSG report as UCAN/BPPWG had not seen the revisions to the draft IVSG report until the final report was issued on Sept. 30, 2005.

4452 Park Blvd., Suite 209A, San Diego, California 92116 tel: 619-295-2072 fax: 619-295-2073

Also attached is the RACE coalition February 17, 2006 protest letter in the current proceeding that documents RACE's position on the veracity of SDGE assertions that the proposed Sunrise Powerlink route was rigorously vetted by Southwest Transmission Expansion Plan (STEP) and IVSG participants.

I requested at the September 15, 2005 IVSG draft report review meeting in San Diego that the April 12, 2005 IVSG meeting minutes (2 pages) be revised to include the 8 pages of e-mail traffic initiated by me after the meeting when I read the original minutes and saw that the SDGE note taker had left out a summary of the 45-minute discussion we had had about alternatives to the Sunrise Powerlink. That discussion primarily focusing on the two parallel 230 kV Comisión Federal de Electricidad (CFE) lines running parallel to the California-Baja California border.

3. Address expansion of transmission options if reliability deficit is addressed by other means (addition of 250 MW of peaking turbines by 2008 proposed by SDGE to CPUC, revision of G-1 to reflect ability of Palomar Energy and Otay Mesa to operate with a steam turbine trip adding 232 MW of in-basin power, etc.), such that Sunrise is utilized for bulk power transport only.
4. Address impediments to locating Sunrise in the same corridor as SWPL if there is no reliability justification for Surnise.
5. Address reconductoring existing 230 kV lines with high temperature low sag (HTLS) lines from Miguel substation to Mission and Sycamore substations to eliminate 230 kV congestion in urban San Diego as an obstacle to running a second SWPL into the Miguel substation.
6. Address likelihood of 500 kV HTLS lines being commercially available in the 2010-2015 timeframe as an alternative to building SWPL2.
7. Address why LADWP-IID Green Path is not adequate alone to 1) move Imperial Valley renewables and 2) address congestion concerns along SWPL.
8. Address likelihood of Stirling Solar 300 MW Phase I project being completed by the 2010 contract deadline.
9. SDGE and CAISO identify imports from Arizona power plants using lower cost natural gas (than coastal California) as primary economic benefit of Sunrise in 2015. Yet the benefit of importing Sempra/Shell LNG from Baja California, lowering SoCal gas prices relative to domestic natural gas, was identified as the primary benefit of authorizing California natural gas utilities to contract for LNG in CPUC R04-01-025 Phase I decision (attached). LNG is scheduled to enter SoCal gas pipeline network in 2008. Determine if it is reasonable to assume lower natural gas prices in Arizona as justification for Sunrise after 2008.

Thank you for this opportunity to comment on the scope of the EIR for the proposed Sunrise Powerlink.

Best regards,

Bill Powers, P.E.

Bill Powers, P.E.
Border Power Plant Working Group (and RACE member organization)

4452 Park Blvd., Suite 209A, San Diego, California 92116 tel: 619-295-2072 fax: 619-295-2073

BORDER POWER PLANT WORKING GROUP

GRUPO DE TRABAJO DE TERMOELECTRICAS FRONTERIZAS

Comments on Draft 2005 IEPR Transmission Chapter – The Sunrise Powerlink and Alternatives for Moving Renewable-Generated Electricity, Relieving Congestion, and Assuring Reliability in the Service Territory of the San Diego Gas & Electric Company

Prepared by

Utility Consumers' Action Network

Border Power Plant Working Group

October 14, 2005

Summary

The strong endorsement by the California Energy Commission (CEC) of the Sunrise Powerlink in the draft 2005 Integrated Energy Policy Report (IEPR) and associated Strategic Transmission Investment Plan, with no discussion or assessment of alternatives to achieve the same objectives, is surprising and unjustified. The San Diego public would expect that an analysis by the CEC would be comprehensive and considered. But the draft report is anything but on the specific issue of the Sunrise Powerlink.

The glaring problems with the CEC findings include:

1. A clear misunderstanding of near-term Imperial Irrigation District (IID) transmission plans;
2. The questionable availability of geothermal power in the timeframe suggested;
3. The weakness of SDG&E's congestion cost arguments;
4. The existence of reasonable and lower-cost alternatives;
5. The many flawed assumptions as to when this transmission line is needed by SDG&E.

As will be discussed in greater depth below, much of the so-called congestion cost justification for the Sunrise line is the result of Sempra's own efforts to create artificial congestion on SDGE's 500 kV Southwest Power Link (SWPL) instead of routing power to client SCE from Sempra power plants that are more favorably located from a transmission perspective.

Also, the CEC did not consider the fact that SDG&E has previously stated that the Path 45 230 kV upgrade alternative just over the border in Mexico "….. *meets most of SDGE's technical requirements*." SDGE has refused to seriously consider anything but Sunrise in the forums the authors of this document have participated in over the last year.

It is encouraging that the CEC is putting out an RFP to take a look at Path 45 and integrating more effectively with the Comisión Federal de Electricidad (CFE). However, there is not a word about this in the draft 2005 IEPR chapter on transmission or the Strategic Transmission Investment Plan. At a minimum there needs to be a brief discussion in both documents that notes that SDGE has identified potential alternatives to building a greenfield 500 kV line and that the CEC is letting a contract to study the potential for taking advantage of Path 45 in Mexico. Otherwise the Path 45 study, no matter how good and no matter how advantageous the Path 45 option may prove to be, will have no impact on 2005 IEPR transmission recommendations.

SDGE has announced a contract to build a 300 MW solar thermal project in Imperial County. This is a laudable step, especially given that most good solar thermal sites in the San Diego County and Imperial County area would appear to be less environmentally sensitive than good wind sites. However, this step is offset by SDGE's premature commitment to running a 500kV line through the 69 kV corridor in Anza Borrego State Park. Unless that solar thermal project will be located on or immediately next to the 500 kV line, the transmission interconnect costs could be so high as to kill the project. Ultimately solar thermal could be used to pass Sunrise off as a renewables line, just as it is now being promoted as a geothermal line, when in fact the true

role of this proposed line will be to move combined-cycle power from Sempra's power projects in Mexicali and Palo Verde, Arizona.

Why the CEC Recommendation Is Flawed

A. Misunderstanding of IID Transmission Plans

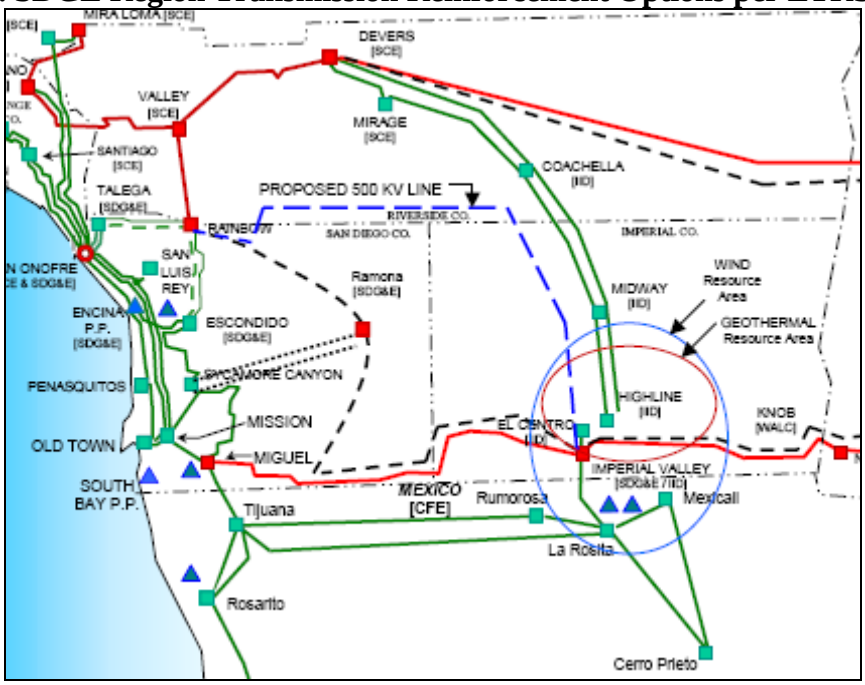
The CEC's strong endorsement of SDGE's proposed 500 kV Sunrise Powerlink in the draft 2005 IEPR is to a large degree based on the supposed benefits of the line for moving geothermal power from Imperial County to San Diego. The stated objective of the CEC's Imperial Valley Study Group (IVSG) process is to move 2,000 MW of renewable power, all of it presumed to be geothermal power during the course of the IVSG study period, from Imperial County to coastal load centers. The ability to move a minimum of 2,000 MW of renewable power was established as a minimum transmission requirement at the first IVSG meeting in November 2004. This minimum objective was set without an assessment of the reasonableness of assuming every potential MW of geothermal power in Imperial Valley would be in production and deliverable over the transmission line in a reasonably foreseeable period of time.

In reality, Imperial Valley geothermal potential is much lower than the 2,000 MW minimum transmission requirement established arbitrarily by the IVSG at its first meeting. The document cited by the CEC as the basis for geothermal power potential in Imperial Valley is the May 24, 2004 GeothermEx report prepared for the CEC titled "*Geothermal Resources Available to the California Market*." This document estimates geothermal reserves in the Imperial Valley at somewhere between 1,350 to 1,950 MW potential. Based on the GeothermEx report is would be fair to identify 1,350 MW of incremental geothermal capacity as "proven," and 1,950 MW as "probable." Proven geothermal reserves in Imperial Valley are actually 70 percent of the 1,950 MW figure cited in the final IVSG report.

It is important to note that approximately half of the 1,350 to 1,950 MW of this geothermal potential cannot be accessed by current geothermal drilling technology as it is over water. Of the seven Salton Sea Ecosystem Restoration alternatives currently under consideration (as identified on the DWR's Salton Sea homepage at www.saltonsea.water.ca.gov) five alternatives would leave the south shoreline where it is now, meaning the over water geothermal assets would remain over water for the foreseeable future. The high selenium content of Salton Sea sediments and potential for negative health impacts that may result from windblown sediments make development of the over water geothermal assets problematic even if the Salton Sea is allowed to recede in the geothermal resource area. It would be unrealistic to assume that more than 600 to 800 MW of additional geothermal power will be available from Imperial County in the foreseeable future.

One 500 kV transmission proposal that was being promoted as optimum for the SDGE service territory in 2002 looks very similar to the route that will be followed (in part) by the proposed LADWP-IID 500 kV line. Shell Trading gave a presentation at the first Southwest Transmission Expansion Plan (STEP) meeting on November 1, 2002 that addressed transmission upgrade options under consideration in the Long Term Regional Study (LTRS) process. The graphic showing potential transmission reinforcement routes in the SDGE and SCE service territories is shown below as Figure 1.

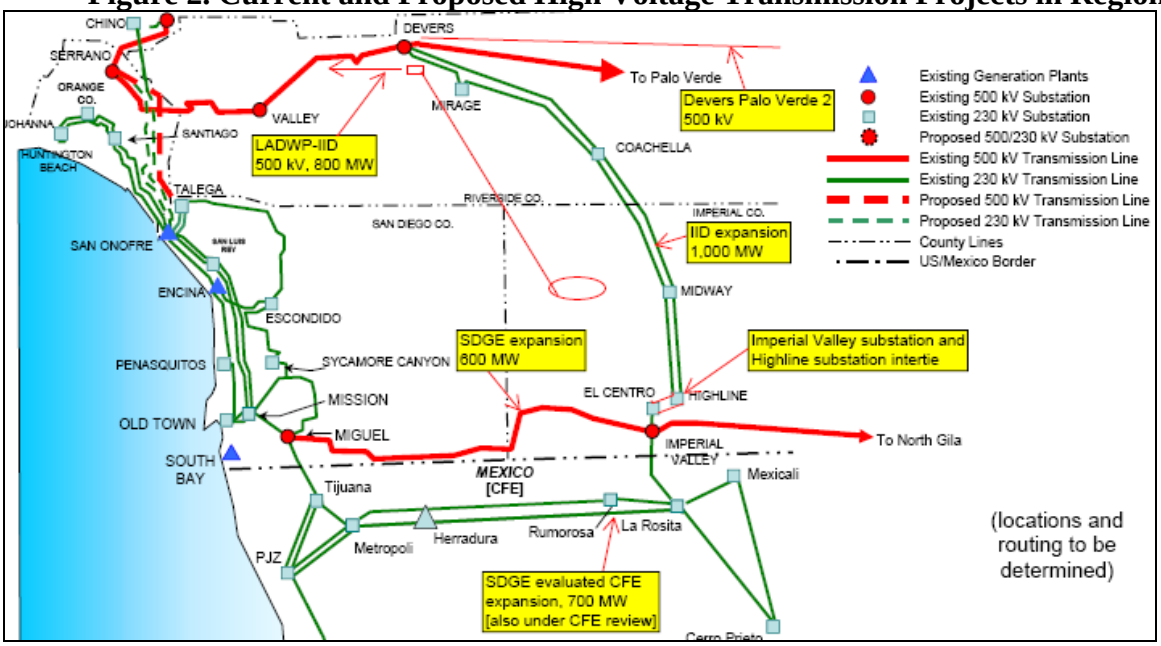
Figure 1. SDGE Region Transmission Reinforcement Options per LTRS Process



The 500 kV LADWP-IID transmission line, which roughly follows the dashed blue line in Figure 1, is a superior alternative to the proposed Sunrise Powerlink for moving renewables out of Imperial Valley. It uses an existing 230 kV corridor that passes through lands of minimum environmental sensitivity, fully consistent with the Garamendi principle regarding transmission corridor selection. In contrast, the Sunrise Powerlink is effectively a greenfield 500 kV line that will traverse the Anza Borrego State Park and relatively undeveloped San Diego County backcountry.

It is also important to point out that the strip of land including the Mexican border up to the DVP1 transmission line will be quite saturated with high voltage transmission lines even without the Sunrise Powerlink. Current and proposed transmission projects, not including the Sunrise Powerlink, are shown in Figure 2.

Figure 2. Current and Proposed High Voltage Transmission Projects in Region



As shown in Figure 2, SDGE already has two transmission outlets from Imperial Valley to move renewables – the newly upgraded 500 kV SWPL (upgraded from 1,300 to 1,900 MW) and the two 230 kV transmission lines 10 to 15 miles south of SWPL in Mexico. SWPL will be available to move renewables from Imperial Valley as soon as the interconnection with IID Path 42 at the Imperial Valley substation is complete. This interconnection is a component of IID's planned transmission upgrade project.

Two other high voltage paths move renewable power north and west from Imperial Valley. These are 1) the existing IID Path 42 interconnect with SCE at Devers, and 2) the proposed 500 kV LADWP-IID transmission link. The Sunrise Powerlink will be the fifth transmission link to the Imperial Valley renewables area in a distance of approximately 100 miles.

It is important to note that SDGE can move all the renewables they can access in Imperial Valley over SWPL and the Mexico 230 kV lines <u>if SDGE chooses to do so</u>. Also, the concept of renewable energy credits (RECs) is under consideration. RECs would allow individual utilities to avoid building potentially redundant transmission lines to access renewables while still getting credit for renewables generation. The CEC should require SDGE to explore the RECs concept as an element of the Certificate of Public Convenience and Necessity (CPCN) that SDGE indicates it will file with the California Public Utilities Commission (CPUC) for Sunrise Powerlink by the end of 2005.

The CEC's misunderstanding of IID transmission plans leads to the likelihood of redundant renewables transmission capability. There is no point in LADWP and IID teaming to build a transmission network to access all foreseeable geothermal in Imperial Valley and have SDGE build what essentially will be a parallel line to get at the same resources. It is wasteful and unnecessary.

SDGE asserts that the Miguel substation in the southeastern outskirts of San Diego, the western terminus of the SWPL, cannot be further debottlenecked beyond its new capacity of 1,900 MW. This is the reason given for not simply increasing the capacity of SWPL to handle additional renewables development to the east. However, SDGE has not yet approached SCE about the cost and effort that will be necessary to debottleneck or expand the proposed terminus of the Sunrise Powerlink, the Serrano or Valley substations in SCE territory. The CEC has not justified why it would be any less costly to upgrade Serrano or Valley substations to accept a 2,000 MW 500 kV line than to significantly increase the capacity of SWPL at Miguel substation to accept significantly more (renewable) power.

The IVSG objective was based on the Tehachapi Study Group objective – develop a well thought-out renewable energy collector system for the renewable resource in the region. A phased approach was used in both cases. Both the Tehachapi Study Group and the IID component of the IVSG effort appear to have followed a logical phased approach to developing the available renewable resource. The disjunct occurs with the Sunrise Powerlink component of the IVSG process. In the case of Sunrise, a dramatic shift is made from the logical phased approach to a "build it very big and they will come" approach. Insisting that any interconnecting transmission line to Imperial Valley must be supersized upfront eliminates from consideration numerous other renewables export options, like the LADWP-IID line, that are more consistent with the phased approach.

There are in fact a few power plants that are already operational and ready to utilize the Sunrise Powerlink. However, none of these plants are renewable energy facilities. Immediate beneficiaries of the Sunrise Powerlink will be owners of merchant power plants in Palo Verde, Arizona and Mexicali, Mexico that export power to Southern California. The Sempra Energy plants in Palo Verde (Mesquite, 1,250 MW) and Mexicali (Termoeléctrica de Mexicali 650 MW) are obvious beneficiaries. Much of the output from these plants is generated to meet the long-term Department of Water Resources (DWR) contract signed in 2001 at the peak of the state's energy crisis. The contract expires in 2011. The Intergen export plant in Mexicali (550 MW) will also benefit if that plant is not absorbed into the federal Mexican utility monopoly prior to 2010. Ultimately the Sunrise Powerlink may serve as little more than a ratepayer-financed 500 kV line that is essentially dedicated to moving power from SDGE's unregulated parent Sempra Energy to markets in Southern California.

There are ample solar thermal resources in Imperial County and eastern San Diego County to augment the limited amount of geothermal power that will be available to supply the 2,000 MW capacity of the Sunrise Powerlink. However, we know where the geothermal assets are and IID is designing its staged transmission upgrade project around assets with an exact location. The location of the solar thermal project is not established. If the Sunrise Powerlink is not located within a few miles of the proposed solar thermal development area the project developer may be faced with transmission interconnect costs that are so high they kill the project.

Based on the reticence FERC has shown to approving the ratebasing of the Tehachapi renewables transmission collector system, there is no reason to assume that if the Sunrise Powerlink is out of position to access the most favorable sites for solar thermal development that SDGE can simply pass on to ratepayers the cost of feeder transmission lines from the solar thermal sites to the Sunrise Powerlink. As a result, siting of such a line should be deferred until:

1) it is reasonably certain where the solar thermal development will be located , or 2) do not presume the Sunrise Powerlink will be used to move solar thermal on a timeline that matters (next ten years). Otherwise solar thermal access will be used to promote the Sunrise Powerlink as a renewables line when in fact the line will be used primarily to move combined-cycle power out of Mexicali and Arizona

The statement about the Sunrise Powerlink being potentially out-of-position to access solar thermal is even more applicable to the regional wind resource. The May 2005 CEC report **"***Energy Supply and Demand Assessment for the Border Region*" notes the export wind potential immediately across the border in Mexico and the fact that the two 230 kV Path 45 transmission lines pass through the heart of the wind resource area. As noted on p. 19 and p. 20 of the report:

"Despite its current limited use, wind power is probably the most promising renewable resource in northern Baja California after geothermal energy. . . . Figure 7 shows the wind power densities along the Juarez Mountains and in the area of La Rumorosa, located between Mexicali and Tijuana. The two double circuit 230-kW CFE transmission lines connecting the Rosita to La Herradura substations follow in proximity to the road that traverses the area and offers the highest wind potential. . . . early stages of development of a 300-MW wind power project for export initially proposed by Fuerza Eolica, a company now affiliated with Clipper Windpower. It is reported that the land use rights agreements for this project have been finalized with the local community land leaders (ejido)."

The two 230 kV lines in Mexico are equipped with 69 kV taps at each substation. This is an ideal transmission configuration for renewable energy projects. In contrast the Sunrise Powerlink is a 500 kV line that would require major investments in step-up transformer capacity by a renewable energy project developer, even if the renewables project was literally under the Sunrise Powerlink.

SDGE identified an upgraded Path 45 as a technically viable alternative to the Valley Rainbow 500 kV transmission project in the November 2003 application for a CPCN submitted to the CPUC. However, the Path 45 option was summarily dismissed in the IVSG process as being inadequate to meet the 2,000 MW renewable power export objective. The 2,000 MW target is so high that only a greenfield 500 kV line could meet it. That appears to have been the objective of establishing such a high MW transport threshold, given a realistic assessment of the non-problematic geothermal potential in Imperial Valley is well under one-half the 2,000 MW transmission objective.

B. The Unavailability of Geothermal Power to SDG&E

It is also unlikely that any developable geothermal power will be available to SDGE. It appears that virtually all reasonably foreseeable geothermal potential will be exported from IID territory via the proposed 500 kV LADWP line. The line will initially be capable of transporting up to 800 MW, of which 400 MW is expected to be geothermal power. The construction of this line will also unload 400 MW of LADWP demand that is currently moved over SCE's 500 kV Devers to Palo Verde 1 (DPV1) transmission line. One of the assumptions in the IVSG report is that DPV1 is fully allocated and therefore moving renewable power out of IID through SCE at

DPV1 would require additional infrastructure. This argument no longer appears valid given the load on the SCE system west of Devers will be reduced by 400 MW when the 500 kV LADWP-IID line becomes operational.

C. SDG&E's Congestion Cost Justification is Caused by Parent Company Abuses of the Transmission System

It is our contention that SDGE parent Sempra is deliberately congesting SWPL to extract congestion mitigation payments and create the impression of need for Sunrise to relieve this congestion. The concern that congestion gaming may be ongoing was spurred by the comments filed by SCE relating to the allocation of certain DWR contracts on March 18, 2005 in CPUC proceeding R.04-04-003. SCE suggests that Sempra Energy Resources is artificially creating congestion in the SDGE service territory to generate congestion mitigation payments that are costing SDGE ratepayers tens of millions of dollars.

It appears that SCE actually makes very few discretionary purchases from Mexico and Arizona. SCE's scheduling of power from Arizona is largely related to baseload utility-owned generation that predates restructuring and deliveries from the Sempra contract, which SCE has no authority to revise. SCE's scheduling of power from Mexico is almost exclusively the result of deliveries from the Sempra contract that Sempra dictates, not SCE. If SDGE were reallocated the Sempra contract, it may be in a position to manage congestion and related costs better than SCE. In any case, SDGE would be better positioned to determine if (and what) transmission upgrades on its system might be effective in reducing congestion resulting from deliveries under the Sempra contract. For example the ISO has used the deliveries from Sempra's Mexicali plant to SDGE territory as one of the economic benefits justifying SDGE's transmission expansion under the Miguel-Mission Project No. 2.

Our concerns were reinforced by comments made in a presentation given by SDGE (Dave Geier, Vice President Electric Transmission and Distribution) at the CEC Workshop on California-Mexico Border Energy Issues (San Diego, December 14, 2004). Mr. Geier confirmed that "*Existing transmission lines are congested, driving up the cost of power,*" and *"SDGE's transmission import capacity is now fully utilized on peak day – a new 500 kV is needed for reliability as early as 2010.*" Our concern is that the congested condition may serve three purposes: 1) it may generate inter-zonal congestion mitigation payments that produce revenue for SDGE, 2) that it costs SDGE ratepayers tens of millions, and 3) it reinforces the need for a greenfield 500 kV transmission project that may be difficult to justify without demonstrable congestion issues on San Diego's existing 500 kV import transmission line. This creates a situation in which Sempra reaps economic benefits and SDGE gets the transmission upgrades that it has sought for years.

It appears that up to 600 to 900 MW of renewables, solar thermal, wind, or geothermal, can be moved over SWPL once Sempra stops artificially congesting the line. This will occur in 2011 at the latest when the DWR contract expires. This reality changes the dynamics of the congestion justification for the Sunrise Powerlink.

D. SDGE's 2016 Reliability Import Deficit of 700 MW Based on Exceptionally Conservative Assumptions

The CEC's 2016 load forecast for the SDGE service area provided in the draft 2005 IEPR indicates SDGE may be overstating peak demand by 5.2 percent in 2016. This is nearly 260 MW of SDGE's 5,000 MW peak demand forecast for 2015. SDGE is currently claiming a 700 MW reliability deficit in 2015 with a G-1, N-1 event as a justification for the Sunrise Powerlink. The G-1 event is now loss of the Palomar Energy Project, all 550 MW, because there are no bypass stacks that would permit operation of the two gas turbines in simple cycle mode, which would produce nearly 350 MW in the event of some mishap with the single heat recovery steam generator. Using CEC's 2016 peak load projection for SDGE, combined with the ability to bypass the heat recovery steam generator at Palomar, essentially eliminates the reliability deficit of 700 MW that SDGE is claiming as the reliability rationale for the Sunrise Powerlink.

The 4,000 MW import requirement that SDGE has set as a minimum system G-1, N-1 design criteria has been challenged by regional transmission experts as being overly conservative in Southwest Transmission Expansion Planning meetings that the authors of this document have attended. Unfortunately no meeting notes are published for STEP functions and as a result the meetings are little more than informal information exchanges between parties working on their own dedicated projects. As a result, even though regional transmission experts participating in STEP meetings have publicly expressed doubts (to the extent that STEP meetings are public) about SDGE's overly conservative G-1, N-1 criteria, these doubts have not reached a wider audience.

E. Construction of Single Additional Power Plant in the San Diego Area Would Eliminate the Import Reliability Justification for Sunrise

The construction of a $300 to $400 million power plant in 600 to 800 MW range in the San Diego would eliminate the need for transmission on reliability grounds for at least the next 10 to 15 years even if SDGE's claimed reliability deficit of 700 MW in 2015 is assumed to be accurate. Sunrise is a $1 billion project with no associated power assets.

Thank you for this opportunity to comment on the draft 2005 IEPR document. Please call Bill Powers, P.E. at (619) 295-2072 or Michael Shames at (619) 696-6966 if you have any questions about the contents of this comment letter.

Regards,

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Chair, Border Power Plant Working Group
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San Diego, CA 92116

For:
Michael Shames, Executive Director
Utility Consumers' Action Network
3100 Fifth Ave. Suite B
San Diego, CA 92103

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 No. 05-12-014 (Filed December 14, 2005)

RATEPAYERS FOR AFFORDABLE CLEAN ENERGY COALITION PROTEST TO SDG&E'S APPLICATION FOR CPCN FOR THE SUNRISE POWERLINK PROJECT

Aaron Quintanar/Border Power Plant Working Group
Bill Powers/Border Power Plant Working Group
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On behalf of RACE Coalition

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February 17, 2006

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 No. 05-12-014 (Filed December 14, 2005)

Pursuant to Article 12 of the Commission's Rules of Practice and Procedure, the Ratepayers for Affordable Clean Energy (RACE) Coalition submits its Protest to San Diego Gas & Electric Company's ("SDG&E") Application for a CPCN filed on December 14, 2005. SDG&E proposes (1) to set an expedited and bifurcated schedule for processing the application, and (2) to limit discussion of project alternatives to the preferred transmission route or slight variants of the preferred route.

The protest period has been extended until February 17, 2006. This protest letter is therefore timely.

RACE protests SDG&E's application on the following bases:

1. SDG&E has not offered sufficient justification for the bifurcation;
2. The original eighteen transmission alternatives evaluated by SDG&E were culled to a few variations of the basic Sunrise Powerlink concept and route without any substantive reasoning.
3. The evaluation of the in-basin generation alternative is woefully inadequate and misleading.

I. SDG&E'S REQUEST FOR PROCEDURAL BIFURCATION VIOLATES COMMISSION RULES AND STATE LAW.

RACE concurs with the position of UCAN, Center for Biological Diversity, and the Sierra Club on the issue of bifurcation as described in the protest letters already filed in this proceeding by those organizations.

II. SDG&E HAS LIMITED THE ALTERNATIVES TO ESSENTIALLY THE PREFERRED PROJECT OR A DERIVATIVE OF THE PREFERRED PROJECT WITHOUT SUBSTANTIVE REASONING.

The CPCN application alludes to eighteen transmission options that were originally evaluated by SDG&E in its internal assessment of transmission options. No details are provided by SDG&E in the CPCN application on the majority of these alternatives. However, the CPCN implies that the elimination of alternatives was done in a deliberative fashion by a highly qualified Technical Working Group. As stated in the CPCN at p. II-2:

The proposed project scope evolved out of work performed in an outreach effort aimed at interested stakeholders and led by a Technical Working Group in coordination with the Statewide Transmission Expansion Plan ("STEP"). The STEP was formed in November 2002 as an ad hoc voluntary organization to provide a forum for participating in the planning, coordination, and implementation of transmission systems between the Arizona, Nevada, Mexico and southern California areas. Membership in STEP is open to all interested stakeholders and the organization's goal is to facilitate the development of transmission infrastructure capable of supporting a competitive, efficient, and seamless wholesale electricity market while meeting established reliability standards.

The Technical Working Group was formed in October 2004 and included representatives of the CAISO, CEC, SDG&E, SCE, IID, CFE, APS, LEAPS, Intergen, Coral Energy, and Sempra Energy Resources. The Technical Working Group forum was managed as an open process and reported to the regional planning meetings of the STEP. Its goal was to review the technical merits of a high voltage transmission line that would serve San Diego. The Technical Working Group completed a comprehensive screening study which reviewed eighteen transmission alternatives. Each alternative was evaluated based on its various merits and a "short list" of the best four was developed.

The RACE coalition participated in STEP meetings represented by the Border Power Plant Working Group. The San Diego Chapter of the Sierra Club was also present. It is the opinion of these participants that the elimination of alternatives to the Sunrise Powerlink was driven almost exclusively by SDG&E and potentially Sempra Energy

Resources. No other entity, not CAISO, CEC, SCE, IID, CFE, APS, LEAPS, Intergen, or Coral Energy, appeared to have had any involvement in the selection or rejection of alternatives to the Sunrise Powerlink. This should not be unexpected in an ad hoc voluntary group like STEP.

At the April 27, 2005 STEP meeting SDG&E gave a presentation on the original eighteen Sunrise Powerlink alternatives and the methodology used to eliminate fourteen of these eighteen options. A number of probing questions were asked by the APS representative and power consultants in attendance that called into question some of SDG&E's most basic assumptions. Despite SDG&E's implication in the CPCN application that these representatives had been substantially involved in the screening study completed by *Technical Working Group*, the commenters appeared to be seeing the study results for the first time at the April 27, 2005 STEP meeting based on their questions and observations. SDG&E's reaction to these observations was to abruptly end the question-and-answer period. The CPCN summary of the screening study effort misrepresents the participation of entities outside of SDG&E and Sempra Energy Resources in the elimination of alternatives. The elimination of alternatives appears to have been conducted by SDG&E and Sempra Energy Resources with little or no outside input or review. No STEP meeting records are made public or posted on the CAISO STEP website.

It is important to underscore that SDG&E does not identify any of the eighteen alternatives as technically infeasible or cost prohibitive. It is simply stated that the final four options selected in the screening study were "better" on purely technical grounds than the options eliminated. Other factors that should have influenced the rank ordering of options, such as the impact of running a 500 kV line through Anza Borrego State Park or the impact on many landowners of the proposed Sunrise Powerlink route, were never considered in the *Technical Working Group* screening study before eliminating fourteen of the eighteen original alternatives.

The CEC formed the Imperial Valley Study Group (IVSG) in November 2004 to examine transmission expansion options for moving geothermal energy from the Imperial Valley via San Diego to coastal load centers. At the first meeting of the IVSG on November 18, 2004 the attendees determined that any transmission out of Imperial Valley must be

capable of carrying the entire 2,000 MW remaining “probable” geothermal reserves by itself. In its first few minutes of existence the IVSG essentially eliminated any option but the Sunrise Powerlink from consideration based on the very suspect premise that all probable geothermal reserves in the Salton Sea area would be developed, that this development will take place quickly enough to justify the expense of a 500 kV line to San Diego, and that there would be no other way to move this geothermal energy to San Diego or the coast as the SCE queue was full and there would be no available capacity for additional geothermal power in the SCE system.

IVSG meetings were held at Sempra Energy headquarters in San Diego. Meeting minutes were kept by SDG&E staff. The upgrading of the 230 kV lines operated by Mexico’s CFE as an alternative to proposed Sunrise Powerlink route was discussed extensively at the April 12, 2005 IVSG meeting. It was the understanding of the BPPWG representative at the meeting that the IVSG had agreed to investigate the Mexico transmission upgrade option in more detail as a result of the discussion. However, none of this discussion was captured in the meeting minutes that were issued by SDG&E a few days following the meeting. This lack of inclusion triggered a series of e-mail exchanges between the BPPWG representative and other IVSG meeting attendees regarding what should have been in the meeting minutes. Ultimately IVSG members agreed to include this e-mail traffic in the meeting notes for the April 12, 2005 meeting. The amended meeting minutes are available online at www.energy.ca.gov/ivsg.

Ultimately RACE member organization BPPWG and UCAN determined that the report prepared by the IVSG was predetermined to recommend the Sunrise Powerlink as the only option for moving renewable power from Imperial County to San Diego. For this reason UCAN and BPPWG chose to write an alternative letter report that also served as UCAN and BPPWG comments on the CEC’s draft 2005 Integrated Energy Policy Report. The UCAN/BPPWG comment letter is provided as an attachment to the RACE protest letter.

The rationale for the IVSG requiring a minimum transmission capacity of 2,000 MW on a single line was discussed in some detail at the CEC’s May 18, 2005

Committee Workshop On California - Mexico Border Energy Issues in San Diego. The meeting transcript (see especially pp. 106 – 146) is available at (scroll down several pages): http://www.energy.ca.gov/2005_energypolicy/documents/2005_index.html In essence the IVSG adopted at its first meeting an absolute requirement that the transmission line from the geothermal fields in Imperial County to San Diego must carry a minimum of 2,000 MW on single line based solely on a rough estimate of the maximum geothermal reserves available in Imperial County. This is a capricious approach to justifying a $1.5 billion dollar investment in transmission infrastructure.

SDG&E concedes in the CPCN application that it can meet a 20 percent renewables target in 2010 without the Sunrise Powerlink at p. V-36: *"The 20% renewable goal in 2010 can be met with imports "even if the Sunrise Powerlink were not built."* SDG&E goes on to state (p. V-36) that: *"With respect to congestion it should be noted that energy from renewable energy sources has relatively low variable operating costs and is therefore unlikely to be physically curtailed in the event congestion arises. Instead congestion will typically be managed by curtailing gas-fired boiler and combined cycle generation with relatively higher variable operating costs*." The existing 500 kV Southwest Power Link (SWPL) is now rated at 1,900 MW. Gas-fired boiler and combined cycle generation will have highest variable costs during periods of peak demand. SDG&E's analysis of how renewables can be moved from Imperial Valley to San Diego with existing transmission infrastructure is common sense – curtail fossil generation on SWPL and displace it with renewable generation. This approach would effectively address the maximum potential geothermal power export requirement described in the IVSG process without the Sunrise Powerlink.

RACE also concurs with the protest letter filed in this proceeding by the Imperial Irrigation District that SDG&E has simply chosen to ignore the LADWP-IID Green Path transmission project in the CPCN application. The Green Path provides a lower impact alternative route out of the Imperial Valley for renewable power that would substitute for the Sunrise Powerlink to the extent Sunrise would be used to move renewable power from Imperial County.

CPCN alternatives discussion: Six alternatives are discussed by SDG&E in the chapter on alternatives (Chapter VI). Four of the six alternatives are essentially variations of the proposed Sunrise Powerlink or an expanded version of the project (Full Loop, 500 kV Sunrise Powerlink, 230 kV Sunrise Powerlink, Serrano/Valley Northern Route).

The two alternatives identified in the CPCN that do not comprise some aspect Sunrise Powerlink route are 1) a second 500 kV line parallel to the existing 500 kV SWPL, and 2) a double-circuit 230 kV lines in the Comision Federal de Electricidad (Mexico utility monopoly) right-of-way (ROW) that parallels the SWPL just south of the border.

These alternatives are summarily rejected by SDG&E for the following reasons:

1) Second 500 kV line parallel to the SWPL:
   a) reliability issues with two lines in one ROW;
   b) congestion at the Miguel substation terminus near San Diego.

As stated on p. VI-v of the CPCN application, "*The alternative of building a second SWPL was not evaluated because placing two high voltage lines in the same corridor raises significant reliability concerns*." Yet in a separate CPCN application proceeding, SCE is proposing to build the 500 kV Devers-to-Palo Verde 2 (DPV2) transmission line in the same ROW as the existing 500 kV Devers-to-Palo Verde 1 transmission line. SCE is also proposing to upgrade the Devers substation to avoid the congestion that would inevitably result if the substation is not upgraded to handle the increased powerflow from DPV2. In light of the reality of the DPV2 proposal, SDG&E's decision to not even evaluate the second SWPL alternative appears misinformed and baseless.

2) Double-circuit 230 kV in Mexico parallel to SWPL:

As stated on p. VI-ix of the CPCN application: "*It did not make the short list of final four alternatives because of its poor technical performance and limited access to sources of renewable energy, however, SDG&E describes it herein in response to inquiries made during the study process*." Yet in the alternatives analysis prepared for the 500 kV Valley-Rainbow CPCN application in 2003, SDGE states that "*this alternative meets most technical requirements*" and the challenges are described as jurisdictional, not technical. What happened between 2003 and 2005 to degrade the technical

performance of this option so dramatically? This question was put to SDG&E transmission planners at a transmission workshop hosted by SDG&E for the San Diego Area Governments Energy Working Group (EWG) Resources Subcommittee on May 24, 2005. RACE member organization Border Power Plant Working Group is also a member of the EWG Resources Subcommittee and participated in the May 24, 2005 transmission workshop. SDG&E committed verbally at that meeting to provide the Resources Subcommittee with a table that would compare the 2003 and 2005 performance criteria for the Mexico alternative. This comparison table has not been provided by SDG&E to the EWG Resources Subcommittee as of February 16, 2006.

SDG&E again raises the concern with this alternative that it would add to congestion at the Miguel substation. Yet the Sunrise Powerlink option preferred by SDG&E involves the construction of a new 500 kV substation. Clearly upgrading the Miguel substation or building a new substation is also available for the Mexico alternative.

III. SDG&E'S EVALUATION OF THE IN-BASIN GENERATION ALTERNATIVE IS WOEFULLY INADEQUATE AND MISLEADING.

A fundamental tenet of the July 2003 *San Diego Regional Energy Strategy 2030* (www.sdenergy.org) is the emphasis on in-basin generation. This is described explicitly as the modernization of the 700 MW South Bay Power Plant in San Diego and the 1,000 MW Encina Power Plant in Carlsbad. SDG&E assumes in the CPCN application that South Bay will be retired in 2009. SDG&E estimates a 700 MW reliability deficit in 2015 as justification for the Sunrise Powerlink. Yet the modernization of South Bay, as agreed to as a common goal by San Diego energy stakeholders including SDG&E in 2003, would delay the need for the transmission capacity represented by the Sunrise Powerlink until at least 2015.

The industry rule-of-thumb cost for a gas turbine combined-cycle power plant is ~ $500/kw. This equates to a power plant modernization cost for South Bay of $350 million for the 700 MW plant. Yet on p. VI-9 of the CPCN application, SDG&E states:

"The in-area generation alternatives are not economic compared to the "no project" reference case and clearly less economic than the Sunrise Powerlink. While the in-area

combined cycle alternative reduces net energy costs for consumers within the CAISO controlled grid, it takes a much larger capital investment to achieve the same level of energy benefits as the Sunrise Powerlink: $1.884 billion for the in-area combined cycle alternative versus $1.015 billion to $1.437 billion for the Sunrise Powerlink."

The cost of in-area generation stated by SDG&E at $1.884 billion is not credible.

IV. CONCLUSION

For the reasons stated above, RACE respectfully requests that: (1) that the Commission order SDG&E to submit a complete application; (2) that the Commission require SDG&E to analyze all eighteen original transmission alternatives as well as the LADWP-IID Green Path in the complete application; and (3) that the Commission require SDG&E to conduct a credible analysis of in-basin generation costs in the complete application.

Respectfully Submitted, Dated: February 17, 2006

Aaron Quintanar/Border Power Plant Working Group
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Rory Cox/Pacific Environment
On behalf of RACE Coalition

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PROOF OF SERVICE

I, Aaron Quintanar, declare: I am employed in the City and County of San Diego, California. I am over the age of 18 years and am not a party to this action. On February 17, 2006, I served the Protest of RACE upon the utility and the assigned ALJ by sending a true and correct copy thereof, addressed as shown on the parties listed on the following page via e-mail. Pursuant to Rule 44.3, I have sent a copy of this protest via e-mail to each person the service list for A05-012-14 on February 17, 2006.

_____
Aaron Quintanar

Imperial Valley Study Group
Transmission Planning Collaborative
Amended Meeting Minutes: April 12, 2005

Attendees:

Frank Barbera - IID Energy
Juan C. Sandoval – IID
David Barajas – IID
Carrie Downey - IID
Kim Kiener - IID
Son Hoang - LADWP
Clare Laufenberg Gallardo – CEC
Greg Merrigan – CalEnergy
Ken Bagley - CRT Committee
Greg Griffith - Ormat
Duane Torgerson – WAPA
Richard Cabanilla - Imperial County Plng
Dan Perkins – Sierra Club
Bill Powers – Border Power Plant Work Grp
Vince Signorotti - CalEnergy
Jonathan Woldemariam – SDG&E
Robert Jackson – SDG&E
Chris Terzich – SDG&E
Rich Sheaffer – SDG&E
Mark Etherton – IID
John Kyei - CAISO
Phillip Leung – SCE
Dave Olsen – CEERT/CEC
Dale Stevens – CalEnergy
Susan Lee - Aspen Environmental
Lauren Weinstein - EPG
David Lawhead - State Parks
Jim Kritikson - consultant
Scott Debenham – Debenham Energy
Jesse Ante - CPUC

The meeting convened at 1:00 PM at Sempra in San Diego. Minutes were recorded by Dave Olsen.

Minutes of the February 10, 2005 meeting were approved. They will be posted on the IVSG website, www.energy.ca.gov/ivsg/.

Transmission Study: IVSG Technical Work Group members presented a status report on the power flow modeling underway. The TWG modeled 14 cases for Heavy Summer loads in 2104 for the initial study alternatives. After analyzing these results, the group decided to eliminate four of the initial seven alternatives. David Barajas of IID reviewed these study results, with a graphical depiction of the direction and magnitude of the flows. Jonathan Woldemariam of SDG&E explained the rationale for eliminating the four alternative routings, and the TWG's remaining study tasks and schedule. Power flow studies of the three remaining alternatives will be conducted for 2014 Light Autumn conditions. These are scheduled to be completed by April 30. Dynamic studies and production simulations of the best-performing alternatives will follow in May and June, 2005.

Bill Powers of the Border Power Plant Working Group asked whether the Study Group's transmission alternatives had considered upgrading Path 45, which connects the CFE/Mexico system to San Diego, as there are renewable resources which might be able to connect to an upgraded line in that corridor. The IVSG focus has been export of 2,000 MW of geothermal power from the Imperial Valley. Path 45 would not be directly involved in any solution to export such power, and so had not been considered. The potential interaction of IVSG upgrades with Path 45 upgrades are of concern, to the extent that increased flows from the Imperial Valley into

San Diego could delay or obviate upgrades to Path 45 and so negatively affect the ability to bring renewable resources into San Diego across that path.

Scott Debenham raised the concern that elimination of the 230 kV upgrade alternative for flows from the Imperial Valley into San Diego could foreclose options for accessing wind resources in the region, as it would be too expensive for relatively small wind projects to afford interconnection to a 500 kV system. TWG members explained that the 230 kV alternatives did not relieve congestion in the region and so provided no ratepayer benefit. IID pointed out that it has 92 kV lines in several parts of its system; it may be possible for wind projects to connect to those lines. Specific wind resource locations have not yet been identified. When they are, those locations can be overlaid on IID transmission system maps to explore interconnection possibilities.

After discussion, the IVSG accepted the Technical Work Group's recommendation to proceed with the study of the three remaining transmission alternatives. These are Alternative 2, a 500 kV interconnection from IID to San Diego-Central; Alternative 2A, the same as Alternative 2, but with an added interconnection to the Devers-Palo Verde #1 line at a new Indian Hills substation; and Alternative 3, a 500 kV interconnection from IID to San Diego-North.

Steering Committee: The IVSG is working to recommend a comprehensive development plan for the phased development of 2,000 MW of geothermal generation and all transmission necessary to export that power. This plan must recommend a permitting strategy for the entire development; an approach for phasing both permitting approvals and construction; and ownership, operation and funding of the transmission facilities. The IVSG formed a Steering Committee to develop this recommended plan and to guide the further work of the Study Group. The Steering Committee will be accountable to, and will report regularly to all stakeholders participating in the Study Group.

Steering Committee members will include IID; SDG&E; CalEnergy; CA ISO; CPUC; and the CEC. SCE and the Sierra Club-San Diego Chapter both expressed interest in serving on the Steering Committee as well; both will discuss this with their organizations to determine if the appropriate senior staff is available. The Steering Committee will establish its meeting schedule over the next week.

Permitting Work Group: At the request of CPUC CEQA staff, who could not attend the IVSG meeting April 12, Susan Lee of Aspen Environmental Group outlined CEQA requirements and the CPUC's CPCN and permit approvals process. This presentation is available on the IVSG website, www.energy.ca.gov/ivsg/.

The IVSG recommended development plan must include a strategy for permitting the entire phased project. The Study Group formed a Permitting Work Group (PWG) to identify all likely permitting requirements and devise an approach for consolidating and expediting these approvals. The PWG will inform and notify all affected agencies and other key interests of the IVSG development, and seek to involve them as appropriate. Richard Cabanilla and the Imperial County Planning Department has developed a list of such agencies and institutions; this will help the PWG to begin its work. IID expressed its interest in serving as the lead agency for all

permitting work. The CPUC has communicated that it is open to this suggestion; CEQA requirements for CPUC-jurisdictional utilities may need to be clarified.

By consensus of the Study Group, IID will chair the Permitting Work Group; Carrie Downey will represent IID. Other members will include: SDG&E (Chris Terzich); CalEnergy (Vince Signorotti); CPUC (Andrew Barnsdale); and the Border Power Plant Working Group (Bill Powers). The PWG will make every effort to involve the BLM in its work, and will invite the Imperial County Planning Department and other key agencies to participate as well. The PWG will establish its meeting schedule in the next few weeks. It must develop a permitting strategy in time to be included in the IVSG report now targeted to be completed June 30, 2005.

Next IVSG Meeting: The next meeting of the full Study Group is scheduled for Thursday June 2, 2005, 1:00 – 4:00 PM, at Sempra in San Diego.

The meeting was adjourned at 3:30 PM.

The following e-mail exchange is incorporated into the minutes of the April 12, 2005 meeting at the request of Bill Powers of the Border Power Plan Working Group. This addition was authorized by participants in the June 30, 2005 IVSG meeting in approving the minutes of the April 12 meeting.

From: Dave Olsen [mailto:olsen@avenuecable.com]
Sent: Wednesday, April 20, 2005 5:40 PM
To: Bill Powers; Jackson, Robert W.
Cc: 'Lamb, Merrie J.'; 'Abed, Abbas M.'; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; 'Terzich, Chris'; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; 'Miller, David M. Jr. (CP52A)'; davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; fmbarbera@iidenergy.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; 'Todus, Harold'; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkritikson@yahoo.com; jkyei@caiso.com; jlv@nafta-law.com; jmiller@caiso.com; john.berlin@ncpa.com; 'Woldemariam, Jonathan'; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; 'Brown, Linda P.'; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; 'Sheaffer, Richard A.'; richardcabanilla@imperialcounty.net; robert.smith@aps.com; 'Hill, Roger L. (CCOPS)'; rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov

Subject: RE: IVSG Minutes - April 12 Meeting

Colleagues,

In light of the substantial discussion of the Path 45 issues raised by Bill Powers, I think we can conclude that the minutes of the April 12 Imperial Valley Study Group meeting on this subject are fair and complete as drafted. Thanks to all of you who contributed to this discussion.

Dave

Hello Robert,

Thank you for the response. If Dave Olsen confirms the April 12 IVSG meeting notes are complete, that is good enough for me. I appreciate you pointing-out that Path 45 will be discussed at STEP meeting on April 27th. I will plan on attending the meeting.

Best regards,

Bill Powers, P.E.
Chair, Border Power Plant Working Group
4452 Park Blvd., Suite 209
San Diego, CA 92116

tel: 619-295-2072
fax: 619-295-2073

From: Frank Barbera [mailto:fmbarbera@iidenergy.com]
Sent: Tuesday, April 19, 2005 9:49 AM
To: 'Bill Powers'; 'jkritikson'; 'Jackson, Robert W.'; 'Dave Olsen'
Cc: 'Lamb, Merrie J.'; 'Abed, Abbas M.'; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; 'Terzich, Chris'; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; 'Miller, David M. Jr. (CP52A)'; davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; 'Todus, Harold'; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkyei@caiso.com; jlv@nafta-law.com; jmiller@caiso.com; john.berlin@ncpa.com; 'Woldemariam, Jonathan'; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; 'Brown, Linda P.'; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; olsen@avenuecable.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; 'Sheaffer, Richard A.'; richardcabanilla@imperialcounty.net; robert.smith@aps.com; 'Hill, Roger L. (CCOPS)'; rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov
Subject: RE: Path 45 Mexico location not a hurdle RE: IVSG Minutes - April 12 Meeting

Dear Mr. Powers,

I just wanted to advise you of IID Energy's position on this subject. From our point of view the SDGE's Transmission Planning department already spent significant amount of time and money analyzing the

alternatives to add a transmission interconnection at 230 or 500kV from Imperial Valley substation to San Diego area. I don't believe it is fair to overlook this effort by simply stating that 25 million dollars in path 45 upgrades could have similar results to the IV-SDGE 500 kV line, particularly when there is about 80 miles of new double circuit 230 kV line through mountainous terrain that may not be considered in your estimate (I believe that a new double circuit transmission line between La Rosita and Tijuana is needed). In addition the reliability aspect becomes a concern when a new transmission line shares the same transmission corridor as the existing one.

Respectfully,
Frank Barbera
IID Energy Assistant Manager

From: Bill Powers [mailto:bpowers@powersengineering.com]
Sent: Monday, April 18, 2005 4:17 PM
To: 'jkritikson'; 'Jackson, Robert W.'; 'Dave Olsen'
Cc: 'Lamb, Merrie J.'; 'Abed, Abbas M.'; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; 'Terzich, Chris'; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; 'Miller, David M. Jr. (CP52A)'; davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; fmbarbera@iidenergy.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; 'Todus, Harold'; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkyei@caiso.com; jlv@nafta-law.com; jmiller@caiso.com; john.berlin@ncpa.com; 'Woldemariam, Jonathan'; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; 'Brown, Linda P.'; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; olsen@avenuecable.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; 'Sheaffer, Richard A.'; richardcabanilla@imperialcounty.net; robert.smith@aps.com; 'Hill, Roger L. (CCOPS)'; rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov
Subject: Path 45 Mexico location not a hurdle RE: IVSG Minutes - April 12 Meeting

Hello Jim,

I'm not sure the fact that Path 45 is in Mexico is a hurdle at all. Sempra Resources (SDGE parent) has built a 600 MW power plant and a 500 mmcfd pipeline in Baja California recently, and intends to build a 1,000 mmcf liquefied natural gas receiving terminal in Baja shortly. Sempra has embraced energy infrastructure projects in Baja California. The 600 MW Sempra plant in Mexicali is under CAISO local control. There is no reason that two additional 230 kV lines strung on CFE towers on Path 45 in Mexico, towers that are only a few miles south of the border, could not also be under the primary control of SDGE if SDGE pays for the upgrade. SDGE would be first in the queue to use the new 230 kV lines, the benefit for Mexico is the CFE can use them as well when SDGE has spare capacity on the lines.

The conservative estimated cost to string additional 230 kV wires on the two parallel 230 kV Path 45 lines is $25 million (based on cost data from the U.S.). Power flow capacity would increase from 800 MW to 2,000 MW. The CAISO cost estimate for the Devers to Palo Verde greenfield 500 kV line is nearly $700 million, along a fairly benign path topographically and assuming some use of existing towers. The Miguel

substation as currently configured may in fact be a thermal bottleneck to the Path 45 upgrade. Presuming $700 million is probably a reasonable ballpark guess for a greenfield 500 kV line from the I.V. substation to the proposed San Felipe substation and then on to SCE territory, you could do a lot of upgrading of the Miguel substation to improve thermal performance to add 1,200 MW of capacity (and reliability to the SWPL) at 1/10th the cost of the greenfield 500 kV line currently envisioned. The Path 45 upgrade could also be carried-out much more quickly than the proposed greenfield 500 kV project, given there would be no controversy surrounding the development of the transmission corridor and the wires would be strung on existing towers.

Regards,

Bill Powers
Border Power Plant Working Group

From: jkritikson [mailto:jkritikson@yahoo.com]
Sent: Monday, April 18, 2005 9:13 AM
To: 'Jackson, Robert W.'; 'Bill Powers'; 'Dave Olsen'
Cc: 'Lamb, Merrie J.'; 'Abed, Abbas M.'; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; 'Terzich, Chris'; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; 'Miller, David M. Jr. (CP52A)'; davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; fmbarbera@iidenergy.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; 'Todus, Harold'; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkyei@caiso.com; jlv@nafta-law.com; jmiller@caiso.com; john.berlin@ncpa.com; 'Woldemariam, Jonathan'; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; 'Brown, Linda P.'; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; olsen@avenuecable.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; 'Sheaffer, Richard A.'; richardcabanilla@imperialcounty.net; robert.smith@aps.com; 'Hill, Roger L. (CCOPS)'; rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov
Subject: RE: Suggested clarifications to IVSG minutes RE: IVSG Minutes - April 12 Meeting

This is consistent with my recollection. The U.S. 230 kv alternative studied in the IVSG did not perform well, and it would be expected to perform better than a path 45 upgrade because it would deliver the power further into the SDG&E system than the path 45 alt which would dump the power into Miguel substation which is already congested. The path 45 alt would require sending up to 2000 MW of power down one line into Mexico only to bring it back from Mexico on another, it would involve another government and set of laws, have issues of financing, scheduling rights and ownership, as well as questions of wheeling pricing (i.e. MW-mile?). These would all impact what is perhaps the most critical issue, timing.

Jim Kritikson

Kritikson & Associates, Inc. ● 1997 Via Arroyo ● La Verne, CA 91750 ● office 909.480.1028 ● fax 909.480.1029 ● cell 909. 374.5958

From: Jackson, Robert W. [mailto:RWJackson@semprautilities.com]
Sent: Friday, April 15, 2005 6:30 PM
To: Bill Powers; Dave Olsen
Cc: Lamb, Merrie J.; Abed, Abbas M.; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; Terzich, Chris; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; Miller, David M. Jr. (CP52A); davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; fmbarbera@iidenergy.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; Todus, Harold; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkritikson@yahoo.com; jkyei@caiso.com; jlv@nafta-law.com; jmiller@caiso.com; john.berlin@ncpa.com; Woldemariam, Jonathan; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; Brown, Linda P.; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; olsen@avenuecable.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; Sheaffer, Richard A.; richardcabanilla@imperialcounty.net; robert.smith@aps.com; Hill, Roger L. (CCOPS); rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov
Subject: RE: Suggested clarifications to IVSG minutes RE: IVSG Minutes - April 12 Meeting

My memory of the discussion that took place at the Imperial Valley Study Group (IVSG) are accurately reflected in Dave Olson's proposed minutes.

I had understood that the IVSG had declined to pursue an upgraded Path 45 alternative.

An upgraded Path 45 alternative is one of dozens of alternatives studied by SDG&E in its Transmission Comparison Study (TCS) over the last 6 months, as an open stakeholder process through the STEP meetings.

Final results of this TCS are being presented April 27 at the next STEP Meeting. I hope you can make it.

An upgraded Path 45 alternative had not been included in the IVSG analysis because it had not performed well in the early thermal analysis of the TCS, it would add to Miguel congestion, it did not provide direct access to the Imperial Valley Geothermal, which is the focus of the IVSG. These early discussion included SDG&E, CAISO, IID, CFE and others.

The IVSG purpose to determine what upgrades are necessary to make 2000 MW of geothermal fully deliverable and dispatchable, regardless of the timing, and then to determine a phased in approach, which will most likely be triggered by geothermal development levels. The Path 42 upgrades mentioned by IID are part of the work IVSG is reviewing, as necessary to make this geothermal fully deliverable and dispatchable.

Robert W. Jackson, PE
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-----Original Message-----
From: Bill Powers [mailto:bpowers@powersengineering.com]
Sent: Friday, April 15, 2005 12:27 PM
To: Dave Olsen
Cc: Lamb, Merrie J.; Abed, Abbas M.; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; Terzich, Chris; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; Miller, David M. Jr. (CP52A); davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; fmbarbera@iidenergy.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; Todus, Harold; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkritikson@yahoo.com; jkyei@caiso.com; jlv@nafta-law.com; jmiller@caiso.com; john.berlin@ncpa.com; Woldemariam, Jonathan; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; Brown, Linda P.; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; olsen@avenuecable.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; Sheaffer, Richard A.; richardcabanilla@imperialcounty.net; Jackson, Robert W.; robert.smith@aps.com; Hill, Roger L. (CCOPS); rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov
Subject: Suggested clarifications to IVSG minutes RE: IVSG Minutes - April 12 Meeting

Hello Dave,

Thank you for serving as moderator of the April 12th IVSG meeting in San Diego. I think the minutes may need a bit of clarification. The following statements are made in the minutes:

Bill Powers of the Border Power Plant Working Group asked whether the Study Group's transmission alternatives had considered upgrading Path 45, which connects the CFE/Mexico system to San Diego, as there are renewable resources which might be able to connect to an upgraded line in that corridor. The IVSG focus has been export of 2,000 MW of geothermal power from the Imperial Valley. Path 45 would not be directly involved in any solution to export such power, and so had not been considered.

After discussion, the IVSG accepted the Technical Work Group's recommendation to proceed with the study of the three remaining transmission alternatives. These are Alternative 2, a 500 kV interconnection from IID to San Diego-Central; Alternative 2A, the same as Alternative 2, but with an added interconnection to the Devers-Palo Verde #1 line at a new Indian Hills substation; and Alternative 3, a 500 kV interconnection from IID to San Diego-North.

I am not sure these summary statements adequately reflect the discussion that occurred. I commented that the STEP options include the Path 45 upgrade alternative, and that there is a major debate underway in San Diego via the San Diego Area Governments (SANDAG) Energy Working Group to determine if the

500 kV greenfield line being pursued by SDGE is preferred over a second distinct alternative that avoids the environmental/land use controversy and expense of a greenfield 500 kV and assures the reliability of at least 1,200 MW of power, whether geothermal or combined-cycle, from the Imperial County – Mexicali area. The larger backdrop of this strategic transmission discussion is whether SDGE should continue on what is essentially a re-regulation path, incorporating the Mexicali export plants into the SDGE system, or whether the region would be better served by the "wholesale power markets" approach represented by 500 kV transmission corridors and much heavier reliance on power imports. The San Diego business, political, and public interest communities conclusively determined in 2003 that the preferred approach is local control represented by the re-regulation model. The *San Diego Regional Energy Strategy 2030* (July 2003) that is the end product of this multi-year planning process is available on the San Diego Regional Energy Office website at:
http://www.sdenergy.org/ContentPage.asp?ContentID=55&SectionID=54

It was not clear to me that the IVSG was declining to pursue the Path 45 alternative when you asked for the group's endorsement of the three 500 kV transmission alternatives. I actually got the impression you thought taking a close look at the Path 45 alternative was a good idea as we discussed the endorsement of the three 500 kV alternatives, given it is one of the options being evaluated in STEP and it is the focal point of much interest in the San Diego strategic energy planning community. I left the meeting with the impression that the IVSG would be including an analysis of the Path 45 alternative given its prominence in directly related strategic transmission planning venues.

IID commented during the discussion period that Path 42 will be upgraded from 600 MW to 1,600 MW capacity independent of the proposed 500 kV greenfield line to the west. That upgrade alone would seem to cover all realistically achievable geothermal development in the Salton Sea area over the next 15-20 years. There is no reliability backup transmission line for the existing Salton Sea geothermal now other than potentially the SWPL, it would seem hard to justify the expense of greenfield 500 kV simply to provide reliability backup to a resource that has operated for 20 years without such backup.

SCE and the Sierra Club-San Diego Chapter both expressed interest in serving on the Steering Committee as well; both will discuss this with their organizations to determine if the appropriate senior staff is available.

The Sierra Club understands that they are on the steering committee and will be assigning a person to be fully involved in the IVSG report preparation effort by next week.

Thank you for putting together the meeting notes so quickly and I look forward to working with you closely over the next two-and-a-half months.

Best regards,

Bill Powers, P.E.
Chair, Border Power Plant Working Group
619-295-2072

From: Lamb, Merrie J. [mailto:MLamb@semprautilities.com]
Sent: Friday, April 15, 2005 10:30 AM
To: Abed, Abbas M.; afinley@mwdh2o.com; alberto.gonzalez@cfe.gob.mx; barrie.kokanos@aps.com; billp@borderpowerplants.org; bkkeel@srpnet.com; bob@pmallc.net; cadowney@san.rr.com; cbruins@energy.state.ca.us; charles.vartanian@sce.com; Terzich, Chris; cknauf@ca.blm.gov; claufenb@caiso.com; cmurley@smud.org; Miller, David M. Jr. (CP52A); davispower@sbcglobal.net; DBRYCE@lc.usbr.gov; dlawhead@parks.ca.gov; dlbarajas@iid.com; drtorgerson@msn.com; dstovall@ormat.com; fmbarbera@iidenergy.com; garry.chinn@sce.com; GDMerrigan@midamerican.com; ggriffith@ormat.com; gosteiger@iid.com; Todus, Harold; igreen@caiso.com; JA1@cpuc.ca.gov; jcsandoval@iid.com; jgeesman@energy.state.ca.us; jkritikson@yahoo.com; jkyei@caiso.com; jlv@nafta-

law.com; jmiller@caiso.com; john.berlin@ncpa.com; Woldemariam, Jonathan; jose.santamaria@cfe.gob.mx; jurgheuberger@imperialcounty.net; kbagley@rwbeck.com; kdeme@parks.ca.gov; KL1@cpuc.ca.gov; kmkiener@iid.com; knoller@anaheim.net; Brown, Linda P.; lweinstein@epgaz.com; mevans02@coral-energy.com; miguel.avila1@cfe.gob.mx; mle@krsaline.com; mohan.kondragunta@sce.com; moulton@wapa.gov; mrobledo@scppa.org; mtheroux@jdmt.net; ODStevens@midamerican.com; olsen@avenuecable.com; ormatintl@ormat.com; PERCIVAL@wapa.gov; perkydan@pacbell.net; Phillip.Leung@sce.com; rae@cpuc.ca.gov; raul.adame@cfe.gob.mx; rconnelly@lc.usbr.gov; Sheaffer, Richard A.; richardcabanilla@imperialcounty.net; Jackson, Robert W.; robert.smith@aps.com; Hill, Roger L. (CCOPS); rwait@controltechnology.org; sarachch@energy.state.ca.us; scott.anders@sdenergy.org; scott@debenhamenergy.com; slee@aspeneg.com; Son.Hoang@ladwp.com; TBlair@sandiego.gov; tnguyen@caiso.com; trf@cpuc.ca.gov; vincent.signorotti@calenergy.com; york@wapa.gov
Subject: IVSG Minutes - April 12 Meeting
Importance: High

Colleagues,

Attached please find the draft minutes of the April 12, 2005 meeting of the Imperial Valley Study Group. Send any comments or corrections to Dave Olsen (olsen@avenuecable.com).

<<IVSG Minutes 4-12-05.doc>>

Merrie Lamb

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Decision 04-09-022 September 2, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable, Long-Term Supplies of Natural Gas to California.	Rulemaking 04-01-025 (Filed January 22, 2004)

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OPINION ON PHASE I ISSUES

1. Summary

This decision addresses the Phase I proposals of Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Pacific Gas & Electric Company (PG&E) and Southwest Gas Company (Southwest). These proposals were filed in accordance with this Order Instituting Rulemaking (OIR) and address interstate pipeline capacity contracts, liquefied natural gas (LNG) access, and interstate pipeline access.

The OIR was opened to ensure that California does not face a natural gas shortage in the future. Through the OIR and today's decision, we further the stated goal of the Energy Action Plan to:[1]

> "Ensure that adequate, reliable, and reasonably-priced electrical power and natural gas supplies, including prudent reserves, are achieved and provided through policies, strategies, and actions that are cost-effective and environmentally sound for California's consumers and taxpayers." (Energy Action Plan, p. 2.)

The policies adopted in today's decision, which are summarized below, is part of the state's overall effort to implement and to fulfill the Energy Action Plan's goal.

1.1. Interstate Pipeline Capacity Contracts

Diversified interstate pipeline capacity portfolios, with staggered terms, maximize opportunities to benefit core customers with enhanced supply

[1] The Energy Action Plan is a joint effort by this Commission, the California Energy Commission, and the Consumer Power and Conservation Financing Authority. These three state agencies are cooperating to guide the development of California's energy future.

reliability and gas price stability. Subject to the Commission review process discussed below, we grant the utilities authority to negotiate reduced amounts of capacity and to terminate the expiring contracts with El Paso Natural Gas Company (El Paso), Transwestern Pipeline Company (Transwestern), and Gas Transmission Northwest Corporation (GTNC) in conjunction with preserving the utilities' rights of first refusal for firm capacity on these interstate pipelines.

A flexible, expeditious interstate pipeline capacity approval process will provide utilities with the opportunity to acquire core capacity in the most efficient and cost effective manner. This decision adopts capacity contract approval procedures that are modified from those proposed by the utilities to satisfy our, as well as other parties' concerns regarding regulatory oversight, including the need for formal Commission approval, the capacity planning range, the consultation/agreement process, and the degree of review in pre-approving LNG contracts.

Competition from independent storage should provide long-term economic benefits to core customers. PG&E is ordered to file an application, within six months of this decision, to address how much, and by what process, incremental gas storage needs for the core should be put out to bid, as well as implementation issues that need to be addressed before the provisioning of core storage is opened to independent storage providers.

1.2. LNG Access

New gas supplies should have the opportunity to interconnect with the utility system and should be allowed to compete on an equal footing with existing supplies. PG&E, SoCalGas and SDG&E are ordered to submit, for Commission approval, non-discriminatory open access tariffs for new sources of supply.

SoCalGas and SDG&E are allowed to establish receipt points, as needed, at Otay Mesa, Salt Works Station, Center Road Station, or at other receipt points that may be needed to access regasified LNG. SDG&E and SoCalGas are authorized to establish the Otay Mesa receipt point as a joint receipt point into both of their systems, and the interim transportation rate for a shipper delivering gas through Otay Mesa shall consist of the shipper's transportation rate on its local utility, *i.e.,* either the applicable SDG&E or SoCalGas tariff rate.

Regarding ratemaking for LNG access, it is presumed that LNG suppliers will pay the actual system infrastructure costs associated with their projects. However, requests for rolled-in, or any alternative ratemaking treatment, will be allowed through the application process and addressed on a case-by-case basis. LNG suppliers will also be responsible for the costs to interconnect with the utilities' pipelines.

Due to the complexities and ratemaking implications, we will address the SoCalGas and SDG&E requests to implement its transmission system integration and firm access rights proposals in a separate application to be filed within three months of this decision.

We will initiate a process in Phase II of this proceeding to consider the adoption of standardized operational balancing agreements to connect all new upstream gas pipelines that interconnect with the pipelines of SDG&E and SoCalGas, and to address the concerns raised by the parties regarding the use of a standardized operational balancing agreement.

There are a number of issues concerning LNG gas interchangeability and gas quality specifications in general. In the near future, we will be conducting a technical workshop in coordination with other state agencies regarding the gas quality specifications.

1.3. Interstate Pipeline Access

Regarding the interconnect at Kramer Junction, some of the parties recommend that the capacity allocation method be changed, and that the distinction giving primary preference to gas flows from El Paso and Transwestern be eliminated. Today's decision does not eliminate this preference because the core customers of SoCalGas may be adversely affected. However, SoCalGas' updated proposal to allocate receipt point capacity based on the physical capacities and expected flows of SoCalGas' North Desert Transmission Zone, while preserving core supplies, is adopted.

Any further consideration of SoCalGas' peaking rate should be addressed in the Biennial Cost Allocation Proceeding (BCAP) of SoCalGas or in SoCalGas' system integration/firm access rights application.

2. Purpose of the Rulemaking

This OIR was issued in response to new reports, recent Federal Energy Regulatory Commission (FERC) orders, and ongoing changes in the natural gas market, which indicate that in the long-term, there may not be sufficient natural gas supplies and/or infrastructure to meet the future requirements of all California residential and business consumers.

In order to ensure reliable, long-term natural gas supplies to California at reasonable rates, it was determined that the Commission must make certain decisions in 2004 with regard to the California natural gas utilities that the Commission regulates, so that: (1) increased demand reduction efforts (*e.g.*, energy efficiency and renewable energy programs) help moderate the potential supply imbalance in the future; (2) sufficient firm interstate and intrastate pipeline capacity will be available to serve California; (3) the benefits and flexibility of storage facilities will be fully appreciated and utilized; and (4) access

to imported natural gas supplies (*e.g.,* from LNG facilities) will be available. A number of decisions related to these issues must be made this year, due to the long lead time to construct LNG facilities and due to certain deadlines in 2004 involving the expiration of existing interstate pipeline capacity contracts and open seasons for certain pipelines, including pipelines related to proposed LNG projects.

In a separate rulemaking, R.01-08-028, the Commission is addressing natural gas energy efficiency programs and is exploring how to increase demand reduction efforts, including increasing funding for natural gas energy efficiency programs.

In this rulemaking, PG&E, SoCalGas, SDG&E and Southwest have been named as Respondents. The utilities were required to respond to data requests attached to the OIR and to submit proposals to address how California's long-term natural gas needs should be met with interstate and intrastate pipeline expansions, more flexible storage operations and access to proposed LNG facilities. The Commission invited all other interested parties to respond to the Respondents' proposals and to participate in this rulemaking.

Due to deadlines facing the utilities and/or other participants in the natural gas market, two phases were established in this rulemaking. In Phase I, the Respondents were required to address in their proposals those matters, which may require a Commission decision prior to October 2004.

The OIR ordered the Respondents to file, by February 24, 2004, Phase I proposals for rules providing guidelines for how they should:

1. enter into contracts with interstate pipelines (whether new contracts or renewals of existing contracts) to meet core supply obligations;
2. provide access on intrastate pipelines to LNG supplies; and

3. provide access to interconnecting facilities with interstate pipelines to increase California's access to natural gas supplies.

The OIR stated that Phase II would address those matters that can be decided by the end of this year and ordered the respondents to file their Phase II proposals regarding the following:

1. how the designated utilities should provide emergency reserves consisting of slack intrastate pipeline capacity, contracts for additional firm interstate pipeline transportation rights, and supplies of natural gas in storage dedicated for emergency needs;
2. the process by which the utilities would keep the Commission informed about the infrastructure and services provided to noncore customers, and to propose a crediting mechanism in the event a noncore backstop recovery charge is adopted; and
3. new ratemaking policies that will be consistent with the goal of ensuring adequate and reliable long-term supplies of natural gas at reasonable rates to California.

This decision addresses Phase I issues only.

3. Procedural History

The Commission opened this OIR on January 22, 2004. Prior to opening the OIR, the Commission, in conjunction with the California Energy Commission (CEC), hosted a two-day workshop in December 2003 entitled "Natural Gas Market Outlook 2006-2016." Various participants made presentations at the workshop about California's natural gas needs in the coming years.

In accordance with the schedule set forth in the OIR, the Phase I proposals were filed in February 2004. Phase I proposals were filed by PG&E, Southwest,

Lodi Gas Storage, L.L.C. (Lodi),[2] and SDG&E and SoCalGas, the latter two filing jointly. Thirty-two comments on various aspects of the four proposals were filed.[3] This was followed by the filing of seventeen reply comments.[4]

The scoping memo and ruling (scoping memo) for Phase I was issued by the assigned Commissioners on June 18, 2004. The scoping memo determined that no evidentiary hearings would be needed on the Phase I issues because only policy issues are to be addressed.[5] Consistent with Rule 14.1 of the

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[2] Although Lodi was not named in the OIR as a Respondent, it submitted a proposal regarding the "value and appropriate use of in-state storage." (Lodi Proposal, p. 1.)

[3] Comments were filed by Alberta Department of Energy (Alberta), BHP Billiton LNG International Inc. (Billiton), Canadian Association of Petroleum Producers (CAPP), Coral Energy Resources LP (Coral), Crystal Energy LLC (Crystal), California Department of General Services (DGS), California Manufacturers & Technology Association (CMTA) and California Cogeneration Council (CCC), City of Palo Alto, Duke Energy Marketing America and Duke Energy North America (Duke), El Paso and Mojave Pipeline Company (Mojave), Exxon Mobil Gas & Power Marketing Company (Exxon Mobil), GTNC, Indicated Producers, Kern River Gas Transmission Company (Kern River) and Questar Southern Trails Pipeline Company (Questar), Kinder Morgan Inc. (Kinder Morgan), Lodi , Natural Resources Defense Council (NRDC), Northern California Generation Coalition (NCGC), Occidental Energy Marketing Inc. (Occidental), the Office of Ratepayer Advocates (ORA), PG&E, Ratepayers for Affordable Clean Energy (RACE), Sempra Energy LNG Corp. (Sempra LNG), Southern California Edison Company (Edison), Southern California Generation Coalition (SCGC), SDG&E and SoCalGas, Sound Energy Solutions Inc. (SES), TransCanada Pipelines Limited (TransCanada), Transwestern, The Utility Reform Network (TURN), Watson Cogeneration Company (Watson) and Calpine Corporation (Calpine), and Wild Goose Storage Inc. (Wild Goose). Wyoming Natural Gas Pipeline Authority (WNGPA) distributed a motion to late-file its comments but did not file this motion with the Docket Office.

[4] Reply Comments were filed by Billiton, Coral, CMTA and CCC, Duke, GTNC, Kern River and Questar, Lodi, ORA, PG&E, RACE, Sempra LNG, SCGC, SDG&E and SoCalGas, Transwestern, TURN, Watson and Calpine, and Wild Goose.

[5] The scoping memo noted that the Commission would decide in the decision whether certain issues raised by the parties require evidentiary hearings.

Commission's Rules of Practice and Procedure, the Phase I policy determinations addressed in today's decision are based upon a review of the Phase I proposals and the numerous comments and reply comments that have been filed in this proceeding.

The scoping memo also solicited additional comments and reply comments on some supplemental LNG access issues, as discussed herein. Those comments and reply comments were filed on July 2, 2004 and July 13, 2004, respectively.

4. Respondent's Proposals

Following are brief summaries of the Respondents' Phase I Proposals, which were filed on February 24, 2004.

4.1. SoCal and SDG&E

SoCalGas and SDG&E filed jointly. They recommend a diverse portfolio approach and flexibility in their ability to contract for interstate pipeline capacity for the core. They have proposed the "Interstate Pipeline Capacity Acquisition Procedure" as a means to maximize capacity acquisition opportunities with regulatory certainty. The proposal would establish a consultation process with ratepayer groups and expedited pre-approval mechanisms.

Regarding additional access to gas supplies, the utilities identified a number of LNG scenarios as well as additional interstate pipeline capacity opportunities and provided the related preliminary cost estimates. As long as certain cost benefit criteria are met, they propose to roll-in costs for infrastructure improvements related to new sources of supply. For LNG projects, rolled-in ratemaking would be capped at $200 million.

In order to facilitate access to LNG, SoCalGas and SDG&E request that new economically justified receipt points be established as needed. To facilitate access to both of the utilities' customers, they recommend that their transmission systems be integrated. Also, to provide certainty for suppliers and customers that their full gas supply needs can be delivered on any given day, the utilities have proposed that a system of tradable firm access rights be created. Such a proposal would replace the system of rights that was previously proposed and adopted in D.01-12-018, but which has not yet been implemented.

SoCalGas and SDG&E have also proposed interconnection policies that are intended to provide new suppliers with a clear understanding of their obligations, as they plan their upstream facilities.

4.2. PG&E

PG&E proposes supply planning criteria, which it claims will provide a high level of reliability at reasonable cost. Accordingly, the utility has proposed increased pipeline and storage capacities over current levels. PG&E also asserts that the process for acquiring capacity should allow sufficient flexibility to respond to changes in the market and serve as a guiding basis for long-term decisions to acquire more capacity or storage. In order to accomplish this, PG&E recommends expedited pre-approval procedures that are very similar to those contained in the SoCalGas and SDG&E Interstate Pipeline Capacity Acquisition Procedure.

PG&E proposes that project specific approval be granted prior to constructing LNG facilities. Once that is accomplished, in order to encourage the siting of LNG facilities in or near California, PG&E proposes that it, and ultimately its ratepayers, should fund the interconnection of that facility to PG&E's system. PG&E also recommends that it not be penalized if the new

supply causes some existing facilities to be used less. PG&E requests that rules be established that would ensure LNG meets existing utility gas quality interchangeability requirements. PG&E also describes how it could access LNG supplies from Mexico.

In order to increase the availability of interstate pipeline capacity at Kramer Junction, PG&E recommends that, until firm access rights are established, SoCalGas should be ordered to create a process to allocate the take away capacity between all affected pipelines based on final scheduled volumes from two days prior.

4.3. Southwest

Southwest was only required to address the sufficiency of interstate pipeline capacity to meet core procurement supply obligations. The utility indicates that its southern California needs for pipeline and storage capacity will depend on the outcome of SoCalGas restructuring. For its northern California service territory, there is only one interstate pipeline that connects directly to Southwest's distribution facilities.

Southwest requests that blanket pre-approval be granted for its acquisition of upstream resources, so long as such resource volumes are within the bounds of its core peak day requirements.

5. Comments and Reply Comments

While there may be a wide range of opinion on many aspects of the respondents' proposals, a review of the proposals, comments and reply comments indicates a general consensus that a variety of natural gas supply sources and cost effective access to those sources will benefit California ratepayers and should be encouraged by the Commission to the extent possible.

Equally important is that there should be a level playing field for competition to occur and to produce the best deals for ratepayers.

6. Interstate Pipeline Capacity Contract Procedures

The first Phase I issue identified in the OIR is the sufficiency of interstate pipeline capacity for core customers. Respondents were ordered to propose rules providing guidelines for how they should enter into contracts with interstate pipelines (whether new contracts or renewals of existing contracts) to meet core supply obligations. For this purpose, Respondents were to propose the aggregate amount (on an MMcfd basis) of firm transportation rights on interstate pipelines, which it believes it should hold in 2006 under long-term contracts with interstate pipelines, as well as the aggregate amount of out-of-state supply (whether it transports the natural gas pursuant to firm contracts with interstate pipelines or purchases the natural gas at interconnecting facilities that access LNG supplies), which it believes it will need in 2016. Respondents were also asked to generally address guidelines for: how it proposes to contract for sufficient interstate pipeline capacity to meet these supply obligations without risking a supply shortage to its customers in the near future or the long-term; how it will provide supply diversity with such contracts; and what process for Commission review should take place for the Respondent to receive pre-approval of its specific contracts with each pipeline, including the potential reduction of contract demand capacity rights under existing contracts with interstate pipelines.[6]

[6] In Ordering Paragraph 4 of D.02-07-037, we prohibited the California public utilities from turning back firm capacity rights on interstate pipelines unless and until we authorize such reductions in firm capacity rights on any given interstate pipeline.

In their initial filings, Respondents provided information on their interstate pipeline capacity needs for 2006 and the out-of-state supply needs for 2016. Also, SoCalGas proposed the Interstate Pipeline Capacity Acquisition Procedure as a regulatory oversight process that it believes balances the Commission's need to exercise oversight of large commitments of interstate capacity with the utility's need for expeditious action. Identical procedures were also proposed by SDG&E. PG&E supports SoCalGas' proposal and adopted many of the elements in its own, similar proposal. Southwest requests blanket pre-approval for storage or capacity contract acquisitions. Each Respondent's proposal is described below, followed by discussions of the issues that were identified in comments by other parties.

6.1. SoCalGas Proposal

SoCalGas' proposed Interstate Pipeline Capacity Acquisition Procedure is described in its Phase I proposal as follows:

> **Consultation and Reporting**. SoCalGas' Gas Acquisition Department will consult with ORA, the Energy Division and TURN on a monthly basis, and will provide an in-depth briefing at least quarterly. This will include, at a minimum, interstate capacity market conditions and recommendations for acquisition or disposition of interstate capacity or long-term supply contracts. All commitments for interstate capacity will be discussed with ORA, the Energy Division and TURN prior to the time a commitment is made. In addition to capacity utilization reports in the Gas Cost Incentive Mechanism (GCIM) monthly and annual reports, full details of all interstate capacity holdings, including new transactions, will be reported. These reports and briefings would be subject to the confidentiality provisions of Public Utilities Code Section 583 and General Order 66-C, and in the case of TURN, its representatives will be bound by an appropriate Non-Disclosure Agreement.

Transportation Capacity Commitment Range. Unless otherwise directed by the Commission, SoCalGas must hold firm interstate capacity that averages an amount between 80 % and 110 % of the forecasted core procurement portfolio's average temperature year daily demand during non-winter months, and averages an amount between 90 % and 120 % of this demand during the winter months of November through March. This requirement may be partially met by commitments for firm, long-term gas supplies from LNG or other new supply sources delivered at the California border. If SoCalGas falls below the total average capacity commitments for the winter or non-winter period of the Transportation Capacity Commitment Range, then SoCalGas will file an Advice Letter describing the circumstances and proposing a course of action to address compliance.

Authorized Capacity Commitment. After consultation with ORA, TURN, and the Energy Division, and upon ORA's approval, interstate capacity commitments within the Transportation Capacity Commitment Range shall be deemed reasonable and fully recoverable in rates in the event that any one of the following criteria is satisfied:

- Interstate capacity contracts with terms of three years or less;
- Interstate capacity contracts with terms of more than three years and quantities less than or equal to 100 MMcfd; or
- Interstate capacity contracts acquired by the exercise of Right of First Refusal (ROFR) options in response to posted bids by other shippers.

Multiple contracts with substantially similar material terms (*i.e.,* price, contract term, and receipt and delivery points) on one pipeline will be aggregated to determine compliance with the limits of the Authorized Capacity Commitment process.

Expedited Capacity Advice Letter. After consultation with ORA, TURN, and the Energy Division, and upon ORA's approval, SoCalGas will file an Expedited Capacity Advice Letter for approval of transportation capacity commitments that fall outside the limits of the Authorized Capacity Commitment process. The Expedited Capacity Advice Letter would allow ten days for protests and comments and three days for replies, and would seek Commission approval within 21 days. If the Commission does not act on an Expedited Capacity Advice Letter within 21 days, it shall be deemed rejected without prejudice. Renegotiated contracts with El Paso and Transwestern that initially replace the Transportation Service Agreements expiring in 2005 and 2006 will be presented by Expedited Capacity Advice Letter, regardless of amounts or contract terms, with the exception of contracts acquired by the exercise of ROFR options as stated above.

Advice Letter. SoCalGas may elect to file an Advice Letter, pursuant to the Commission's standard procedure for Advice Letters, for approval of any transportation capacity commitment that ORA does not approve under either the Authorized Capacity Commitment procedure or Expedited Capacity Advice Letter process. Alternatively, ORA reserves the right to request that SoCalGas file an Application rather than an Advice Letter for such commitments. An Advice Letter will be filed for approval of all LNG contracts regardless of quantity and contract term. Additionally, SoCalGas may elect to file an Advice Letter requesting modifications to the Transportation Capacity Commitment Range, the Authorized Capacity Commitment procedure, and/or the Expedited Capacity Advice Letter procedure.

SoCalGas is requesting that these procedures be approved for an initial period of five years. Six months before the end of this initial period, SoCalGas would file an Advice Letter requesting the continuation or modification of these procedures.

As part of SoCalGas' proposal, it requests authorization to issue timely notices of termination for its expiring contracts with Transwestern and El Paso, and to reduce its contractual commitments on these two systems. For Transwestern, timely notice of termination is due by October 31, 2004. For El Paso, timely notice of termination is due by February 28, 2005. The request is being made so that SoCalGas can diversify its portfolio with lower-priced supplies, and more flexible capacity contracts.

While ORA supports the procedures and planning criteria as expressed by SoCalGas, it recommends that a point be clarified and included in the proposal. In its proposal, SoCalGas suggests that ORA reserve its right to request that SoCalGas file an application only in the event that ORA does not approve SoCalGas' request under either the Authorized Capacity Commitment criteria or the Expedited Advice Letter criteria. ORA states that it also reserves the right to have SoCalGas file an application on all matters pertaining to LNG contracts and to any future changes or modifications that SoCalGas might seek with respect to these procedures. ORA indicates that, in discussions with SoCalGas, the company has accepted ORA's position on this matter and recognizes that the procedures should be modified accordingly.

SoCalGas does not dispute that it accepted ORA's clarification on this matter and recognizes that the procedures should be modified accordingly. Also, no party opposed ORA's clarification and recommendation on this matter. We find ORA's clarification to be reasonable and will include it in the adopted contract approval procedures.

6.2. SDG&E Proposal

SDG&E proposed an almost identical procedure, differing only in that TURN would not participate in the consultation process and that the interstate

capacity contracts with terms of more than three years would be deemed reasonable if the quantity is less than or equal to 20 MMcfd as compared to less than or equal to 100 MMcfd for SoCalGas.

6.3. PG&E Proposal

PG&E embraces the concept of a contract pre-approval process and patterns its core gas acquisition recommendation on that of SoCalGas, with certain exceptions. First, SoCalGas' proposal is for pre-approval of interstate pipeline commitments, while PG&E has included intrastate, LNG and storage contracts. Second, PG&E rejects the necessity of specific ORA approval in the pre-approval and expedited advice letter processes. PG&E describes its Phase I proposal as follows:

> **Core Planning Standard**. PG&E proposes that its Core Planning Standard should be flexible enough to accommodate a variety of capacity and supply contracts, including not only pipeline transportation capacity, but also storage and potentially LNG. PG&E proposes holding firm transportation, storage or LNG capacity to meet a 1-in-10 year peak day and a 1-in-10 year winter load.
>
> **Pre-approved Capacity Range.** PG&E proposes that the Commission develop rules providing that the utilities will be deemed in compliance with the pre-approved Capacity Range if the range is not exceeded for a cumulative period of six months in any 36-month period. If, for any reason, PG&E capacity commitments fall below or above the pre-approved Capacity Range, PG&E would file an advice letter describing the circumstances and proposing a course of action to address compliance with the standard.
>
> PG&E proposes to consult with ORA, TURN, and the Energy Division periodically regarding PG&E capacity holdings for core customers. PG&E proposes that the Commission establish clear rules providing that all capacity commitments within the Pre-approved Capacity

Range described above shall be deemed reasonable and fully recoverable in rates for any of the following:

- Any existing interstate, intrastate, and storage capacity;
- Individual interstate, intrastate, storage capacity, and LNG supply contracts with terms of three years or less;
- Individual interstate, intrastate, storage capacity, and LNG supply contracts with terms of more than three years and quantities less than or equal to 100MDth/day or 3 MMDth of storage; and
- Interstate, intrastate, storage capacity, or LNG supply maintained by the exercise of the ROFR options (in response to other shippers' bids) or evergreen terms.

Expedited Capacity Advice Letter. Consistent with SoCalGas' proposal for approval of interstate, intrastate, storage, and LNG capacity commitments that fall outside the terms described above, and for all capacity in excess of current holdings acquired initially to meet the standards set forth in this proceeding, PG&E will file an Expedited Capacity Advice Letter upon consultation with ORA, TURN and Energy Division. The Expedited Capacity Advice Letter procedure should allow ten days for protests and comments and three days for replies, and seek Commission approval with 21 days of the filed date. If the Commission does not act within 21 days of the filed date, the Expedited Capacity Advice Letter will be deemed disapproved without prejudice.

Other Advice Letters. After consultation with ORA, TURN and Energy Division, PG&E may file an advice letter, pursuant to the Commission's standard procedures for advice letters, to seek modifications to the Capacity Commitment Range, and to the Expedited Capacity Advice Letter procedures.

Other Actions Not Requiring Approval through the Advice Letter Process. Capacity renewals not needing additional advice letter filings should also include capacity held under evergreen provisions in addition to capacity renewed under ROFR rights.

6.4. Southwest Proposal

Southwest states that assured cost recovery should be part of meeting core resource requirements. Southwest proposes that its currently approved cost recovery practice be continued and extended to the acquisition of upstream resources that are shown to be required to meet core peak day needs. Southwest plans for a peak day based on the coldest weather in thirty years. The company also states that a process of prior submission and pre-approval would be detrimental to the most economic acquisition of the necessary resources and proposes that blanket pre-approval be granted for its acquisition of upstream resources, so long as such resources are within the bounds of its core peak day requirements.

6.5. Discussion – Supply Diversity

The SoCalGas, SDG&E and PG&E proposals reflect their intentions to develop more diversified interstate pipeline capacity portfolios.[7] SoCalGas and SDG&E state that the expiration of the Transwestern and El Paso contracts provides the utilities and their customers with the opportunity to achieve the benefits of such portfolios by enabling the utilities to: (1) acquire capacity commitments on pipelines with mixed terms and staggered termination dates; (2) increase the ability to take advantage of market opportunities; (3) reduce

[7] As used herein, interstate pipeline capacity refers initially to firm rights on interstate pipelines, and in subsequent years is broadened to encompass firm rights on interstate pipelines and LNG facilities which access California's natural gas market.

exposure to reductions in service from pipelines; (4) reduce reliance on core supply from only two producing basins; and (5) increase the portfolio components from Rocky Mountain supplies and new supply sources.

We recognize that a diverse portfolio approach for the holding of interstate capacity across supply basins and interstate pipelines with staggered terms maximizes opportunities to benefit core customers with enhanced supply reliability and gas price stability. Also, there is no opposition to the diversification concept. Therefore, we will grant SoCalGas' and SDG&E's requests for authorization to diversify their portfolios of firm interstate pipeline capacity holdings to access gas from multiple gas producing basins and other sources, and to negotiate reduced amounts of capacity and to terminate their expiring contracts on the El Paso and Transwestern pipelines in conjunction with preserving their rights of first refusal (ROFR) for firm capacity on these interstate pipelines.[8] SDG&E and SoCalGas are not, however, required to include ROFR provisions in new or renegotiated contracts. For the same reasons, the granted authority will also apply to PG&E and Southwest for their contracts which expire with interstate pipelines.[9] Thus, today's decision authorizes the gas utilities to release upcoming capacity contracts that are expiring so long as they fulfill the requirements of meeting their core procurement needs as discussed in this

[8] Ordering Paragraph 4 in D.02-07-037 states, "No California utility shall turn back capacity rights on interstate pipelines or release their capacity rights under long-term capacity release transactions unless and until the Commission subsequently authorizes such turn back of capacity or long-term releases." This restriction applied to SoCalGas, PG&E, SDG&E, Southwest and Edison.

[9] For example, PG&E's interstate pipeline contracts with El Paso, Transwestern, and GTNC will expire on various dates in 2004 through 2007.

decision. Edison is granted the same authority so that it can take advantage of opportunities to better fulfill its gas procurement needs for electric generation.

We note El Paso's comments regarding potential higher costs for Rocky Mountain gas, the uncertainty of new sources of supply such as LNG, and the potential that its pipeline capacity may not be available to California in the future if the utilities do not renew their El Paso holdings. Transwestern questions the prudence of assuming that Rocky Mountain supplies and LNG will be available as needed to meet core demands. Alberta, CAPP, TransCanada and Wyoming also submitted comments regarding the availability of gas in the areas from which they transport gas. The information and concerns of the parties should be considered in the utilities' acquisition decisions, and in the consultation, review and approval processes discussed later in this decision.

6.6. Discussion – Need for Contract Approval Procedures

Most parties agree with the Respondents' assertions that a clearly articulated interstate pipeline capacity approval process, which is flexible and provides for expeditious processing and appropriate regulatory oversight, is needed to provide the utilities with the opportunity to acquire core capacity in the most efficient and cost effective manner.

The concept of the contract approval procedures, as proposed by SoCalGas, SDG&E and PG&E, is reasonable. However, we, as well as other parties, have concerns regarding specific aspects of the proposals. Modifications have therefore been made and are discussed later in this decision.

Also, El Paso and Mojave recommend that, as part of the procedures, the utilities should be required to use all reasonable efforts to acquire a portfolio of contracts, with staggering terms, using existing interstate capacity that meets their supply diversity goals. Transwestern suggest that the utilities be ordered to

maintain firm access to all supply basins. SCGC advocates that the utilities first be required to take released capacity from non-utility California capacity holders before acquiring new capacity. To adopt these various recommendations at this time may limit market opportunities for the core, provide preferential treatment for certain suppliers or create a disincentive for the development of new sources of supply. We see no compelling reasons for imposing in this order these restrictions on the core's access to market opportunities and will not do so. However, in the Commission's review process, discussed below, the Commission can consider the alternatives available to the utilities when deciding whether or not to pre-approve their new contracts.

Because the opportunity to terminate certain expiring existing contracts is imminent, there is some urgency for providing the guidance and regulatory approvals necessary for the utilities to begin to develop a diverse supply mix that will enhance their ability to provide safe, reliable gas supplies at reasonable rates while avoiding extreme price impacts. Therefore, we believe it is appropriate and necessary to establish such procedures at this time, rather than to delay as suggested by the NRDC and RACE. In proceeding now, we are not dismissing the energy efficiency concerns raised by RACE and the NRDC. Both the Commission and the utilities understand the importance of considering cost-effective energy efficiency, renewables and demand side resources as part of the overall procurement and energy supply framework. However, as discussed later in this decision, such matters have been, or are being, addressed separately.

As part of their proposed contract approval procedures, PG&E, SoCalGas and SDG&E have included terms for expedited treatment, which would reduce Commission review when compared to that under the current processes. In such circumstances, we must ensure that appropriate safeguards

are in place to ensure that the utilities' actions are not counter to ratepayer interests. A complicating factor is the utilities' holding company structures and the associated affiliated company relationships.

Ratepayer and shareholder short-term interests are generally at odds, and this situation is magnified when affiliated companies conduct business with the affiliated utility. For instance, affiliated companies of SoCalGas and SDG&E include, among others, Sempra Energy International, which develops, operates and owns energy projects in international markets, including ownership of the Transportadora de Gas Natural (TGN) and Gasoducto Bajanorte pipelines in Baja California; Sempra LNG, which is developing LNG receipt terminals; Sempra Energy Resources, which acquires and develops power plants and energy infrastructure for the competitive markets; and Sempra Energy Trading, which markets and trades oil, natural gas and power.

The Sempra LNG project in Baja California can utilize the affiliated pipelines of TGN and Gasoducto Bajanorte to bring the regasified LNG to the United States. At the border, Sempra LNG then proposes to connect to the affiliated pipeline systems of SDG&E and SoCalGas.

SoCalGas and SDG&E assert that they will adhere scrupulously to the Commission's affiliate transaction rules, and we expect them to do just that. However, it is impossible to know the degree to which utilities' business decisions are colored by the relationships with their affiliates and obligations to shareholders. Therefore, while we are allowing the utilities flexibility in contracting for storage and pipeline capacity and providing the utilities with expedited pre-approval procedures for obtaining such capacities, any capacity acquired in association with an affiliate will not be eligible for expedited pre-approval, and should be brought before the Commission using the advice

letter or application process. Our concerns are also reflected in our modifications to the proposed pre-approval processes and capacity planning ranges, which somewhat reduce utility flexibility from what was requested.

6.7. Discussion – Pre-Approved Capacity Range/Authorized Capacity Commitment

As detailed earlier, PG&E proposes a pre-approved capacity range procedure and SoCalGas and SDG&E propose an authorized capacity commitment procedure, both of which would establish a capacity range within which capacity contracts meeting certain prescribed criteria would be deemed pre-approved without formal Commission review. For transactions that do not meet the prescribed criteria, pre-approval can be obtained through formal Commission processes such as the proposed expedited capacity advice letter process, the standard procedures for advice letters or the filing of an application.

For the most part, other parties agree with the pre-approval procedures recommended by the SoCalGas, SDG&E and PG&E. However, RACE indicates that the Commission should not renounce its responsibility and authority to review contracts negotiated by the gas utilities before approving them. Regarding new interstate pipelines, El Paso and Mojave express concern that utilities may be forced to make long-term contract commitments that impose added risk on ratepayers and recommend that the Commission explicitly review such contracts.

We agree with the concept of pre-approval, which is consistent with Pub. Util. Code § 454.5, which provides for up front standards and eliminates the need for after the fact reasonableness reviews in electric procurement matters. However, the relinquishment of the opportunity for the Commission to review utility transactions entirely (prospectively and retroactively) must be considered carefully. Under the proposals for a pre-approved range or commitment, we

would be waiving the opportunity to review and authorize, either prospectively or retroactively: contracts of unrestricted length for less than 100 MMcfd; contracts with unrestricted volumes, as long as the terms are for three years or less; and contracts acquired by the exercise of right of first refusal. An undetermined, but potentially significant, amount of capacity could be acquired in this manner, with some oversight, but with no formal Commission review or authorization. We find this to be inconsistent with carrying out our duties in a careful and diligent manner. Our preference would be for all contracts to be submitted for pre-approval either through the application, advice letter or proposed expedited advice letter processes. Therefore, we will not adopt the pre-approved capacity range or authorized capacity commitment procedures, as proposed, but instead adopt the following procedure.

We recognize that there may be interstate pipeline capacity opportunities that have turnaround times that cannot be accommodated through the proposed 21 day expedited advice letter process. Since there may be economic benefits to these kinds of transactions, there should be an opportunity to consider them for the core portfolio. We also recognize that there is a disincentive for utilities to make such transactions with no pre-approval, since they may then be subject to reasonableness review and potential disallowance. Therefore, we will limit pre-approval for interstate pipeline capacity contracts under the pre-approved capacity range or authorized capacity commitment to only those transactions that cannot be accommodated under the time limits of the proposed expedited advice letter process, with certain additional conditions.

First of all, we will impose the condition that both the contract length limit of three years and the capacity amount limits (100 MMcfd for PG&E and SoCalGas, and 20 MMcfd for SDG&E) will apply to all contracts that are

pre-approved under this procedure. Although this limits the utility's flexibility in the type of capacity contracts that it can obtain, this condition will help ensure that large volumes of capacity will not be automatically preapproved. Additionally, we will limit the aggregate capacity of the contracts pre-approved under this procedure, excluding ROFR, to 50% of the core interstate pipeline capacity portfolio. At this time, we will not impose any limits on the amounts of capacity that can be obtained through the ROFR as proposed by the utilities.

The second condition is the imposition of a more formal Commission approval process for reviewing these pre-approved contracts. We will delegate approval authority to the Director of the Commission's Energy Division (ED). This is consistent with ED's role in approving advice letters in general and the anticipated role in approving advice letters under the proposed expedited capacity advice letter process. The utilities must present the Director of the ED with a written request for approval of the contracts which meet the pre-approval criteria, with justification for the urgency of the transaction, the date needed for ED approval, as well as evidence of the agreement of other specified parties, as discussed below. The Director of the ED should, by the date specified, indicate approval or disapproval to the utility by letter, facsimile, or electronic mail.

While these conditions limit potential transactions when compared to the utilities' proposals, we feel this process more reasonably balances the additional flexibility and certainty that the utilities are receiving with our regulatory responsibilities.

6.8. Discussion – Expedited Capacity Advice Letters

SoCalGas, SDG&E and PG&E have proposed an expedited advice letter process that would apply to certain transactions that do not meet the criteria for the pre-approved capacity range or authorized capacity commitment procedures.

The maximum 21-day expedited capacity advice letter process includes 10 days for parties to file protests. Although this limits the amount of time for other parties to analyze and respond to the proposed transactions, no party objected to this particular aspect. Also, to lengthen the comment period might subject more contract pre-approvals to the pre-approved capacity range or authorized capacity commitment procedures, where there is no opportunity for protests. The expedited capacity advice letter procedures are reasonable and will be adopted for transactions meeting the expedited advice letter criteria as proposed by the utilities and as changed by this decision.

6.9. Discussion – Approval by Other Parties for Expedited Processes

In adopting and implementing expedited approval procedures, we find it necessary to also adopt an appropriate review process to ensure that any movement, within or outside of the approved capacity planning ranges is consistent with the best interests of core customers.

SoCalGas, SDG&E and PG&E propose a consultation and agreement process with ORA, TURN and ED. SoCalGas and SDG&E propose that ORA's agreement is necessary to move forward with either the authorized capacity commitment or expedited advice letter processes, while PG&E indicates that agreement with ORA, TURN and ED would be necessary before moving forward on the expedited processes. In comments, there was some general concern that the Commission should not delegate its responsibility to approve contracts, and that it would be inappropriate for ORA, as an interested party, to approve contracts on behalf of the Commission.

With the inclusion of ED approval under the pre-approved capacity range or authorized capacity commitment procedures, all capacity contracts that will be submitted for pre-approval will be subject to some form of formal

Commission review. Comments regarding the need for Commission review of contracts and the delegation of approval authority to ORA are therefore moot.

However, the utilities' proposed consultation and agreement proposals have merit for the purpose of reviewing the contracts within restricted timeframes. ORA, ED and TURN are knowledgeable in these areas and can provide some assurance that utility proposals are reasonable. In core matters, which this is, both ORA and TURN provide strong advocacy viewpoints. Before moving forward with expedited pre-approval processes, it would therefore be reasonable to require PG&E and SoCalGas to have the agreement of both ORA and TURN. For SDG&E, only ORA agreement would be necessary, since TURN does not generally participate in SDG&E matters. While ED should be involved in the consultation process, its agreement, similar to that of ORA and TURN, is not necessary, since final approval or disapproval of both expedited pre-approval procedures will be done by the ED.

We include TURN in the agreement process, with the understanding that TURN's participation is voluntary. However, if it does participate, it must do so fully and diligently in order that utility proposals are addressed in a rational, and especially in a timely, manner. To clarify, the agreement of ORA and possibly TURN is not a substitute for Commission approval by the ED, but it is a necessary element of the expedited pre-approval processes.

If agreement among parties is not reached in the proposed expedited pre-approval processes, the SoCalGas and SDG&E recommendation that the utility can then file a regular advice letter is reasonable.

6.10. Discussion – Capacity Planning Range

Central to the proposed capacity approval processes is the capacity planning range, referred to as the Transportation Capacity Commitment Range

by SoCalGas and SDG&E, and the Core Planning Standard by PG&E. It is within these ranges that the utilities propose to establish their pipeline and storage capacity portfolios for core customers. The range establishes reporting requirements, if its limits are exceeded, and conditions under which the pre-approval processes for incremental capacity operates. The capacity ranges that we adopt, as discussed below, should be revisited in either the utilities' respective BCAPs or through the advice letter process for possible adjustments of the capacity ranges. This is necessary because changes may be required after some experience has been gained through this new process.

6.10.1. SoCalGas

SoCalGas' proposed capacity planning range is based on the forecasted core procurement portfolio's average temperature year daily demand, with capacity volumes from 80%to 110% of this average demand establishing the non-winter month range, and amounts from 90% to 120% establishing the winter month range. The forecasted demand will either be from the latest filed BCAP or the latest California Gas Report, if the BCAP forecast is more than 12 months old. SoCalGas indicates that the pipeline capacity amounts proposed in this proceeding are based on the use of current core storage levels.

While the proposal is based on an average temperature demand, the proposed ranges encompass peak conditions. SoCalGas states that the higher part of the winter range at 108% of average temperature year daily demand is equivalent to the core procurement portfolio's cold temperature year demand forecast. SoCalGas indicates that it designs its system to provide uninterrupted services to both core and firm noncore customers during a 1-in-10 year cold day event. SoCalGas shows a 1-in-10 year cold day event to require 1,234 MMcfd for the core, which is in the upper part of the proposed winter range of

944 - 1,259 MMcfd. SoCalGas is not proposing any changes to its current system reliability planning criteria, which were reviewed in Investigation 00-11-002 and approved in D.02-11-073.

SoCalGas states that its proposed range of capacity holdings for core procurement customers is generally consistent with current capacity holdings allocated to the core, and is consistent with the applicable terms of the Settlement Agreement approved by the Commission in D.02-06-023 (the decision extending the SoCalGas GCIM). Both ORA and TURN, who represent core interests, agree with SoCalGas' planning criteria. However, due to our overriding concern regarding adequate interstate pipeline capacity, we will modify the proposal.

California utilities must rely upon firm transportation contracts with interstate pipelines (and perhaps firm supply agreements with operators of LNG facilities in the future) to preserve or provide for the infrastructure required to meet their core customers' annual demand.[10] The discretion for SoCalGas to contract for interstate capacity amounts as low as 80% of the annual average daily demand, during the non-winter months and 90% during the winter months could result in less than 100% of the forecasted annual average demand being contracted for over the year, undermining our goal of guaranteeing that there is enough infrastructure to meet California's future demand for natural gas. Additionally we believe that the cost of interstate capacity is relatively small as

[10] As the FERC recently explained, when new customers acquire firm capacity, which is turned back by California utilities, the new customers are not obligated to serve California. Moreover, interstate pipelines have "no certificated obligation to serve California other than through [firm] contracts for that capacity [to California delivery points.] *See Public Utilities Commission of the State of California v. El Paso Natural Gas Company, et al.* (2004) 106 FERC ¶ 61,315 at PP 62-64.

compared to the cost of gas in the spot market when the demand and supply balance becomes tight. Therefore, we will be more conservative than SoCalGas in setting the capacity planning range. We do this because we feel the proposals were too vast of a departure from SoCalGas' and SDG&E's historic capacity ranges, with little rationale for why relying between 10% and 20% on the spot market in certain periods would benefit ratepayers or give the utilities an advantage in obtaining a least cost supply for the ratepayers. Given this, we will set the minimum at the annual average daily amount and the maximum at 120% of the annual average daily amount, for both the winter and non-winter months. This modification assures that core customers average annual demand is contracted for on interstate pipelines, which the Commission believes is appropriate policy. Based on SoCalGas' forecasted average temperature year daily demand of 1049 MMcfd, the range for 2006 would be 1049 MMcfd – 1,258 MMcfd. In authorizing a range, we expect the utilities to efficiently manage their respective interstate pipeline capacity needs and costs during both the peak and off-peak periods.[11]

6.10.2. SDG&E

SDG&E's planning criteria and the related justification are identical to that of SoCalGas. For the reasons indicated above, we will apply the same

[11] This means that SDG&E and SoCal shall hold on an annual average basis (April through March) a minimum of 100% and a maximum of 120% of their forecast core procurement annual average daily load. Recognizing that this is an annual average capacity range will provide the flexibility necessary to address seasonal variations in core procurement due to unpredictable weather and market conditions and help to minimize capacity in excess of short-term procurement requirements. Notwithstanding this flexibility, firm capacity shall not be less than 90% of the forecast annual average during the spring and summer months.

transportation capacity commitment range principles to SDG&E as we do to SoCalGas. Based on SDG&E's forecasted average temperature year daily demand of 139 MMcfd, the range for 2006 would be 139 MMcfd – 167 MMcfd.

SDG&E shall have until November 1, 2005 to operate within the adopted capacity range.

6.10.3. PG&E

PG&E identifies two planning standards for core firm capacity. The first is a 1-in-10 year cold peak day planning standard, which is the same that PG&E recommended in its Gas Accord II – 2004 Application (A.01-10-011), but which was not adopted. The second is a 1-in-10 year cold–winter planning standard, whereby PG&E would contract for sufficient firm storage and firm inter- and intra state pipeline capacity to meet a 1-in-10 year cold winter forecast without requiring purchases at the California border or at the city gate. PG&E states that by using the forecasted load associated with a 1-in-10 year cold winter and a 1-in-10 year peak day forecast for 2006, in combination with estimates of transmission and storage capacity costs, estimated brokering revenue from unused pipeline capacity during the summer period, and assumptions about seasonal gas price differentials, it has developed a proposed capacity portfolio that attempts to minimize cost while meeting the proposed winter planning criterion. Based on its analysis, PG&E recommends holding 43,000 MDth of in-state storage inventory and 1080 MDth/day of interstate and winter intrastate capacity in 2006. PG&E also ties its requested core capacity requirement with comparable transmission system reliability criteria, which it acknowledges is substantially different from its current planning criteria of approximately a 1-in-3 year peak day event.

While PG&E has presented two standards, cold peak day and cold winter, it failed to firmly establish the bases for either standard or explain how they are used to determine the target capacities.

PG&E's proposal would substantially increase the amount of pipeline and storage capacity over existing levels. PG&E indicates that it currently has 33 MMDth of storage and 962 MMcfd of interstate pipeline capacity. Its proposal would elevate those amounts to 43 MMDth of storage and between 1000 and 1200 MMcfd of winter capacity. In its proposal, PG&E stated:

> "Whether the proposed level of price exposure is appropriate or not is fundamentally a question of risk preference. Ascertaining core customers' risk preferences is difficult and ultimately fraught with uncertainty. However PG&E believes that core customers tend toward a high degree of risk aversion and therefore PG&E recommends that the Commission consider a further reduction of the core's price exposure in determining the appropriate planning standard to adopt. As representatives of residential and core customers, PG&E invites [ORA and TURN] to express their views on the appropriate planning criterion." (PG&E Phase I Proposals, p. 4.)

At this time, neither ORA nor TURN support PG&E's proposed capacity planning standards. Both parties recommend that such standards be developed in PG&E's next BCAP proceeding.

We also note a difference between the SoCalGas and PG&E proposals. While peak condition events under SoCalGas' proposal are covered in the higher portion of the proposed winter capacity range, which seems reasonable, PG&E builds its range around the peak event. Whether an additional 10% above the cold winter standard amount is necessary is not substantiated.

For the reasons stated above, we will not adopt PG&E's proposed planning standards or ranges. However, we intend to authorize a contract approval process, which requires a capacity planning range. Based on PG&E's response to the OIR's data request, its forecasted average for 2006 is 829 MMcfd. In order to determine what that range should be, if even for only an interim period until more definitive forecasts are reviewed and approved, we will set PG&E's existing interstate pipeline capacity of 962 MMcfd as the minimum amount for the range. Even though that amount is significantly more than the forecasted 2006 average daily demand of 829 MMcfd, it would be inconsistent with the goals of this OIR, if, without good reason, we were to require PG&E to hold less interstate pipeline capacity than it is already holding. We will increase this amount by 10% to establish the upper bound of the range. SoCalGas and SDG&E's upper bounds were established at 120% of the minimum, but SoCalGas' and SDG&E's minimums were established at the average daily, while PG&E's minimum is already significantly over its average daily amount. We also note that the PG&E upper bound of 1058 MMcfd is close to PG&E's estimated cold winter average daily amount of 1084 MMcfd. The range of 962 MMcfd to 1058 MMcfd will apply during the winter months. For the summer months, because of seasonal variations, the lower bound of the capacity planning range will be set at 90% of the forecasted average demand. As with SoCalGas and SDG&E, we expect PG&E to efficiently manage its interstate pipeline capacity needs and costs within the specified range during both peak and off-peak periods.

Since we are essentially adopting existing interstate pipeline capacity for 2006, the associated intrastate system reliability would also approximate existing levels. PG&E estimates this to be equivalent to a 1-in-3

cold winter, which it asserts is inadequate. Increased reliability was addressed in A.01-10-011, where PG&E proposed similar standards as it has in this OIR. In D.03-12-061, we did not adopt PG&E's proposal for a winter reliability standard for a number of reasons. One reason was that the planning and design of the size of the transmission facilities to serve customer load is an engineering issue, with significant cost implications, which requires careful review. Information to undertake such a review in this proceeding is lacking.

D.03-12-061 also noted that the current design criteria for PG&E's transmission system is to meet the more stringent of (a) core demand under abnormal peak day (APD) conditions, which is a 1-in-90 year cold temperature event, or (b) 75% of core's APD demand plus all noncore demand. PG&E needs to substantiate the need for its proposed winter reliability standard, especially considering that a system-wide diversion of PG&E's noncore customers has never been called.

There is an insufficient record to resolve PG&E's intrastate system reliability proposal in this proceeding. PG&E should subject its system reliability planning to further scrutiny by presenting its recommendations and the bases for those recommendations in a proceeding where parties have the opportunity to fully analyze the proposals and to consider the cost implications, and to hold evidentiary hearings. It would also be appropriate to consider capacity planning standards at that time as well. This should be considered in PG&E's BCAP, the incremental core storage application or in a separate application.

6.10.4. Southwest

Very few comments were received on Southwest's capacity pre-approval proposal. ORA recommends that SoCalGas' proposed capacity contract procedures apply to all four utilities, including Southwest. However,

ORA did not explain why SoCalGas' proposal was appropriate for Southwest, instead of Southwest's own proposal. While the amounts of pipeline and storage capacity required by Southwest is small in comparison to the other respondents, we believe there should at least be an effort to apply the approved capacity procedure principles and policies established above, to Southwest's California operations. However, it is not clear that application of all the terms of SoCalGas' proposal is necessary for Southwest. We will direct Southwest to work with ORA to develop a proposal that meets the needs of Southwest consistent with the principles we adopt for the other respondents. The proposal can then be submitted through the advice letter process for review. Until such filing, we will maintain the current regulatory processes for Southwest.

6.11. Discussion – Storage Issues

6.11.1. Specific Inclusion of Storage

PG&E specifically includes storage in its proposed contract approval process, while SoCalGas and SDG&E do not. SoCalGas and SDG&E state that, in Phase I, they are seeking approval of a process for future core interstate capacity commitments, which is intended to be flexible and which will work in a complementary manner with the core storage program. To the extent that changes to pipeline capacity commitments affect storage commitments, those storage changes are implicitly approved in SoCalGas and SDG&E interstate pipeline capacity approval process.

Although they are apparently not contemplating any changes to core storage reservations at this time, under the SoCalGas and SDG&E proposal, such storage changes would not be subject to the proposed approval processes. Under PG&E's proposal, all incremental changes to storage commitments would be included in the approval processes. Since all parties agree that pipeline

capacity and storage needs cannot be determined in isolation, PG&E's proposal is preferable. It provides more assurance that incremental storage commitments and contracts are reasonable and have been fully considered in the context of incremental pipeline capacity. We will therefore adopt this aspect of PG&E's proposal for all three utilities. That is, any contemplated changes to core storage shall be included as part of the approval process. Thus, proposed changes to core storage may be addressed through the standard advice letter procedure.

6.11.2. Third Party Storage

Both Lodi and Wild Goose address PG&E's position that PG&E alone is authorized to provide core storage. Lodi says that the Commission should require PG&E to put any incremental storage capacity the Commission requires PG&E to hold for its core out to bid. Lodi asserts that allowing PG&E to assign an incremental 7 to 13 Bcf of firm storage capacity to the core without giving the core an opportunity to solicit bids for that capacity from third party storage providers is anticompetitive and not in the best interests of captive core customers. Wild Goose is also concerned that PG&E is trying to prevent independent storage providers from being able to compete to provide a percentage of the storage capacity within PG&E's designated capacity range.

In response, PG&E asserts that the 1993 gas storage decision (D.93-02-013) requires local distribution companies to provide storage for the core, and that independent storage providers have no such obligation. PG&E also indicates that Lodi and Wild Goose fail to acknowledge that PG&E and SoCalGas are full service gas utilities, and are obligated to provide adequate and reliable service to their own core customers.

Lodi notes that the core is already indirectly using private third party storage through the use of peaking gas supply contracts from third party marketers, who use third party storage to provide this gas.

Wild Goose contends the storage decision language merely requires PG&E to build and use storage facilities as necessary to provide reliable core service, and there is nothing in the decision which prohibits placing incremental storage capacity needed by the core out to bid.

PG&E concedes that the Commission can revisit the storage decision, and adopt new policies in light of changed circumstances. However, PG&E asserts that a decision to let independent providers compete for incremental storage service to core is a major policy change, and involves significant implementation issues. PG&E recommends that such a policy change involve workshops or other proceedings before it is implemented. PG&E believes that the following list of implementation issues need to be addressed, if third party storage providers are allowed to meet the core's incremental storage capacity requirements:

- A minimum contract length commitment by the independent storage providers, so that PG&E would have sufficient lead time to develop or construct replacement capacity if the service is no longer provided by a third party;
- Impact on PG&E's existing operating, balancing and scheduling processes and necessary changes;
- Credit quality requirements for the independent storage providers;
- The responsibility of an independent storage provider to meet the same level of reliability and operating requirements through a contract as PG&E does through its tariff;

- Setting a reasonably competitive process for selection of storage services, given that utility costs and rates are open to public inspection, whereas independent storage providers have no similar requirement; and
- Assurance that any competitive process will provide for full cost recovery for PG&E's Core Procurement Department through its proposed contract pre-approval process.

We believe that the time is ripe to review the role of third party storage providers to assist the utilities in providing core storage. Such a change can provide long-term cost savings to core customers as a result of competitive provisioning of core storage. At this time, third party storage is located in and predominantly serves PG&E's service territory. Thus, competitive provisioning of core storage should be limited to PG&E's service territory for the time being. PG&E shall be directed to file an application within six months of this decision to address how third party storage providers can be used to assist PG&E in providing core storage services.[12] The application should address how much, and by what process, incremental gas storage needs for the core should be met, including but not limited to putting the needs out to bid, negotiating storage contracts directly with independent storage providers, participation in open seasons for storage, and through third parties holding firm storage rights. The application should also address other implementation issues that PG&E believes need to be addressed before the provisioning of core storage is opened to independent storage providers.

[12] As noted earlier, this application may also consider PG&E's capacity planning standards and intrastate system reliability.

6.12. Discussion – Pre-Approval of LNG Contracts

PG&E specifically includes LNG in its proposed pre-approval processes, while SoCalGas and SDG&E do not. PG&E anticipates that in the early stages of the market development, marketers of LNG supplies will be primarily interested in promoting multi-year base load type contracts. Because of the anticipated long-term nature of LNG contracts, and because contracting for significant volumes of LNG may require adjustments to the core's transport and storage portfolio, PG&E states that it is imperative that LNG contracts be subject to the same pre-approval process as the transport and storage contracts. Coral supports PG&E's proposal. However, ORA opposes PG&E's LNG treatment and supports the SoCalGas and SDG&E proposal to address LNG matters in advice letter filings, with the caveat that it also reserves the right to request the utility to file a formal application. TURN is also opposed to the pre-approval of LNG contracts. TURN notes that the likely longer term LNG contracts are more like supply contracts rather than pipeline capacity contracts, both in terms of price and contractual provisions. TURN asserts that a rulemaking concerning pipeline capacity is not the appropriate place to slip in a dramatic change in contracting for commodity supply.

The viability and costs related to interstate pipeline and storage capacity are more certain than the ongoing activities to bring LNG supplies to serve California. Because of the uncertainties over how the LNG markets in California will develop, it is appropriate, at the outset, to have the Commission review LNG related contracts. For that reason, we will adopt the proposal of SoCalGas and SDG&E to address LNG contract matters in advice letter filings, with the understanding that ORA has reserved the right to have the requesting utility file a formal application. We will apply the same condition to PG&E.

We also note that the use of LNG contracts in the utilities' portfolios may affect the workings of the existing gas procurement mechanisms, and may require adjustments to accommodate these kinds of contracts.

6.13. Discussion – Energy Conservation

In their comments to the Phase I proposals, NRDC and RACE raised the role that energy efficiency and renewable generation should play in reducing the demand for natural gas. In the OIR, we recognized that energy efficiency can help moderate the demand for natural gas. In addition, the Energy Action Plan proposes specific actions relating to increasing energy conservation and efficiency measures, and to increase renewable generation.

The demand for natural gas in California reflects the efforts resulting from energy efficiency. These efforts are reflected in the BCAPs of the utilities and in the California Gas Reports, which form the basis of the utilities' demand for gas.

Several efforts have been underway to address the energy efficiency and renewable energy concerns raised by some of the parties. Many of the issues concerning energy efficiency and renewable energy have been addressed by the CEC in its ongoing Integrated Energy Policy Report proceedings, and its related work on energy efficiency standards and renewable energy programs. In addition, we have addressed energy efficiency efforts in R.01-08-028 and in R.01-10-024. Most recently in R.01-08-028, through D.04-02-059, we approved funding of energy efficiency programs for a two-year period beginning in 2004. In D.04-01-050 (R.01-010-024), we adopted a framework for the electric utilities to plan for and procure the energy resources and demand-side investments that they need to ensure their customers receive reliable service at low and stable prices. We recognize that further work is needed in the area of energy efficiency.

The focus of this proceeding is to ensure that policies and rules are in place to ensure long-term supplies of gas. The focus of the above-mentioned rulemaking proceedings has been energy efficiency and renewable energy programs. It would be duplicative for this OIR, either in Phase I or Phase II, to address the additional energy efficiency and renewable energy concerns raised in this proceeding. We therefore decline to address those concerns in this proceeding. Parties interested in those issues should raise their concerns in those ongoing or related proceedings, or in future energy efficiency proceedings.

7. Supply Access

As part of the Phase I issues, the OIR stated that this proceeding will address "access on the intrastate pipelines to LNG supply in the future." (OIR, p. 11.) The OIR recognized that the LNG access issue should be addressed in Phase I because of the need to resolve a number of matters in the short-term so that the proposed LNG facilities can benefit California.

At the outset of this LNG discussion, we point out that we are not deciding in this decision whether certain proposed LNG projects should be built in California, or on the West Coast. Instead, today's decision is only addressing what needs to be in place for potential sources of LNG supply to connect to the gas transmission and distribution systems of the California gas utilities. Such an analysis furthers the Energy Action Plan's goal of ensuring that California has a reliable supply of reasonably priced natural gas. As part of the actions needed to further this goal, the Energy Action Plan stated that the agencies will pursue these two actions, among others:

> (a) "Identify critical new gas transmission, distribution and storage facilities needed to meet California's future needs," and (b) "Evaluate the net benefits of increasing the state's natural gas supply options, such as liquefied natural gas." (Energy Action Plan, p. 8.)

Today's Phase I decision addresses the access policies that need to be in place to allow potential sources of LNG to access the utilities' gas systems. Earlier in this decision, we discussed how diverse gas supplies, including potential sources of LNG, can benefit California. However, the issue of whether individual LNG projects should be built in California, in Federal waters offshore of California, or in Mexico, is or will be addressed in the applicable regulatory proceedings examining each individual project.

The OIR directed each of the Respondents, except for Southwest, to submit a proposal concerning guidelines for how natural gas supplies from LNG facilities can access each of their intrastate pipelines and distribution facilities to the extent that LNG terminals are constructed on the West Coast. The OIR also directed the Respondents to discuss the costs and terms for interconnecting to these facilities, and to discuss whether any other issues (*e.g.,* bypass or peaking rate issues) exist and how they should be resolved if a shipper receives regasified LNG.

Due to proposed LNG projects located in Baja California, Mexico, SoCalGas and SDG&E were asked to address the following issues concerning access through Otay Mesa, the shortest route connecting Baja LNG projects to southern California: the reasonable amount of expansion capacity (which shippers may be interested in utilizing) and the costs for such capacity expansion for interconnecting facilities and intrastate pipelines to facilitate this gas supply being made available to California; the costs and terms for users of these interconnecting facilities; whether there would be double receipt points (*i.e.,* SDG&E and SoCalGas) or one integrated path for such supplies; and whether any other issues (*e.g.,* bypass or peaking rate issues) exist and how they should

be resolved if an entity supplies natural gas through this route or a shipper receives natural gas through this route.

SoCalGas was also directed to propose a means for providing additional access so that Rocky Mountain gas supplies can reach California through SoCalGas' interconnecting facilities. The Respondents were also directed to address any interconnection facility issues that they believe the Commission must decide by the summer of 2004.

The responses of PG&E, SoCalGas and SDG&E are summarized below, and are followed by discussions of the issues raised in the comments.

7.1. PG&E Proposal

7.1.1. LNG Access

PG&E is primarily interested in the development of LNG facilities as a buyer of gas and as a transporter and distributor of gas. As a buyer of gas, PG&E states that LNG holds the promise of an additional supply source, which will moderate prices and create additional opportunities to enhance the diversity of supply. PG&E indicates that its core customers are likely to benefit from LNG either through the contracting for supplies, or from the freeing up of gas supplies that are displaced by LNG in other markets.

PG&E's proposal describes three LNG access scenarios: (1) connecting to Calpine's proposed LNG facility near Eureka;[13] (2) through the North Baja Pipeline to Ehrenberg then to PG&E; and (3) by SoCalGas allowing

[13] In its submittal, PG&E provided information on a LNG facility near Eureka, which was being proposed by Calpine. In March 2004, Calpine announced that it was terminating consideration of this project. Consequently, this decision does not include discussions related to this project.

nominations from a Los Angeles city gate delivery point to an off-system connection with PG&E.

PG&E states that, as a transporter of gas, it is ready to apply to the Commission for the necessary approvals to connect to any LNG facility, subject to certain proposed principles described below. PG&E states it will build the facilities necessary to transport the gas from the LNG facility (or another utility's pipeline facilities interconnected to the LNG facility) to PG&E's existing gas transmission and distribution network. PG&E states that the planning of these facilities will help ensure that the use of existing facilities are maximized.

PG&E also takes the position that because the new facilities will be built to provide additional supply assurances for PG&E's customers pursuant to Commission goals, the Commission's approval must allow these new facility costs to be fully recoverable and included in rates. According to PG&E, similar assurances were provided in D.02-07-037 where the Commission stated that new interstate pipeline capacity acquired on the El Paso system in compliance with the decision would be found reasonable and recoverable in rates.

PG&E's proposed policy on building Commission authorized connections to new LNG facilities differs from PG&E's current interconnection policy, which requires interstate pipelines and third-party storage providers to build their own facilities to PG&E's system and pay PG&E for its costs to build the interconnect and to make nomination system changes. PG&E believes that such a policy change is warranted if the Commission wants to encourage the siting of LNG facilities in or near California.

PG&E proposes that the approval process for each LNG connection and associated PG&E downstream facilities should allow for a dialogue among interested parties on the needed facilities, costs, economic feasibility, demand for

the project, potential changes in the utilization of existing pipeline facilities, rate impacts, and gas quality interchangeability issues. If the Commission decides that an LNG project fails to provide benefits sufficient to outweigh the financial risks, PG&E would not build the connecting pipeline. In such a case, in order for the project to go forward, the LNG facility developer would need to build its own facilities or else pay PG&E to construct the necessary facilities to the nearest interconnect point on the existing transmission system. PG&E does not suggest that the Commission assert authority over whether the LNG project should be built, but states that the Commission does have authority over whether a California jurisdictional utility's gas transmission assets should be built and included in rates.

It is PG&E's position that, since the purpose of the proceeding is to provide assurance that California gas users will continue to have reliable, competitively priced gas supplies, the utilities should not be penalized if some pipeline facilities are not fully utilized because of a substantial change in flow patterns on the system after LNG facilities are built. If throughput on an existing pipeline goes down as a result of new supplies coming from another source at a different point on the system, PG&E proposes that its rates be adjusted so it continues to fully recover the cost of the existing facilities.

PG&E states that the utility should work cooperatively with the LNG supplier and its customers to ensure that the delivered gas is in compliance with the receiving utility's gas quality interchangeability requirements. PG&E proposes that the Commission enact rules requiring all LNG suppliers to process their gas to meet existing utility gas quality interchangeability requirements.

7.1.2. Access on Interconnecting Facilities with Interstate Pipelines

PG&E also addressed access to Kern River's pipeline expansion that was completed in 2003. The expansion can provide up to 900 MMcfd of new Rocky Mountain gas supplies to flow into California. PG&E states that Kern River also connects to SoCalGas at Wheeler Ridge and at Kramer Junction, but the intrastate capacity made available by SoCalGas to Kern River shippers has proven to be inadequate.

According to PG&E, SoCalGas expanded the Wheeler Ridge interconnect by 80 MMcfd and installed the new Kramer Junction interconnect. The new Kramer Junction interconnect was sized to allow 500 MMcfd of flows from Kern River to SoCalGas. But SoCalGas has only made 200 MMcfd of the 500 MMcfd available for scheduling. The remaining 300 MMcfd is not available because SoCalGas believes shippers on the Transwestern system and El Paso system have grandfathered rights to this capacity. As a result, PG&E states that a significant amount of capacity on the SoCalGas system went unused at Kramer Junction, while the Wheeler Ridge interconnect was constrained for most of the summer of 2003. Since gas from the PG&E system to SoCalGas must also go through Wheeler Ridge, PG&E states that this constraint consistently reduced off-system flows on the PG&E system from June through October 2003.

It is PG&E's position that SoCalGas should not continue to favor shippers on the Transwestern and El Paso system over shippers on the Kern River system. PG&E proposes that until SoCalGas implements a system of firm capacity rights, SoCalGas should implement a process to allocate the take away capacity between all the affected pipelines based on final scheduled volumes from two days prior. This is the same process that is used to allocate the available take away capacity at Wheeler Ridge between PG&E, Kern River,

and deliveries from Elk Hills. PG&E urges that its proposal be implemented immediately.

7.2. SoCalGas and SDG&E Proposals

In its proposals, SoCalGas and SDG&E addressed a number of issues associated with providing access to their systems to accommodate both existing and new sources of supply. These include: (1) access options, capacities and costs; (2) ratemaking issues; (3) transmission system integration; (4) firm access rights; and (5) interconnection policies.

7.2.1. Access Options

SoCalGas states that in A.02-12-027 and A.03-09-008, it demonstrated that it has sufficient slack capacity on its backbone transmission system to meet demand through 2020. The magnitude of intrastate facility expansion costs depends largely on the interconnect location of the new or expanded supply source, the size of the new or expanded source, and whether the source is allowed to displace existing supply sources such that the total 3,875 MMcfd firm receipt point and redelivery capacity remains the same, or whether the new or expanded interconnect location is allowed to increase the firm receipt point and redelivery capacity of the entire system. The costs that SoCalGas and SDG&E provided in this proceeding are factored estimates, and do not represent detailed construction estimates.

In responding to the OIR's direction that it address the costs of capacity expansion for interconnecting facilities and intrastate pipelines to facilitate LNG supply availability to California at Otay Mesa or at any receipt point in or near the utilities' service territory, SoCalGas and SDG&E examined three locations on their gas transmission system for the receipt of LNG supplies. These are: Otay Mesa meter station on the SDG&E system near the US/Mexico

border (potential access by Sempra LNG and Coral); Salt Works Station on the SoCalGas system near Long Beach (potential access by SES); and Center Road Station on the SoCalGas system near Oxnard (potential access by Billiton and Crystal). On a displacement basis, new supplies would have to compete for existing pipeline delivery capacity and potentially displace current supplies, *i.e.*, the SoCalGas system firm receipt and redelivery capacity would remain at 3,875 MMcfd. On an expansion basis, the SoCalGas system firm receipt and redelivery capacity would be expanded beyond 3,875 MMcfd to accommodate the new supply without displacing the receipt of current supplies.

A number of access cost estimates were provided depending on location, capacity, whether it was on a displacement or expansion basis, and whether it was on a single or multiple receipt basis. The table below illustrates costs related to the potential scenarios:

		Improvement Cost ($ millions)	
Scenario	Location (Capacity)	Displacement	Expansion
1	Otay Mesa (600 MMCFD)	$76	$206
2	Salt Works Station (800 MMCFD)	5	70
3	Center Road Station (800 MMCFD)	1	11
4	Multiple Receipt (1 and 2)	85	410
5	Multiple Receipt (1 and 3)	77	220
6	Multiple Receipt (2 and 3)	6	174

As shown above and explained in the proposal, improvement costs to accommodate an expansion of the system receipt and redelivery capacity can be significant when compared to improvement costs that assume displacement of capacity.

The OIR also directed SoCalGas to file a proposal for providing additional access for Rocky Mountain supplies to reach California through interconnecting facilities. In A.02-12-027 and A.03-09-008, SoCalGas addressed the facility improvements needed to provide an expansion of 200 MMcfd of additional takeaway capacity at any one of the existing interstate receipt points. As shown in its proposal, a 200 MMcfd expansion would cost $153 million at Topock; $20 million at Blythe; $100 million at Needles; $62 million at Kramer Junction and $100 million at Wheeler Ridge. Any one of these improvements would expand the SoCalGas system receipt and redelivery capacity to 4,075 MMcfd. SoCalGas notes that the indicated costs for each location would likely be higher, if more than one of these receipt points is expanded.

In A.03-06-040 it was noted that there is an additional interconnect capacity of 300 MMcfd with the Kern River pipeline at Kramer Junction in existence today. However, that capacity competes for access to the SoCalGas transmission system with existing supplies delivered by El Paso and Transwestern. Thus it is only available on a displacement basis. In order for 200 MMcfd to be accepted and redelivered without displacing other supplies, the $62 million in facility improvements described above are required. The utilities note that their firm access rights proposal would permit an additional 300 MMcfd of supplies to be accepted and redelivered from Kern River on a firm basis in competition with other firm "north desert" deliveries.

7.2.2. Ratemaking

SoCalGas and SDG&E believe there is sufficient total receipt point "slack" capacity in place to serve expected load growth in southern California through 2016. From the perspective of a supply/demand analysis, they believe

that adding to the total amount of intrastate transmission capacity during the time horizon to 2016 would be of minimal benefit. However, they believe that investments that provide access to more diversified gas supply sources will be of significant economic benefit to their customers. For example, a new supply source would: (1) increase the reliability of gas supplies in southern California; (2) increase the flexibility of customers' gas procurement by adding another supply option; and (3) increase gas-on-gas competition, creating lower burner-tip prices than would otherwise exist for all customers.

Because of these benefits from supply diversity, SDG&E and SoCalGas recommend that the Commission adopt a policy supporting diversity of supply sources. Specifically, SDG&E and SoCalGas recommend that the following policy statement be adopted:

> "It is in the interest of California that new sources of gas supply be encouraged. Therefore, to the extent that the benefits to all utility customers of access to the new gas supplies are greater than the cost to utility customers, the costs of expanding utility backbone facilities necessary to accommodate new gas supplies should be rolled-in to the utilities' system wide transportation rate. Below a certain cost threshold, it should be presumed that benefits exceed cost." (SDG&E and SoCalGas, Phase I Proposal, pp. 69-70.)

SoCalGas and SDG&E state that this policy statement is consistent with the Energy Action Plan's direction on new supply sources and is consistent with FERC policy on rolled-in ratemaking.

In conjunction with this policy statement, SoCalGas and SDG&E propose that if customers express an interest in new or diversified supply sources, SDG&E and SoCalGas would roll-in new or expanded supply access infrastructure costs up to $100,000 per MMcfd of added supply capacity, with a

maximum cost for all projects of $200 million. SoCalGas and SDG&E note that the $200 million figure represents a minimum of 2 Bcfd of added receipt capacity at a cost to customers of less than 4 cents per Mcf, or less than one percent of the expected total delivered cost of gas.

The proposed roll-in criteria are based on the price benefits of a more diversified set of supply sources. SoCalGas and SDG&E conducted an analysis of price changes under different demand and basin price scenarios, and investigated the effects of adding a new source of supply to southern California. They assert that a new supply source is a benefit to customers because it creates another option for customers and additional competition to other sources of natural gas supplies. When the new supply source becomes a competitive option to supplies from an expensive basin, there is value to all customers in reduced California border prices. The larger the new supply addition, the greater the opportunity to replace gas supplies from more expensive supply sources and the greater the associated price benefits for all customers.

Since LNG is a new supply source, and based on the diversity benefit analysis, SoCalGas and SDG&E propose to apply the rolled-in ratemaking treatment to LNG projects. They also propose to apply the same rolled-in treatment for expanded access to gas supplies from the Rocky Mountains until the amount of access to this gas is similar to the access to the San Juan and Permian Basins. At that point, they state there would be no additional diversity benefit. While rolled-in ratemaking treatment is not currently proposed for expanded access to San Juan or Permian, the utilities state that if any party can show that the costs of expanding take-away capacity at a receipt point accessing the San Juan or Permian Basins are outweighed by customer benefits, rolled-in treatment should also be considered for such costs.

SoCalGas and SDG&E propose that the revenue requirement changes associated with the rolled-in costs be allocated on an equal cents per therm basis since the net benefits are based on expected gas commodity cost reductions. The projects are intended to provide access to another supply source which results in diversity benefits. Thus, the costs would not be accounted for in the capital dollars authorized in the SoCalGas and SDG&E cost of service proceedings. Also, the costs to be rolled-into rates would not be to meet new customer growth, so the costs would not be accounted for in the annual PBR adjustment mechanism.

SDG&E and SoCalGas propose that a rolled-in ratemaking presumption be established in this proceeding, and that the presumption remain in place until such time the Commission finds that a higher level of utility capital spending on new or diversified supply access is justified.

SDG&E and SoCalGas state they are willing to build expansion or displacement capacity for access to new supplies beyond the capacity that meets the presumption for rolled-in treatment (or which could qualify for rolled-in treatment under a more extensive evidentiary process), for customers or shippers willing to make a long-term commitment to pay the costs of such facilities. As explained in the firm access rights proposal, the open season bidding would be based on a supply curve supplied by SDG&E and SoCalGas using the best estimates available for the cost of constructing added increments of capacity. The capital costs would be converted to a rate per Mcf based on similar factors used to calculate the rolled-in cost except that the costs will be amortized over 15 years.

7.2.3. Transmission System Integration

Currently, SoCalGas has a large transmission system with interconnects to PG&E and all of the interstate pipelines serving southern California. These pipelines access a diverse set of basins, including San Juan, Rocky Mountain, Canadian, and Permian supplies. SoCalGas also provides access to gas from California producers and offshore producers.

All SoCalGas and SDG&E customers schedule natural gas deliveries through the SoCalGas receipt points using SoCalGas' scheduling system. SDG&E has no on-system gas production and receives all gas supplies through interconnects with SoCalGas. The primary delivery point into the SDG&E system is at Rainbow Station in southern Riverside County. Since the merger, the Gas Transmission/Gas Operations group has jointly operated both transmission systems. The utilities assert that this combined operation has led to greater efficiency and reliability for customers in both service territories.

As a wholesale customer of SoCalGas, SDG&E customers currently pay for the use of SoCalGas' transmission system. SoCalGas customers, excluding electric generation customers, do not utilize or pay for SDG&E's transmission system, except for a small share of the Moreno compressor station.

SoCalGas and SDG&E state that the Commission should adopt rules that promote the greatest access to new supply sources for both utility customers. They assert that the most efficient way to accomplish this is to establish an integrated, common access system. The integrated access approach would allow all utility customers in southern California to have the same priority of access, terms, and conditions for natural gas delivered at any point on these two systems.

Under the integrated access approach, SoCalGas and SDG&E customers would continue to schedule natural gas deliveries through the combined SoCalGas and SDG&E receipt points. The customers of both utilities would pay a single integrated transmission rate for delivery from any receipt point to any burner tip location in the combined service area. In addition, customers would continue to pay the separate distribution rates established by each utility for its own service territory.

SoCalGas and SDG&E state that with the development of LNG supplies in Baja California, Otay Mesa could become a significant receipt point for customers of both utilities. It is expected that regasified LNG deliveries to Otay Mesa will provide more natural gas than can be consumed within SDG&E's territory. Therefore, LNG developers are interested in full access to the SoCalGas system and its customers and storage assets. In order to provide these LNG developers with assurance that efficient access to the SDG&E and SoCalGas markets will be available through Otay Mesa, SoCalGas and SDG&E request that the Commission allow the establishment of Otay Mesa as a common receipt point for both utilities by December 31, 2004. Once SoCalGas customers have access to new supplies at Otay Mesa, SoCalGas customers should then pay part of the cost of the SDG&E transmission system, just as SDG&E customers pay part of the SoCalGas transmission system today.

Under the utilities' proposal, the integrated transmission rate would be based on the embedded cost of the combined transmission facilities of the two utilities, including any rolled-in intrastate expansion facilities required to bring new supplies to the market centers. SoCalGas and SDG&E state that on an embedded cost basis, the integrated transmission rate will increase class average transportation rates for SoCalGas customers by 0.2 to 0.4 cents per therm, and

SDG&E customers will realize a 2 to 4 cents per therm rate reduction. The Sempra wide electric generation rate will be reduced by approximately 0.2 cents per therm. The utilities propose that specific rate issues be addressed in a second phase of their BCAPs. In the interim, Otay Mesa supplies would be scheduled using SoCalGas' scheduling system, and customers would pay the approved transportation rates of their respective utility for deliveries through this new receipt point.

The utilities claim that the effect on natural gas prices as a result of access to a new supply is likely to be of much greater benefit than the small transportation rate impact on SoCalGas' customers. They also assert that the integrated access rate will establish a reasonable means for SoCalGas' customers to pay for transportation of natural gas through the SDG&E system from Otay Mesa.

Without an integrated access approach, separate receipt points into the SDG&E and SoCalGas systems would need to be established at Otay Mesa and Rainbow Station, respectively. That is, customers in SoCalGas' service territory wanting access to Baja LNG supplies would be required to schedule deliveries through both SDG&E's Otay Mesa and SoCalGas' Rainbow receipt points. SDG&E customers and suppliers wanting access to SoCalGas storage would also be required to schedule deliveries through both receipt points. They claim that the creation of this double receipt point scenario would cause several inefficiencies including loss of operating efficiencies and the creation of artificial pricing advantages for some pipeline delivery points over others, which would distort competition.

The utilities state that if there is an integrated SoCalGas and SDG&E access point, the peaking rate will not apply to customers scheduling deliveries

through Otay Mesa. The peaking rate was established to address the pricing and service provisions for customers who partially bypass the SoCalGas system, but remain connected to SoCalGas for their peaking needs. According to the utilities, with transmission integration, customers on both SoCalGas and SDG&E who ship gas through Otay Mesa would not be partially bypassing the utilities' transmission system and the peaking rate would not apply.

However, SoCalGas and SDG&E state that SoCalGas' peaking rate will apply to a partial bypass customer who takes service from an LNG supplier and takes partial service from the utility. If an LNG customer base loads on the LNG supplier and uses the SoCalGas system to meet their peak needs, that customer imposes the same cost on the SoCalGas system as an interstate pipeline customer taking peaking service from SoCalGas. SoCalGas and SDG&E state that the Commission should ensure that LNG customers who choose to partially bypass the utility pay their share of the costs imposed on the utility, as reflected in SoCalGas' cost-based peaking rate.

7.2.4. Firm Access Rights

SoCalGas and SDG&E propose that a system of firm, tradable receipt point access rights be adopted. Such a system will provide assurances to developers of interstate pipeline and LNG projects that their gas supplies will be able to enter the SoCalGas system on a firm basis. The utilities request that the Commission adopt its proposed system of firm tradable access rights as soon as possible. To the extent the Commission concludes that the details associated with firm access rights require evidentiary hearings, the utilities request that the Commission consider such details in Phase II of this proceeding.

SoCalGas explains that its transmission system currently has the capability to take 3875 MMcfd of intrastate and interstate supplies from various

receipt points and redeliver those supplies to storage fields and/or distribution customer end-users. This is a firm 365 day a year capability. However, the total supplies that theoretically could reach SoCalGas on a given day exceeds 6 Bcfd based on the capacity of upstream pipelines. SoCalGas claims that, under the current rules, this mismatch makes it difficult to create a reliable firm connection between a supplier and its southern California end use customer for every day of the year. The cost of expanding its receipt point take away capability to 5 Bcfd would be expensive (over $500 million), and in SoCalGas' opinion, unnecessary, because of the available slack capacity.

SoCalGas and SDG&E claim that, instead of making expensive and unnecessary capital investment in the backbone system, there should be a system of firm tradable rights on the intrastate transmission system. A system of firm tradable rights currently exists for PG&E, and SoCalGas and SDG&E claim that a similar system needs to be developed for southern California. The utilities explain that, if ownership rights for the existing 3875 MMcfd of backbone transmission take away capacity can be established, the owners of those rights could establish a firm reliable connection between a particular supply source and the customer's burner tip. The owners of such receipt points could then switch suppliers depending on the price benefits of that supply. New customers or suppliers could bid or trade for those rights through the secondary market to ensure firm deliveries to the SoCalGas city gate.

The Comprehensive Settlement Agreement (CSA) of April 2000 tried to establish such a system. That system, however, was never implemented[14] and, according to SoCalGas and SDG&E, is outdated and deficient for the following reasons:

- First, the rights negotiated during that settlement gave preferences to existing suppliers over new suppliers.
- Second, the term of the CSA rights were limited to less than five years, while the development of new supplies often requires long term access rights.
- Third, the CSA did not provide a framework by which to add new supplies at new receipt points.
- Fourth, the CSA did not describe how SoCalGas might expand backbone transmission capacity.

The utilities state that, relative to the CSA framework, the new proposal should be preferable to customers because: (1) the set asides suggested for core customers look beyond SoCalGas' soon to expire El Paso and Transwestern service agreements and are consistent with the core supply diversity efforts; (2) there is a substantially lower reservation charge, and the resulting revenues are credited back to end users; (3) there is a shorter term commitment required of customers, which allows them to compete for receipt points in new open seasons based on their more recent demand and perceived changes in the values of relative receipt points; and (4) the broader and more flexible definition of receipt point rights by transmission zone will allow

[14] The CSA was adopted, but not implemented in D.01-12-018. Tariffs implementing D.01-12-018 were adopted in D.04-04-015, but that order was stayed pending a Phase I decision in this OIR.

customers greater ability to exert downward price pressure on competing gas supplies.

SoCalGas and SDG&E also state that, relative to the CSA framework, the new proposal should be preferable to new gas suppliers because: (1) it puts new gas supplies on a level playing field with existing supplies; (2) it accommodates a variety of potential new supplies at new receipt points; (3) it permits the economic expansion of the transmission system; and (4) it allows new suppliers and/or their customers to obtain long term access to the SoCalGas system so that their large capital investments can be justified.

A four-step proposal to allocate capacity is described in detail in the Phase I proposal of SoCalGas and SDG&E. In summary, for step 1, there would be a set aside option for three years. This step would only apply to existing capacity or potential new receipt point capacity that meets the rolled-in presumption. For step 2, there will be preferential bidding by noncore customers for three years. This step would only allocate existing capacity or potential new receipt point capacity that meets the rolled-in presumption. For step 3 there would be a long-term general auction for new capacity. For Step 4, there would be a shorter-term general auction. In this step any party would be allowed to bid. In steps 3 and 4 any party would be allowed to bid, with the maximum total bid for any party established by its creditworthiness.

SoCalGas and SDG&E also propose the following:

- Associated reservation charge revenue would be credited to all end-users on an equal cents per therm basis.
- Any unawarded firm capacity and daily interruptible capacity would be offered by the utility on a daily volumetric basis for up to 5 cents per dth, and a 75/25 ratepayer/shareholder incentive

sharing mechanism would be established for these interruptible revenues.

- The utility would sell interruptible backhaul services from the city gate to any receipt point on its system. This gas could, in turn, then be delivered off system.
- SDG&E and SoCalGas would provide reports to the Commission on the ownership, use, and pricing of the intrastate capacity rights awarded through this process.
- Within a transmission zone, customers would be able to nominate daily on an alternate basis to any of the other receipt points. Alternate receipt rights nominations would be subject to SoCalGas' proposed scheduling and nomination rules.
- NAESB standards would apply for the purposes of bumping of prior scheduled volumes on a cycle-by-cycle basis. SoCalGas will schedule and confirm nominations in accordance with the following priority order: Priority 1 – all nominations utilizing Firm Capacity receipt rights; Priority 2 – all nominations designated as Alternate Receipt Points; Priority 3 – all nominations utilizing interruptible capacity receipt rights.
- There would be no changes to its existing balancing rules in this proceeding. SoCalGas states that new balancing rules are not necessary to implement a system of firm, tradable access rights and intends to address its balancing rules in another proceeding, such as the BCAP.
- The utility would provide for city gate pooling to allow for the aggregation of multiple gas supplies being delivered from multiple receipt points. This pooling location would be on the SoCalGas system after the gas is delivered through a receipt point using the customers' access rights.

- A system-wide in kind transmission fuel rate would be established in order to more accurately signal the variable cost of using the transmission system to market participants. SoCalGas intends to propose such a change in Phase II of this proceeding or in another relevant proceeding such as its BCAP.

7.2.5. Interconnection Policy

Another consideration in promoting access to new gas supplies is the interconnection policy applicable to upstream suppliers, including interstate pipelines and LNG regasification terminals.

SoCalGas and SDG&E propose to interconnect with any new supply source under the following conditions:

1. That the interconnection and physical flows do not jeopardize the integrity of, or interfere with, normal operation of the utility pipeline and storage system.
2. The interconnecting pipeline pays for all equipment necessary to effectuate deliveries at the interconnection, including, but not limited to, valves, separators, meters, quality measurement, odorant and other equipment necessary to regulate and deliver gas at the interconnection point. The interconnecting pipeline must execute a standard Construction/Interconnection Agreement.
3. The interconnecting pipeline must execute a standard Operator Balancing Agreement with the utility. This agreement specifies a number of operating provisions, including minimum and maximum operating pressures, and balancing of actual deliveries and the scheduling of deliveries.
4. Customers and shippers of either pipeline system may use the point of interconnection as a scheduling point if the interconnecting pipeline abides by NAESB nomination/confirmation standards.

5. It will be the interconnecting pipeline's responsibility to deliver supply at the point of interconnection at a sufficient pressure to enter the utility system but at not less than the minimum operating pressure or more than the maximum operating pressure.
6. All supply must meet the requirements of utility's then current Tariff Rule 30 relating to gas quality specifications, or other rules, regulations, and/or requirements of any federal, state, or local or other agency having subject matter jurisdiction, including, but not limited to, the CPUC and the California Air Resources Board.
7. The physical capacity of the interconnection will be determined by the sizing of the point of receipt and the utility's ability to redeliver supply downstream of that point of receipt.
8. The receipt capacity for any particular day may be affected by physical flows from other points of receipt, physical pipeline and storage conditions for that day, and end-use demand.

The utilities state that the approval of this interconnection policy will provide potential new suppliers with a clear understanding of their obligations as they plan their upstream facilities.

7.3. Discussion – LNG Access Issues

The vast majority of parties favor the idea of California having the opportunity to access LNG. A number of the parties suggest that it is reasonable to require the utilities to provide open access to LNG facilities. Several parties also favor extending the access policies to new sources of supply other than LNG. In general, an open access policy would assure developers that, at minimum, if they build facilities to the utility's system, the utility will interconnect with those facilities. In the case of LNG, this would provide assurance that LNG would not be "stranded on the beach", without any access to

the utility's system. We will therefore order PG&E, SoCalGas and SDG&E to submit non-discriminatory open access tariffs for all new sources of supply, including potential LNG supplies.

As described earlier, SoCalGas and SDG&E have provided information on potential LNG access points to their systems. We will focus on those proposal sites, since the one potential site in PG&E's territory has been cancelled. PG&E does, however, address access to LNG outside of its territory by going around or through SoCalGas' system.

The thrust of a number of the comments, regarding the SoCalGas and SDG&E proposals, addressed the access options and related capacities and costs. Many of the commenting parties point out that a substantial amount of LNG can be accessed for very little money. According to the analyses of SoCalGas and SDG&E, on a displacement basis, up to 400 MMcfd can be accessed through Otay Mesa for approximately $7 million in infrastructure improvements. ORA notes that if the flow on the North Baja pipeline is reversed from west to east, as much as 500 MDth/d could be delivered from Baja Mexico to SoCalGas' Ehrenberg/Blythe delivery point on a firm basis. SoCalGas and SDG&E also estimate that 800 MMcfd of LNG could be accessed through Salt Works Station on a displacement basis, for approximately $5 million in infrastructure improvements; and 800 MMcfd through Center Road Station for approximately $1 million in infrastructure improvements.

PG&E also discussed accessing LNG from Baja California in its Phase I proposal. Assuming regasified LNG flows east to Ehrenberg, as discussed above, it could be accessed if El Paso converts Line 1903 to natural gas service between Ehrenberg, and if PG&E (or El Paso) builds an interconnection between

that line and PG&E's Line 300. PG&E did not provide a cost estimate, but in comments NCGC stated it might cost about $100 million.

In order to facilitate LNG access, SoCalGas and SDG&E will be allowed to establish receipt points, as they become needed, at Otay Mesa, Salt Works Station, Center Road Station, or at other receipt points that may be needed to access regasified LNG.

Additionally, we will grant the request of various parties to make Otay Mesa a common receipt point for both the SoCalGas and SDG&E gas systems. It is important for the Commission to send the signal to potential LNG suppliers that the gas they provide will have access to the California utilities' systems. Also, to the extent that gas can be moved through Otay Mesa now, we welcome this increase in gas supply. Accordingly, we authorize SDG&E and SoCalGas to establish Otay Mesa as a joint receipt point into their systems at the earliest practical date. The interim transportation rate paid by any shipper delivering gas into the utilities' system at Otay Mesa will consist of the shipper's transportation rate on its local utility, i.e., either the applicable SDG&E or the SoCalGas tariff rate. This interim approach will promote immediate operating efficiencies. However, the interim transportation rate that we adopt for gas delivered through Otay Mesa shall not prejudge any issues related to system integration that will be addressed in the upcoming system integration/firm access rights proceeding.

The utilities' responses and the comments by parties on the various access options and related costs are relevant to our discussion below regarding the ratemaking treatment for infrastructure improvements.

7.4. Discussion – Ratemaking for Infrastructure Improvements

SoCalGas and SDG&E propose to roll-in (have ratepayers pay for) up to $200 million in LNG-related infrastructure improvements, as long as the utilities can show that there is a cost benefit in doing so. Both Coral and Sempra LNG, who support the roll-in proposal, intend to deliver regasified LNG to California from Mexico. SoCalGas and SDG&E indicate that to access large amounts of LNG from Mexico through Otay Mesa, related infrastructure improvements could be substantial (*e.g.,* $164 million for 700 MMcfd).

A number of parties oppose the roll-in proposal. Billiton and SES, who propose to provide LNG directly in California, state that they are willing to pay for the costs to access the system, which for like amounts of gas are less than Otay Mesa costs. Billiton indicates that the utilities' proposal effectively results in customers subsidizing the higher cost of entry for Baja LNG and that it is poor public policy to adopt subsidies that saddle ratepayers with potentially hundreds of millions of dollars of cost that can be avoided entirely. SES states that competition based on total delivered prices will result in the construction and operation of LNG facilities in a manner that is most cost effective for the California market.

Crystal, another potential California LNG supplier, states that it is not necessary, as SoCalGas suggests, that presumptions about cost thresholds (such as a rolled-in rate recovery structure) be in place in order to develop new receipt/interconnection points. Crystal states that customers should not be at risk for costs at the outset. Instead, the LNG supplier should be willing and positioned to assume up front cost responsibility. Crystal says that subsequent determinations on rate recovery structures may result in project refunds, if

rolled-in pricing ultimately proves to be appropriate, or credit backs if incremental pricing is maintained.

Other parties commented that the utilities' proposal would inappropriately benefit an affiliated company, *i.e.*, Sempra LNG. Regarding access to Baja LNG, ORA also argues that roll-in may not even be necessary, because large amounts of gas, up to 900 MMcfd, can flow from Mexico to California through the combined receipt points of Ehrenberg and Otay Mesa for very little money.

The roll-in proposal of SoCalGas and SDG&E would have the Commission authorize a process by which rates would be increased. However, rate matters are governed by the requirements of Pub. Util. Code Section 454, which requires an application, notice to customers of the proposed rate change, and a finding by the Commission that the new rate is justified. SoCalGas and SDG&E concede that the roll-in proposal will affect customers' rates.

Also, the issue of rolled-in versus incremental ratemaking treatment for particular utility facilities is complicated by the enormous uncertainty regarding LNG projects. Specifically, which facilities will ultimately be developed and when. No LNG terminal or other new supply source has started construction, and projects of this nature face significant hurdles before they can be completed. In addition, potential construction costs to accept and redeliver significant volumes of gas at multiple new receipt points varies widely, depending on which new sources of supply actually materialize and the volumes to be delivered at each new receipt point.

Based on the above concerns, it is appropriate to await further developments regarding the permitting and construction of LNG terminals before deciding the extent, if any, to which backbone facility costs should be

rolled-in to system-wide transportation rates. Once there is more information about which LNG terminals will actually be constructed and when, the utilities will be able to determine what the true costs of LNG access are. While a number of potential LNG suppliers have indicated that they are willing to pay the access costs, with more detailed and specific cost data, they can make a final determination as to whether they are willing to underwrite the access costs, or if they wish to have the Commission consider rolled-in rate treatment. We will therefore adopt a policy that presumes LNG suppliers will pay the actual system infrastructure costs associated with their projects. However, requests for rolled-in, or any alternative ratemaking treatment, can be filed through the application process, with appropriate notice to customers. Those proposals, including the costs and cost recovery mechanisms, can then be evaluated on a case-by-case basis.

This policy will also apply to PG&E. PG&E proposed an application process on a case-by-case basis, but included the presumption that, if the project were approved, costs would be fully recoverable and rolled-in. Our adopted policy does not have a presumption of roll-in, for the reasons discussed above.

7.5 Discussion – Transmission System Integration

SoCalGas and SDG&E have raised a number of supply access issues, which have rate implications, including that of transmission system integration. The transmission integration proposal would resolve the problem of having two transportation charges if regasified LNG is transported over the transmission systems of SDG&E and SoCalGas to reach gas customers in SoCalGas' service territory. For efficiency reasons, SoCalGas and SDG&E currently operate their transmission systems as a single system. There were no objections to the continuation of this arrangement. Concerns over, and opposition to, the

SoCalGas and SDG&E proposal to integrate their transmission systems were principally related to the unknown rate effects of the proposal. In reply, the utilities agreed that rate effects of system integration should be considered in a proceeding devoted to rate matters, such as the BCAP.

SoCalGas and SDG&E should file a separate application to address transmission system integration issues. Both utilities acknowledge in their proposal that the rates of their customers will be affected by the system integration proposal. A utility specific ratemaking proceeding will provide an opportunity for parties to prepare responsive testimony and conduct cross-examination, and ensure conformance with the requirements of Pub. Util. Code Section 454 (a) relating to rate changes. That application should be filed within three months of the issuance of this decision, and it is our intention to address the issue in an expeditious manner.

Some parties commented that the issues associated with system integration are intertwined with the utilities' firm access rights proposal. ORA recommends that the two proposals be addressed simultaneously, since the adoption of a system of tradable firm access rights will likely influence the flow of gas on the various transmission paths. We agree that these two issues should not be decided in isolation. Since, as discussed below, we are also deferring consideration of firm access rights to a separate ratemaking proceeding, the utilities' filing for approval of the transmission system integration proposal should also include its request for approval of firm access rights.

While agreeing that system integration should be examined in a separate ratemaking proceeding, SoCalGas and SDG&E request that the Commission adopt a general policy supporting its proposal, in this decision. There is much to be said for system integration. The utilities cite regulatory and

scheduling simplicity. Also, potential operating efficiency problems associated with double receipt points would be eliminated. However, we are concerned with adopting a general policy on system integration without knowing all of the details and ramifications of the proposal itself. For instance, ORA does not agree with system integration at this time, claiming that the utilities are using the potential LNG supply through Otay Mesa as the impetus to seek a Sempra-wide transmission rate. ORA notes that through a reversal of flow, the North Baja Pipeline can move Baja LNG supplies into the SoCalGas system at Blythe/Ehrenberg and customers in the SoCalGas service territory do not necessarily have to use Otay Mesa as a delivery point for LNG supply originating from Baja. Other concerns may develop as the utilities' proposal undergoes further scrutiny.

These concerns need to be fully explored before adopting procedures, rules or any general policies such as those proposed by the utilities. Therefore, at this time, we will not adopt any general policy or principle on system integration. It is however our intention that any solution to transmission access problems will be based on efficiency and fairness to both affected ratepayers and suppliers.

7.6. Discussion – SoCalGas' Peaking Rate

A number of parties commented on SoCalGas' peaking rate, specifically requesting that it be eliminated. The Indicated Producers state that the peaking rate discourages customers from pursuing non-SoCalGas supply sources and is inconsistent with the goal of increasing new electric generation supplies in southern California. Questar indicates that the peaking rate is the only significant obstacle to its provisioning of new incremental pipeline capacity to the Los Angeles load center. SCGC states that if the rate were eliminated,

SoCalGas would be subject to competitive discipline in pricing gas transportation service to customers, which would facilitate transportation competition. Calpine and Watson also assert that without a peaking rate, SoCalGas will have stronger incentives to cut costs and to compete to retain and attract loads to its system.

In response, SoCalGas states the peaking tariff allows it to recover the costs of standing by to provide peaking service, to avoid shifting costs from large noncore customers to core customers, and is not anticompetitive as some noncore customers claim. The company explains that under its all-volumetric rate structure, there is a strong incentive for large noncore customers to take base load service from an interstate pipeline company charging straight fixed variable (SFV) rates and only take peaking service from SoCalGas. This is because an all volumetric rate structure does not impose a demand charge on the customer so that, unlike under SFV rates, the customer contributes to the utility's fixed costs of service only when it actually uses gas, even though the facilities necessary to provide the customer's peak demand remain in service. SoCalGas asserts that, unless the Commission keeps the peaking rate or adopts SFV rates for SoCalGas, the regulatory gap between the rates of SoCalGas and the interstate pipelines creates an incentive for large noncore customers to engage in uneconomic partial bypass of the SoCalGas system.

The peaking rate has been reviewed on four separate occasions and the Commission has continued to find that the peaking rate properly discourages uneconomic partial bypass of the SoCalGas system and thereby protects captive core customers. There are significant policies and rate issues associated with the peaking rate and it would be inefficient to address the elimination of the peaking rate again in this OIR. The BCAP has been the forum for addressing such peaking rate concerns in the past and is a proper venue for any further

reconsideration of this issue. However, since the peaking rate issue is also related to the transmission system integration proposal, the peaking rate issue may also be raised in the system integration/firm access rights proceeding.

7.7. Discussion – Kramer Junction

Even though SoCalGas' new interconnect with the Kern River pipeline at Kramer Junction is sized to allow 500 MMcfd of flow, there is a bottleneck problem at this interconnect. The bottleneck occurs because SoCalGas gives primary preference to its deliveries on the Transwestern and El Paso pipelines as a result of the agreement reached in the CSA, which was adopted by the Commission in D.01-12-018. For the same reason, shippers on Questar are only assured of 25 MMcfd flowing from Questar onto SoCalGas at North Needles, rather than the 80 MMcfd that Questar is physically capable of delivering. Appendix B of the CSA provides that the existing upstream capacity commitments of SoCalGas' core customers on El Paso and Transwestern can be utilized fully without being reduced by shipper deliveries at other receipt points. As a result of the CSA, SoCalGas limits the receipt of lower priced Rocky Mountain gas from Kern River at Kramer Junction to only 200 MMcfd, instead of what the interconnect is capable of flowing. PG&E, Kern River and Questar complain that this reduces deliveries of lower priced gas into the SoCalGas system by up to 300 MMcfd.

PG&E originally recommended that the Commission adopt a scheduling procedure for Kramer Junction that follows the capacity allocation process used at Wheeler Ridge. The Wheeler Ridge allocation process allocates take away capacity based on final scheduled volumes from two days prior.

SoCalGas cautioned that the Commission should consider the impact of PG&E's proposal on SoCalGas' core customers before ordering SoCalGas to

abandon its current scheduling processes. SoCalGas recommended that such a change should only occur when the Commission establishes a system of firm, tradable access rights.

SoCalGas proposed in its April 6, 2004 reply comments to the draft decision that if the Commission wants to increase the receipt of Kern River gas while protecting SoCalGas' core customers, the Commission could allow shippers on the SoCalGas system to nominate up to another 300 MMcfd at Kramer Junction whenever less than 1390 MMcdf of supplies are scheduled at North Needles and Topock. Such a process, if adopted, would allow the volumes nominated at Kramer Junction to flow into the SoCalGas system if confirmed by the upstream pipeline.

One of the stated purposes of this OIR is to ensure sufficient gas supplies and infrastructure in order to meet the needs of California's residential and business consumers. If we adopt PG&E's recommendation to use the Wheeler Ridge approach for allocating capacity at Kramer Junction, there is no assurance that the core gas needs of SoCalGas will be met by using this capacity allocation method. Although we are keenly aware of the need for lower priced gas supplies, we do not believe that the primary preference for gas flows over Transwestern and El Paso should be eliminated at this time.

We will adopt SoCalGas' updated proposal as explained in the August 16, 2004 reply comments of SDG&E and SoCalGas, and in Appendix A of those reply comments. Under the updated proposal, which replaced SoCalGas' April 6, 2004 proposal, SoCalGas proposes to allocate receipt point capacity based on the physical capacities and expected flows of SoCalGas' North Desert Transmission Zone (Kramer Junction-Kern River, Topock-El Paso, North Needles-Transwestern, North Needles-Questar, and Hector Road-Mojave).

If Cycle 2 scheduled quantities exceed the North Desert transmission capacity of 1590 MMcfd, volumes would be reduced at the Kramer Junction and Questar receipt points in Cycle 3 in order to allow SoCalGas' core supplies to flow from El Paso and Transwestern. In the event scheduled quantities do not exceed the North Desert transmission capacity, additional gas supplies from Kern River and Questar will be able to flow into the SoCalGas system. The procedures which SoCalGas plans to adhere to are discussed and illustrated in Appendix A of the reply comments, a copy of which is attached to this decision as Attachment A. SoCalGas' updated proposal should result in more Rocky Mountain gas supplies flowing onto SoCalGas' system, while allowing SoCalGas' core supplies to flow.

SoCalGas shall be directed to follow the procedures outlined and illustrated in Attachment A of this decision and to make this change to its scheduling practices as soon as possible.

We also note that this problem at Kramer Junction and North Needles is likely to be eliminated if the Commission adopts a system of firm tradable rights, and as the capacity contracts with Transwestern and El Paso expire.

7.8. Discussion – Firm Access Rights

The response to the SoCalGas and SDG&E firm access rights proposals varied from full support, to a claim that the proposals are beyond the scope of this proceeding and should be stricken. Many parties expressed concerns about certain aspects of the proposals, such as set asides, the level of reservation charges, the need to first unbundle the transmission network, the need for a price cap on secondary market transactions, and the auction process. Other parties found the proposals to be too complex and potentially too controversial to be resolved without further analysis. There was a general sentiment that the issues

need to be addressed more fully through evidentiary hearings in either Phase II of this proceeding, the BCAP or other separate proceeding.

In D.04-04-015, we stated our general support for firm access rights for SoCalGas and implemented the CSA's proposal. However, that order was stayed pending a decision in Phase I of this OIR. As explained in their OIR responses, SoCalGas and SDG&E claim, and some other parties agree, that many of the elements of the CSA proposal are now outdated and should not be implemented.

Today's decision also makes changes to SoCalGas' transmission system which should be considered. These changes include allowing Otay Mesa and other locations to be used as receipt points, taking steps to increase the flow of gas from Kern River through the Kramer Junction interconnect, and the recognition that LNG projects may be connected to the transmission systems of SDG&E and SoCalGas in the foreseeable future.

The effect of these changed circumstances on the firm access rights that we adopted in the CSA, and how this relates to the SoCalGas and SDG&E proposals, need to be examined. We find that evidentiary hearings are needed to fully develop the record and to respond to concerns raised in the comments of the other parties. We will therefore not adopt any proposal for firm access rights in this decision. Instead, as stated in our transmission system integration discussion, SoCalGas and SDG&E can file an application regarding its system integration and firm access right proposals. We will therefore continue the stay of D.04-04-015 until further notice.

SoCalGas and SDG&E recommend that if evidentiary hearings are deemed necessary on the firm access proposals, the Commission should at least adopt the following policies in this Phase I decision:

- New gas supplies should have the opportunity for firm access into the utility system
- New gas supplies should be allowed to compete on an equal footing with existing supplies.

The proposed statements are unopposed. They reasonably reflect our intentions to facilitate the development of alternative supplies and will be adopted.

7.9. Discussion – Off-System Deliveries

PG&E's Phase I proposal states that one manner in which its customers could gain access to LNG supplies from southern California would be if SoCalGas were to allow nominations from a Los Angeles city gate delivery point to an off system connection with PG&E. Initially this might be accomplished through displacement, and later by physically transporting LNG supplies to PG&E's system. A number of other parties also supported off system sales procedures.

SoCalGas indicates that PG&E's request is consistent with its proposals for a system of firm access rights that would create a city gate market and to sell interruptible backhaul services from the city gate to any receipt point on its system, where that gas could, in turn, then be delivered off system. While SoCalGas did not address the issue of firm off-system deliveries, which is equivalent to PG&E's discussion of physical deliveries of gas by SoCalGas to PG&E, it agrees that such deliveries might be necessary and indicates that it is evaluating the cost of facilities necessary to provide firm off-system deliveries along with an appropriate transportation rate and terms for such deliveries. SoCalGas should make its full showing on off-system deliveries in its upcoming system integration/firm access rights filing. This showing should be limited to

off-system deliveries for natural gas to be consumed within California (*e.g.*, into PG&E's service territory).

Several parties who commented on the draft decision recommended that SoCalGas be allowed to make off-system deliveries to points other than PG&E. Since the focus of this OIR is to ensure that the natural gas needs of California's residential and business customers are met, SoCalGas' proposal for off-system deliveries should be limited to PG&E.

7.10. Discussion – Interconnection Policy

SoCalGas and SDG&E have proposed interconnection policies and indicated that they are unopposed and should be adopted. We note however that PG&E's proposal includes a recommendation that it and ultimately ratepayers should fund interconnections with LNG facilities. This conflicts with PG&E's current interconnection policies, as well as with the SoCalGas and SDG&E proposal, which requires all interconnection facilities be paid for by the interconnecting pipeline. At this time, PG&E's proposal is moot, since there are no potential LNG suppliers that would interconnect to PG&E, on the horizon. We also note that one policy that we are adopting and which appears to be supported by most parties, including potential LNG suppliers, is that new gas supplies should be able to compete on an equal footing with existing supplies. Subsidizing LNG interconnections would be contrary to that policy. Therefore, we will not adopt this aspect of PG&E's proposal. The SoCalGas and SDG&E proposed policy should apply to all three utilities.

Interconnection policies were also the subject of the supplemental comments, which are discussed below.

7.11. Discussion – LNG Supplemental Issues

The Scoping Memo requested additional comments on the following LNG access issues:

1. What are the operational balancing agreements that have been or should be offered by respondents to the sponsors of the proposed LNG projects?
2. Should the respondents be allowed to have different provisions concerning quality specifications in their proposed operational balancing agreements for LNG projects, than the provisions concerning quality specifications in their Commission-approved tariffs?
3. Are there any other access issues involving potential LNG supplies, which have not yet been addressed and which would otherwise be left to the discretion of the respondents? If so, please identify the issues and propose how the Commission should address the issues.

Fifteen supplemental comments and seven supplemental reply comments were filed.

The operational balancing agreement addresses operational issues between the interconnecting pipeline and the gas utility's pipeline transportation system. It covers such topics as "scheduling practices, minimum and maximum pressure requirements, balancing, and compliance with gas quality standards established by this Commission and by other authorities." (SDG&E and SoCalGas, Initial Comments, p. 3.)

Regarding the first question about the operational balancing agreements, most of the parties state that all LNG shippers should have open and equal access to the gas utility's pipeline on a nondiscriminatory basis. Some of the parties point out that to do otherwise will provide one source of gas supply with an advantage over another, and lead to an uneven playing field.

Several of the commenting parties recommend that the utilities submit model operational balancing agreements to the Commission for review and approval in an open manner.

SDG&E and SoCalGas support having standardized terms and conditions for providing access to all new upstream pipelines, including the terms and conditions associated with the operational balancing agreement. They recommend that the Phase I decision state that all upstream suppliers will be treated equally with respect to access into the utility's system, including equal treatment on the terms and conditions of the operational balancing agreement. They also request that the Commission approve as part of the Phase I decision, their proposed interconnection policy, which contains the interconnection requirements that should be met by all new upstream pipelines.

SDG&E and SoCalGas attached a proposed pro forma operational balancing agreement to its comments on the supplemental LNG questions. They propose that this pro forma agreement be used as the basis for Commission approval of a standardized operational balancing agreement. SDG&E and SoCalGas state that having a standardized agreement will assure market participants that no particular upstream pipeline will receive preferential access over another upstream pipeline. They recommend that the Commission initiate an expeditious review of the proposed pro forma operational balancing agreement.

PG&E states that the Commission should not adopt a generic or statewide operational balancing agreement because of the different interconnection points that exist on its system. PG&E advocates that the operational balancing agreement should be left to the LNG project operator and PG&E to finalize. Other parties voiced similar concerns.

Several parties state that LNG supplies may lead to a situation where LNG supplies need preferential capacity due to the delivery timing of LNG supplies. Lodi states that the operational balancing agreement should not allow the LNG suppliers to reserve capacity for every day that it needs it, and to pay for it only when it is used. Instead, the Commission should ensure that the LNG supplier is treated like any other gas supplier, and be "subject to either a priority use scheme that applies to everyone, or to a demand charge to reserve capacity that includes the cost of reserving capacity every day but also allows the subscriber to resell that capacity to others, or to use it flexibly, *e.g.,* to put part or all of the LNG in storage and use it at times when the tanker is not offloading to bring gas back out of storage." (Lodi, Initial Comments, pp. 3-4.) RACE states that "LNG suppliers should incur the costs of bringing an inflexible supply of natural gas onto the system." (RACE, Comments, p. 2.)

Some of the parties point out that there are likely to be some operational issues, which the utility and LNG shipper might have to work out on an individual case-by-case basis.

We will initiate a process in Phase II of this proceeding to consider the adoption of standardized operational balancing agreements to connect all new upstream gas pipelines that interconnect with the pipelines of SDG&E and SoCalGas, and to address the concerns raised by the parties regarding the use of a standardized operational balancing agreement.[15] Having a standardized

[15] At this point in time, it does not appear that a standardized operational balancing agreement for PG&E is necessary since there are no LNG projects seeking to interconnect with PG&E in the near future. Should the need arise to consider a standard agreement for upstream pipelines interconnecting with PG&E, PG&E may file

Footnote continued on next page

agreement could help ensure that all upstream gas pipelines are treated on the same terms and conditions, and ensure that the upstream affiliates of SDG&E and SoCalGas will not be given any preference in their interconnection arrangements.

The second issue which the scoping memo seeks comment on is whether LNG supplies, when regasified, should meet different gas quality specifications than the gas quality specifications that are in the respondents' Commission-approved tariffs. The gas quality issue is important because it can affect the safety and performance of gas-fired household appliances, manufacturing equipment, turbines, and compressed natural gas (CNG) vehicles. In addition, gas quality specifications can be affected by applicable air quality standards.

Billiton is concerned that in its discussions with SoCalGas concerning an operational balancing agreement, that SoCalGas has insisted that Rule 30 apply, and that the LNG supply also meet "other rules, regulations and/or requirements of any federal, state, or local or other agency having subject matter jurisdiction, including but not limited to the CPUC and California Air Resources Board." (Billiton, Comments, p. 4.) Billiton has no objection to meeting Rule 30, but is concerned that it may have "to comply with any and all unspecified rules or regulations that may be imposed at any time in the future by any unspecified agency." Billiton is concerned that such language could require it to meet future vague and unspecified future gas quality specifications, instead of the utility's gas quality specification tariff.

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an application to do so, or the new interconnecting pipeline project may bring the issue to the Commission's attention.

Sempra LNG mentions that if a waiver of any of the gas quality specifications or other interconnection requirements are needed, that the utility should "ensure that such a waiver would not cause any material adverse impact to the utility system or its operation," and if "no adverse impact would result, the requested waiver should be submitted for the Commission's approval by way of advice letter." (Sempra LNG, Initial Comments, pp. 1-2.) Coral also advocates that if an upstream supplier seeks to deviate from a specification, that the waiver should be granted "by the Commission if it is determined that a deviation from the utility's existing tariff will not compromise the integrity of the utility's transmission and distribution system or interfere with the gas-burning equipment of customers served by the utilities." (Coral, Opening Comments, p. 4.)

Lodi states that gas suppliers who have the capability to blend "out of spec" gas into "spec gas" should be allowed to do so, and that this should be facilitated by the regulated infrastructure to the extent it is feasible to do so.

RACE is concerned that if an LNG supply is allowed to meet different gas quality standards, that this will result in either of the two following negative outcomes:

> "1) 'hotter' LNG gas is blended into pipeline trunklines, resulting in an incremental increase in bulk Btu content that is still within the quality specifications in the utilities' Commission-approved tariffs but that results in incremental increases in NOx emissions from uncontrolled combustion sources using the gas (stoves, hot water heaters, etc.), or 2) the 'hot' LNG is proposed to remove propane and ethane at the regasification terminal, as proposed by Mitsubishi in Long Beach, potentially exposing the local population to greater risk in event of a major accident than would otherwise be present."

SDG&E and SoCalGas comment that the existing gas quality specifications should not be changed unless it can be shown that the modifications will "not adversely affect health, safety, utility system integrity, or utility operating procedures." (SDG&E and SoCalGas, Initial Comments, p. 2.)

The comments note the various work that SoCalGas and others are involved in regarding LNG gas quality. The use of regasified LNG to fuel electric generation plants, and as CNG to fuel gas-fired vehicles, will involve the California Air Resources Board and the regional air quality districts. The CEC, the FERC, the utilities, and industry groups have also been studying this issue.

There are a number of ongoing activities studying the issue of LNG gas interchangeability. The Commission should coordinate statewide efforts with the CEC and other state agencies and conduct a workshop to thoroughly examine gas quality issues in the near future. The workshop process will provide participants and the Commission with a forum to examine the gas quality specifications and the related concerns in detail.

All of the parties who addressed the gas quality issue agree that LNG shippers should have to meet the same gas quality specifications contained in the utility's tariff provisions. Until we decide whether the current gas quality specifications should be changed, all gas supplies entering the respondents' gas systems must continue to meet the current applicable gas quality specification tariff. It is our belief that the applicable utility's gas specification tariff should be the governing document regarding all of the gas quality specifications that the gas supplier must meet. Therefore, any changes to the gas quality specifications should be subject to the Commission's approval and reflected in the utilities' tarrifs.

The comments regarding other access issues involving potential LNG supplies mentioned two issues. The first is that the introduction of LNG supplies will have system-wide implications, and that the gas flow on the various pipelines are likely to change significantly. This is likely to occur even if no West Coast LNG terminals are built, but LNG terminals are built in the Gulf of Mexico or on the East Coast. If LNG terminals are built to serve the gas needs of the eastern states, this is likely to result in more domestic gas supplies being made available to California.

Some of the Phase I proposals have noted that certain pipelines may have to be enlarged or additional equipment may be needed if LNG supplies on the West Coast are connected to the respondents' gas transportation system. The parties have also mentioned that gas flow patterns could change depending on which pipelines LNG gas suppliers have access to. Today's decision reflects those considerations. By not adopting the proposal to roll-in costs, all possible transportation options will be left open. Should a respondent seek to file a roll-in application, or an application to expand its system to accommodate the LNG supply, we will look at the impact of such proposals. In addition, by supporting a diverse supply of gas, we leave the door open for accessing reliable supplies of gas at competitive prices.

Lodi states that all of the components of the state's gas-delivery infrastructure should be made available on flexible terms. Lodi contends that this will allow customers to optimize the available services to meet their particular needs.

Most, if not all, of these issues will be addressed in the firm access rights proposal, or elsewhere in Phase II.

8. Comments on Draft Decision

In accordance with §311(g)(1) of the Public Utilities Code and Rule 77.7 of the Commission's Rules, the draft decision was mailed for comment on July 20, 2004. Opening comments and reply comments were received.

To the extent that the comments merely reargued the parties' positions taken in their briefs, those comments have not been given any weight. The comments which focused on factual, legal or technical errors have been considered, and appropriate changes have been made.

9. Assignment of Proceedings

Michael R. Peevey and Susan P. Kennedy are the Assigned Commissioners, and John S. Wong and David K. Fukutome are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. A diverse portfolio approach for the holding of interstate capacity across supply basins and interstate pipelines with staggered terms maximizes opportunities to benefit core customers with enhanced supply reliability and gas price stability.

2. By Commission order, SoCalGas, PG&E, SDG&E, Southwest and Edison cannot turn back capacity rights on interstate pipelines or release their capacity rights under long-term capacity release transactions unless and until the Commission authorizes such turn back of capacity or long-term releases.

3. The SoCalGas and SDG&E request to negotiate reduced amounts of capacity and to terminate expiring contracts with El Paso and Transwestern is consistent with the goal of achieving a more diversified portfolio.

4. A clearly articulated interstate pipeline capacity approval process, which is flexible and provides for expeditious processing and appropriate regulatory

oversight, is needed to provide the utilities with the opportunity to acquire needed core capacity in the most efficient and cost effective manner.

5. It is appropriate and necessary to establish interstate pipeline capacity contract procedures now, rather than to delay.

6. The Commission's responsibility to ensure that the proposed contract approval procedures are consistent with the interests of ratepayers is complicated by the utilities' holding company structures and the associated affiliate company relationships.

7. In allowing the utilities flexibility in contracting for storage and pipeline capacity, and in providing the utilities with expedited pre-approval procedures for obtaining such capacities, it is reasonable to impose conditions to discourage utility decisions that would benefit its affiliates at the expense of ratepayers.

8. The concept of pre-approval of interstate pipeline capacity contracts is consistent with the electric procurement requirements in Pub. Util. Code Section 454.5.

9. Both the contract length limit of 3 years and the capacity amount limits (100 MMcfd for PG&E and SoCalGas and 20 MMcfd for SDG&E) should apply in determining whether or not an interstate pipeline capacity contract can be processed under the pre-approved capacity range or authorized capacity commitment procedures.

10. The aggregate capacity of the contracts pre-approved under the pre-approved capacity range or authorized capacity commitment procedures, excluding ROFR, should be limited to 50% of a utility's core interstate pipeline capacity portfolio.

11. The requests of SoCalGas, SDG&E and PG&E to establish and implement expedited advice letter procedures for pre-approval of certain interstate pipeline and storage capacity contracts is reasonable.

12. To allow pre-approval of potentially large or long-term interstate pipeline capacity contracts, with no formal Commission review or approval, is inconsistent with the Commission's duties and responsibilities.

13. For interstate pipeline contracts that cannot be accommodated under the timing of the expedited capacity advice letter procedures, it is reasonable to allow SoCalGas, SDG&E and PG&E to establish pre-approval through the pre-approved capacity range or authorized capacity commitment procedures, with the addition of a formal process that includes ED approval.

14. The SoCalGas, SDG&E and PG&E proposed interstate pipeline and storage capacity contract consultation processes with ORA, TURN and ED are reasonable.

15. It is reasonable to include both ORA and TURN in the agreement aspect of the expedited pre-approval processes.

16. If agreement among parties is not reached in the expedited pre-approval processes, it is reasonable to allow the utility to seek approval through either the advice letter or application processes.

17. The capacity planning ranges proposed by SoCalGas and SDG&E could result in less than 100% of the annual average demand being contracted for over the year.

18. The cost of interstate capacity is relatively small as compared to the cost of gas in the spot market.

19. A conservative approach for setting the capacity planning ranges for SoCalGas and SDG&E is preferable to ensure that there is enough infrastructure to meet California's future demand for natural gas.

20. For SoCalGas and SDG&E, the proposed capacity planning range upper bound of 120% of the average daily amount encompasses peak conditions.

21. For SoCalGas and SDG&E, a capacity planning range with a lower bound set at the annual average daily amount and the upper bound set at 120% of the annual average daily amount, for both the winter and non-winter months, is reasonable.

22. PG&E has not justified its proposed capacity planning range.

23. For the winter months, it is reasonable to set the lower bound of PG&E's capacity planning range at the current level of 962 MMcfd, and to set the upper bound at 1058 MMcfd.

24. For the summer months, it is reasonable to reduce the lower bound of PG&E's capacity planning range to 90% of the forecasted annual average demand.

25. PG&E has not justified its proposed system reliability planning standards.

26. PG&E's system reliability standards should be addressed in the BCAP, the incremental core storage application, or in a separate application.

27. SoCalGas and SDG&E should specifically include storage in their capacity contract approval processes, and such changes may be proposed in the standard advice letter procedure.

28. The time is ripe to review the role of third party storage providers to assist the utilities in providing core storage.

29. It is reasonable to include storage in the capacity contract approval processes.

30. Allowing third party storage providers to assist the utilities in providing incremental core storage can provide long-term cost savings to core customers.

31. A number of implementation issues need to be addressed before third parties can assist the utilities in providing incremental core storage.

32. The viability and costs related to interstate pipeline and storage capacity are more certain than those associated with the new LNG projects that are being proposed to serve California markets.

33. Because of uncertainties related to LNG projects, it is appropriate to review LNG matters more carefully than those related to interstate pipeline and storage capacity projects.

34. It is reasonable to review core supply contracts for the direct purchase of LNG or regasified LNG through the advice letter or application processes only.

35. This decision addresses the policies that need to be in place to allow potential sources of LNG to access the utilities' gas systems.

36. The issue of whether individual LNG projects should be built in California, or in Mexico, is or will be addressed in the applicable regulatory proceedings examining each individual project.

37. An open access policy will assure developers that, at minimum, if they build facilities to the utility's system, the utility will interconnect with those facilities.

38. There is potential California customer access to LNG supplies through Otay Mesa, Ehrenberg/Blythe, Oxnard and Long Beach.

39. Designating Otay Mesa as a common receipt point for both the SoCalGas and SDG&E systems will send a signal to potential LNG suppliers that the gas they provide will have access to the utilities' systems.

40. The interim transportation rate for gas delivered through Otay Mesa will promote immediate operating efficiencies.

41. A number of parties, including potential LNG suppliers, oppose the SoCalGas and SDG&E proposal for rolled-in ratemaking for LNG related infrastructure improvements.

42. The SoCalGas and SDG&E proposal for rolled-in rates will affect customers' rates.

43. There is currently enormous uncertainty regarding which LNG projects will ultimately be developed and when.

44. It is appropriate to await further developments regarding the permitting and construction of LNG terminals before deciding the extent, if any, to which backbone facility costs should be rolled-in to system-wide transportation rates.

45. A policy that presumes LNG suppliers will pay the actual system infrastructure costs associated with their projects should be adopted. However, requests for rolled-in, or any alternative ratemaking treatment, should be allowed through the application process and addressed on a case-by-case basis.

46. The SoCalGas and SDG&E proposal for transmission system integration is intertwined with its proposal to establish firm access rights.

47. Testimony and evidentiary hearings are necessary to give parties the opportunity to reasonably address rate impacts and other concerns on the SoCalGas and SDG&E proposals for transmission system integration and firm access rights.

48. The filing of a separate application by SoCalGas and SDG&E for its proposals for transmission system integration and firm access rights will ensure conformance with requirements of Pub. Util. Code Section 454 (a) relating to rate changes.

49. There is no assurance that the core gas needs of SoCalGas will be met if PG&E's recommendation to use the Wheeler Ridge approach for allocating capacity at Kramer Junction is adopted.

50. SoCalGas' updated proposal to allocate receipt point capacity based on the physical capacities and expected flows of SoCalGas' North Desert Transmission Zones should result in more Rocky Mountain gas supplies flowing onto SoCalGas' system, while allowing SoCalGas' core supplies to flow.

51. The bottleneck problem at Kramer Junction and North Needles is likely to be eliminated if the Commission adopts a system of firm tradable rights, and as the capacity contracts with Transwestern and El Paso expire.

52. Firm off-system deliveries relate to SoCalGas' firm access rights proposal.

53. SoCalGas' peaking rate has been reviewed by this Commission on four separate occasions, in which the Commission has found that it properly discourages uneconomic partial bypass of the SoCalGas system.

54. The BCAP or the application regarding system integration and firm access rights are appropriate forums for addressing reconsideration of SoCalGas' peaking rate.

55. The firm access rights proposal of SoCalGas and SDG&E is not adopted in this decision.

56. PG&E's proposal that ratepayers should fund interconnection with LNG facilities is inconsistent with its current policy where interconnection costs are paid for by the interconnecting pipelines, and is inconsistent with our policy that LNG and existing supplies should compete on an equal footing.

57. The gas quality issue is important because it can affect the safety and performance of appliances, equipment, and vehicles which use natural gas, and may be affected by applicable air quality standards.

58. There are several ongoing activities that are looking into the gas quality issue for LNG supplies.

59. Until we decide whether the current gas quality specifications should be changed, all gas supplies entering the Respondents' gas systems must continue to meet the current applicable gas quality specification tariff.

60. The applicable utility's gas specification tariff should be the governing document regarding all of the gas quality specifications that the supplier must meet.

Conclusions of Law

1. The SoCalGas and SDG&E request to negotiate reduced amounts of capacity and to terminate expiring contracts with El Paso and Transwestern should be granted. The granted authority should also apply to PG&E, Southwest and Edison with regards to their expiring contracts with interstate pipelines. The utilities should preserve their rights of first refusal with the interstate pipelines on existing expiring contracts, but the utilities should not be required to include ROFR provisions in renegotiated or new contracts.

2. Utilities should use either the advice letter or application process for pre-approval of contracts with their respective affiliates.

3. Procedures for processing interstate pipeline and storage capacity contract pre-approvals in an expeditious manner, with appropriate regulatory oversight, should be established and implemented for SoCalGas, SDG&E and PG&E.

4. Pre-approval for interstate pipeline capacity contracts under the pre-approved capacity range or authorized capacity commitment should be limited to only those transactions that cannot be accommodated under the time limits of the proposed expedited capacity advice letter process.

5. The Director of the ED should be delegated the authority to approve or disapprove those contracts that fall under the pre-approved contract criteria.

6. The adopted capacity ranges should be revisited in the utilities' respective BCAPs or through the advice letter process for possible adjustments.

7. SDG&E shall have until November 1, 2005 to operate within the adopted capacity range.

8. Southwest should work with ORA to develop a capacity contract approval procedure that meets the needs of Southwest consistent with the principles we are adopting for the other respondents.

9. PG&E should be directed to file an application within six months of this decision to address how third party storage providers can be used to assist PG&E in providing incremental core storage services.

10. The existing gas procurement mechanisms may require adjustments to accommodate core supply contracts for ragasified LNG.

11. PG&E, SoCalGas and SDG&E should submit, for Commission approval, non-discriminatory open access tariffs for all new sources of supply, including potential LNG supplies.

12. SDG&E and SoCalGas should be permitted to establish receipt points, as needed, at Otay Mesa, Salt Works Station and Center Road Station, or at other receipt points.

13. Otay Mesa should be designated a common receipt point for both the SDG&E and SoCalGas systems, and an interim transportation rate of either the applicable SDG&E or the SoCalGas tariff rate should apply.

14. Rate matters are governed by the requirements of Pub. Util. Code Section 454, which requires an application, notice to customers of the proposed rate change, and a finding by the Commission that the new rate is justified.

15. The SoCalGas and SDG&E proposals to establish an integrated transmission system and firm access rights should be considered jointly, in a separate application to be filed within three months of this decision.

16. SoCalGas' updated proposal to allocate receipt point capacity based on the physical capacities and expected flows of SoCalGas' North Desert Transmission Zone, as outlined and illustrated in Attachment A of this decision, should be adopted, and SoCalGas should be directed to make this change as soon as possible.

17. A proposal for firm off-system deliveries into PG&E's service territory should be included in the SoCalGas and SDG&E application to establish an integrated transmission system and firm access rights.

18. New gas supplies should have the opportunity for firm access into the utility system and should be allowed to compete on an equal footing with existing supplies.

19. The SoCalGas and SDG&E proposal that interconnection facilities should be paid for by the interconnecting suppliers in all circumstances should be adopted and should be applied to PG&E as well.

20. A process should be initiated in Phase II to consider the adoption of standardized operational balancing agreements and to address the concerns of the parties regarding such agreements.

21. The Commission should coordinate with the CEC and other state agencies to examine gas quality issues in a technical workshop.

22. Today's order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Pacific Gas & Electric Company (PG&E), Southwest Gas Company (Southwest) and Southern California Edison Company are granted authority to negotiate reduced amounts of capacity and to terminate expiring contracts with El Paso Natural Gas Company, Transwestern Pipeline Company or Gas Transmission Northwest Corporation while preserving the rights of first refusal.

2. The requests by SoCalGas, SDG&E and PG&E to establish capacity contract approval procedures are granted, for an initial period of five years, subject to the modifications described in the body of this decision. Six months before the end of the initial period, the utilities are allowed to file an Advice Letter requesting the continuation or modification of these procedures.

3. The Director of the Commission's Energy Division is delegated the authority to approve or disapprove capacity contracts that fall within the pre-approved contract criteria, and shall respond in a timely manner to a utility's written request seeking approval of such a contract.

4. Southwest shall work with the Office of Ratepayer Advocates to develop a capacity pre-approval process consistent with the principles adopted for the other gas utilities, and shall submit the proposed process for Commission approval through an advice letter filing.

5. Within six months of the issuance of this decision, PG&E shall file an application to address how much, and by what process, incremental gas storage needs for the core should be met, as well as any other implementation issues that

PG&E feels need to be addressed before the provisioning of core storage is opened to independent storage providers.

6. Within 30 days of this decision, PG&E, SoCalGas and SDG&E shall submit, for Commission approval, non-discriminatory open access tariffs for all new sources of supply, including potential liquefied natural gas (LNG) supplies.

7. SoCalGas and SDG&E are permitted to establish receipt points, as needed, at Otay Mesa, Salt Works Station and Center Road Station, or at other receipt points.

7.a. Otay Mesa shall be designated a common receipt point for both SoCalGas and SDG&E, and an interim transportation rate consisting of the applicable SDG&E or the SoCalGas tariff rate shall apply to deliveries through Otay Mesa.

8. Within three months of the issuance of this decision, SoCalGas and SDG&E shall file an application to request implementation of its transmission system integration and firm access rights proposals.

9. SoCalGas shall make the necessary system modifications as soon as possible to allow shippers on the SoCalGas system to nominate up to another 300 MMcfd at Kramer Junction whenever less than 1390 MMcfd of gas is scheduled at North Needles and Topock, as outlined and illustrated in Attachment A.

10. Phase II of this proceeding shall establish a process to consider the adoption of standardized operational balancing agreements to connect all new upstream gas pipelines that interconnect with the pipeline systems of SDG&E and SoCalGas.

11. This proceeding remains open to consider Phase II issues.

This order is effective today.

Dated September 2, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I will file a dissent.

/s/ CARL W. WOOD
Commissioner

I will file a dissent.

/s/ LORETTA LYNCH
Commissioner

I will file a concurrence.

/s/ Susan P. Kennedy
Commissioner

ATTACH A TO JSW DKF R0401025

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Re: Comments of LS Power Generation on the Scope of the Environmental Review of the Proposed Sunrise Powerlink

Dear Ms. Blanchard and Ms. Kastoll:

LS Power Generation ("LS Power") is pleased to present its comments on the scope of the environmental review of the Sunrise Powerlink proposed by San Diego Gas & Electric Company.

LS Power respectfully urges the California Public Utilities Commission ("CPUC") and the Bureau of Land Management to include an in-area generation alternative in the environmental review.

SDG&E purported to have considered an in-area generation alternative in the Preliminary Environmental Assessment ("PEA") submitted with its application before the CPUC. As the Notice of Preparation/Notice of Public Scoping Meetings notes (p. 12), SDG&E rejected this alternative "because it would not meet renewable or economic objectives and would result in additional environmental impacts." The stated reasons for rejecting this alternative are flawed, and a consideration of these flaws will help demonstrate why an in-area generation alternative should be part of the environmental review.

Renewable Objectives: First, the in-area generation alternative that SDG&E studied did not include any renewable generation and was not linked to any transmission upgrades that could deliver renewable power to SDG&E's load center. Thus, the alternative was designed from the outset in a way that assured that it would *not* to meet renewable objectives and that it would be rejected. A more thoughtful consideration of the in-area generation alternative would:

- In conjunction with in-area generation, consider more modest transmission upgrades that are specifically focused on delivering renewable generation from

the Imperial Valley to the SDG&E load center, without also serving as a transmission superhighway for generation from the Southwest. Focusing on an in-area generation proposal that is not coupled with a means to meet renewable goals creates an incomplete alternative.

- Recognize that California will soon implement a system of Renewable Energy Certificates ("RECs") that will allow SDG&E to meet its obligations under the state's Renewable Portfolio Standard without requiring physical delivery of renewable energy generated at remote locations to the SDG&E load center. Thus, RECs can provide a substitute for transmission needed to deliver renewable power to the load center.

An in-area generation alternative can be combined with either modest transmission upgrades or an assessment of RECs to create a complete alternative to SDG&E's proposal, an alternative that is likely to compare favorably to the Sunrise project in terms of environmental impacts and economic costs.

Economic Objectives: Second, the PEA's extremely limited discussion of economic aspects of the in-area alternative is similarly defective. The PEA's discussion of the economic factors is limited to the following:

- After acknowledging that new in-area generation will reduce certain above-market costs, the PEA states that "it is possible that the CAISO [California Independent System Operator] would still find it necessary to provide some amount of supplemental payments to ensure the ongoing economic viability of the new plants." (PEA, p. 3-38.) Logically, this statement is a non sequitur, since it is also possible that the CAISO will *not* find a need for supplemental payments. The PEA fails to address which of these possibilities is more likely, and therefore provides no basis for any conclusion about the economics of the in-area alternative. This statement also incorporates the improbable presumption that private developers would invest roughly half a billion dollars in a power plant that will immediately lose money and require supplemental payments to remain viable. No support is offered for this presumption.

- The PEA's suggestion that the in-area alternative "could be compromised by limits on economically feasible air emission offsets" fails to recognize that repowering or replacement projects, such as LS Power's South Bay Replacement Project, already have air permits. In fact, because new generation technology is more efficient than the technology of the plant being replaced, the existing air permits can readily support a new generation plant.

- The suggestion that the in-area alternative does not provide for access to "low cost generation sources . . . in the desert southwest" contains the counter-intuitive suggestion that electricity from gas-fired power plants in Arizona, transmitted over a $1.265 billion transmission line, will be cheaper than electricity from new, efficient gas-fired power plants located in the San Diego area. Alternatively, this statement may assume that the Sunrise project will bring electricity from coal-fired power plants into San Diego, which (1) would contradict the claim that the line is needed to import renewable power and (2) would be invalidated by California's recent enactment of Senate Bill 1368, which imposes limits on utilities' ability to enter into commitments for purchases of power from resources with high levels of greenhouse gas emissions. Finally, the assumption that low-cost power from the Southwest will continue to be available to SDG&E conflicts with recent forecasts that excess generation in the Southwest will soon be absorbed by the rapid load growth the region is experiencing.

Environmental Impacts: Third, the suggestion that an in-area generation alternative "would result in additional environmental impacts" could only be valid if the authors took an extremely short-sighted approach to evaluating environmental effects. It strains credulity to assert that new, efficient gas-fired power plants located in the state with the toughest air quality standards in the nation would have greater impacts than the combination of (1) gas- or coal-fired power plants in states with lower air quality standards and (2) a new 91-mile transmission line that traverses a large state park and fragile environments. Moreover, this analysis ignores the fact that much of the new in-area generation will be constructed at the sites of existing power plants that already have high-pressure gas interconnections and electric transmission interconnections. Thus, the need for electric transmission upgrades and new gas infrastructure suggested in the PEA is overstated, as is the PEA's unsupported conclusion that "it is most certain that there would be comparable environmental impacts as the Sunrise Project." What is certain is that an in-area alternative deserves to be considered in the environmental analysis because it would likely have nowhere near the *total* environmental effects of the Sunrise project.

Perhaps the biggest weakness of the PEA's evaluation of the in-area alternative is its exclusive focus on impacts on *local* air quality. Although new in-area gas-fired generating plants will be extremely efficient and clean, they will have some emissions. The PEA points to these local impacts to support its rejection of the in-area generation alternative, without any consideration of the emissions of the gas- and coal-fired plants at the other end of the Sunrise line that will produce the electricity that will be imported over the Sunrise line. Exporting pollution from San Diego to Arizona does not reduce the environmental impacts of the Sunrise project. In fact, due to higher ambient temperatures (which reduce efficiency), line losses in transmission, and lower air quality standards, an in-area plant will have lower air quality impacts than an identical plant in Arizona.

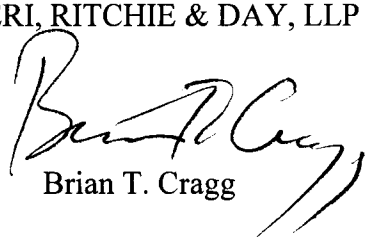
For all these reasons, the PEA's rejection of the in-area generation alternative is invalid. In fact, an in-area alternative ensures continued reliable service in the San Diego area, reduces the costs of maintaining grid reliability in the San Diego area, reduces congestion on the transmission system, and avoids the need to condemn homes, businesses, ranches, and industries to create a right of way. An in-area alternative also avoids the need to construct a large transmission line through the pristine Anza-Borrego state park.

Conclusion: In-area generation, perhaps teamed with modest transmission upgrades to accommodate increased deliveries of renewable generation from the Imperial Valley, is a viable and in many respects preferable alternative to the proposed Sunrise Powerlink. In fact, even the PEA shows that either a South Bay repower that comes online in 2010 or the continued existence of the capacity of existing in-area plants (either from no retirements or replacement projects) would eliminate the capacity deficit that forms part of the justification for the Sunrise project through at least 2016. (PEA, p. 3-38.) Because in-area generation can meet the needs that are cited as justification for the Sunrise line at a lower total economic and environmental cost, an in-area generation option should be studied as part of the joint environmental analysis of the Sunrise Powerlink proposal.

Thank you for your consideration of these comments.

Very truly yours,

GOODIN, MACBRIDE,
SQUERI, RITCHIE & DAY, LLP

By 
Brian T. Cragg

3269/005/X82005.v1

From: Csmmarket@aol.com [mailto:Csmmarket@aol.com]
Sent: Friday, October 20, 2006 3:15 PM
To: sunrise@aspeneg.com
Subject: SRPL Scoping Comment

The experts have proven to me, beyond a shadow of a doubt, that there is NO NEED for the project known as the Sunrise Powerlink. In-county generation is much more reliable, viable and cost-effective. The only reason to build this line is to import energy from Mexico and export to other states and LA.

Again, there is NO NEED for this line.

Carolyn Morrow
Golightly Farms
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Ranchita, CA 92066
cell 619-977-9961

October 20, 2006

Billie Blanchard
California Public Utilities Commission
Lynda Kastoll
U.S. Bureau of Land Management
c/o Aspen Environmental Group
235 Montgomery Street, Suite 935
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Re: Scoping comments on Sunrise Powerlink Project (Application 06-08-010)

Dear Ms. Blanchard and Ms. Kastoll:

Thank you for the opportunity to participate in scoping on the Sunrise Powerlink (Project) under the National Environmental Policy Act (NEPA) and California Environmental Quality Act (CEQA). These comments are provided on behalf of the Center for Biological Diversity and San Diego Chapter Sierra Club (Conservation Groups).

The purpose of these comments is to identify the harmful effects of the Sunrise Powerlink (Project) on people and nature that should be fully considered in the Environmental Impact Statement / Environmental Impact Report (EIS/EIR). These comments are also intended to recommend alternative routes and propose specific mitigation measures that assume the construction of the Project as proposed by SDG&E.

To be clear, Conservation Groups do not endorse any route or mitigation for the Powerlink and in fact will continue to vigorously oppose construction of the Project. Conservation Groups do not believe that such mitigation measures will ever be required because they would only be necessary if the Project were to be constructed as proposed. Conservation Groups intend to prove that compliance with the State's loading order, California's Renewable Portfolio Standard, global climate change laws, and requirements related to minimizing cost will all require adoption of a no-wires alternative. Nonetheless, since the scoping period provides an opportunity to encourage a full evaluation of possible alternatives and mitigation measures, we offer them, but our doing so should not be seen as an endorsement or acceptance of any routing alternative or mitigation.

Also, since the California Public Utilities Commission (CPUC) and (presumably) the Bureau of Land Management (BLM) have decided to further investigate routes that avoid Anza-Borrego Desert State Park before conducting a scoping process on such

routes[1], the Conservation Groups have limited these comments strictly to the route described in detail within SDG&E's Application and Proponents Environmental Assessment (PEA) that transects Anza-Borrego Desert State Park and its related routing alternatives. As described in the Center for Biological Diversity and Sierra Club's Motion for Extension of Scoping Period and Additional Scoping Meetings, and related letter to the BLM, both dated October 13, 2006, Conservation Groups would consider a failure to provide an opportunity for scoping comments on routes that do not transect Anza-Borrego Desert State Park to be a violation of NEPA and CEQA, and be grossly unfair to Conservation Groups and the potentially impacted communities. Conservation Groups assert that several "no wires" alternatives and alternatives of a route that does not transect Anza-Borrego Desert State Park are feasible within the meaning of CEQA such that a failure to consider such route would violate CEQA.

The draft EIS/EIR should consider the following potentially significant harmful effects of the Powerlink on people and nature, and alternatives and measures to avoid minimize, and mitigate any harm.

I. Alternatives and analysis in the EIS/EIR

Conservation Groups assert that SDG&E's alternatives analysis is fundamentally flawed and not in accordance with CEQA or state law, including the loading order. Specifically, SDG&E fails to appropriately describe Project objectives, fails to provide alternatives to the Project in accordance with the state's loading order, and fails to include alternatives to the Project as required by CEQA.

Project objectives are not appropriately stated

SDG&E provides a set of project objectives in § 2.2.4 of the PEA. This section defines the Project's objective strictly in terms of providing electrical transmission, rather than in terms of providing the services to its ratepayers and the citizens of California that the Project purports to offer. This definition is excessively and illegally narrow because project objectives must be defined in terms of outcomes, not technical approaches.

For example, SDG&E identifies electrical reliability as its first project objective but limits its objective description strictly to transmission as a means to achieve reliability. Yet, transmission is only one means of achieving electrical reliability. Other means include, but are not limited to, in-basin generation and load reduction efforts. Likewise, SDG&E's project objectives 4, 5, and 6 mention cost and price, but only in the context of possible uses of transmission to control cost and price, whereas it is obvious that other types of infrastructure and non-infrastructure approaches to meeting energy demand also impact cost and price.

This approach to the definition of project objectives is excessively narrow, both in terms of CEQA and California's loading order, particularly in the context of CPUC

[1] Administrative Law Judge's Ruling on The Motion to Extend the Scoping Period, October 19, 2006. The BLM has not provided any communication of its own.

regulation of investor-owned utilities. The CPUC is legally required to evaluate project alternatives to ensure that applications by investor-owned utilities comply with state law and policy designed to protect ratepayers and the environment. Defining project objectives in terms of a specific type of infrastructure proposed by a utility would prevent the CPUC from complying with state law and would allow utilities unreasonable freedom to determine how to best provide energy and the specific types of infrastructure to build. Therefore, the CPUC and BLM must define project objectives in terms of the benefits to society that the agencies seek to provide. Such benefits include but are not limited to providing reliable energy at minimal cost while protecting the environment to the maximum extent possible in compliance with the State's loading order.

Project alternatives must comply with California's loading order

It is axiomatic that alternatives considered in the CEQA process comply with California law. California's loading order speaks directly to the State's preferences in choosing alternative means of meeting project objectives. The loading order is described in the State's Energy Action Plan II on page 2:

> The loading order identifies energy efficiency and demand response as the State's preferred means of meeting growing energy needs. After cost-effective efficiency and demand response, we rely on renewable sources of power and distributed generation, such as combined heat and power applications. To the extent efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, we support clean and efficient fossil-fired generation. Concurrently, the bulk electricity transmission grid and distribution facility infrastructure must be improved to support growing demand centers and the interconnection of new generation, both on the utility and customer side of the meter.

Thus, the CPUC is required to consider energy supply alternatives in a particular order and any transmission infrastructure must advance this order. A CEQA alternatives analysis that does not consider all of the approaches to energy demand described in the loading order would not advance or comply with this law. Moreover, a CEQA alternatives analysis that does not implement the intent of the loading order would violate law. Therefore, any alternatives considered by the CPUC must first seek to meet energy demand through energy efficiency and demand response measures, then through renewable sources of power and distributed generation, and finally through clean and efficient fossil-fired generation. Transmission is merely a means of facilitating this loading order as it is not itself a source of energy.

Conservation Groups assert that SDG&E's Application and PEA have failed to utilize the following measures to the maximum extent feasible:

- energy conservation,
- energy efficiency,

- demand management,
- in-basin renewable energy, and
- other low impact means of meeting energy demand, such as the implementation of "smart grid" technologies.

The CPUC must fully evaluate the efficacy of SDG&E's claims with regard to these types of solutions and provide its independent assessment of their potential contributions, particularly given the CPUC's ongoing efforts to increase the efficacy of conservation, energy efficiency, demand management, and smart grid efforts.

Further, SDG&E and CAISO have alleged that the Project would promote the importation of renewable energy from the Imperial Valley, but have relied on deeply flawed analyses of the amount and rate of renewable energy development in Imperial County. It is clear that it is practically impossible for the primary source of this alleged new renewable energy, Stirling Energy Systems, to deliver the amount of power it has contracted to provide SDG&E within the timeframe that SDG&E claims. As part of its investigation into the shortcomings of the State's Renewable Portfolio Standard (RPS), the Commission should re-evaluate SDG&E's contract with Stirling Energy Systems to determine whether this technology is at present commercially viable and to make a reasonable assessment of its rate of deployment.

Moreover, it is clear that approximately half of the remaining geothermal energy sources in Imperial County are under the Salton Sea, making extraction of such resources financially infeasible, at least until such time that the Sea is at least partially drained, which at present is at best a speculative possibility. Also, it is clear from the current low rate of geothermal energy development that, despite a lack of opposition, that it is unlikely that such development will increase within the CPUC's planning horizon beyond the ability of current IID export capacity.

An evaluation of alternatives must include a re-evaluation of the potential for renewable energy development in Imperial Valley with regard to both the rate of development and the maximum amount of development reasonably possible with the CPUC planning horizon. A failure to fully evaluate renewable energy development claims would undermine the objectives of the loading order, contribute to the State's ongoing failure to increase the use of renewable energy and meet the RPS, and sacrifice precious public lands to increase the use of fossil fuel-fired energy and its emissions of greenhouse gases that contribute to global climate change, thereby frustrating California law related to prevention of global climate change.

SDG&E's alternatives analysis also fails to comply with the loading order in that it advances transmission as an alternative to meeting project objectives without analysis of how it would impact attainment of the loading order. The CPUC's alternatives analysis must start with the methods of meeting energy demand described in the loading order and then determine whether the Project would advance loading order objectives.

The loading order significantly modifies the types of alternatives that the CPUC may consider. For example, any alternative described by the CPUC must be a combination of the methods of meeting energy demands described in the loading order. SDG&E violates this requirement by, for example, comparing energy conservation to its Project and then summarily dismissing energy conservation as a feasible alternative. Such analysis would almost always result in rejection of energy conservation measures instead of a proposed project because energy conservation is only a single means of meeting project objectives that must be considered together with other means, such as demand management. Therefore, this type of analysis violates the loading order.

The CPUC must fully evaluate all loading order energy supply options first, including energy efficiency, demand response measures, renewable sources of power, distributed generation, and clean and efficient fossil-fired generation, in one or more combinations, and then determine if the Project will support the sources of energy chosen by the CPUC. Otherwise, building transmission before identifying appropriate energy sources would likely distort the CPUC's effort to implement the loading order. It would put the cart before the horse.

For example, the CPUC should evaluate a range of alternatives that include energy conservation measures, possible renewable energy sources, and possible fossil fuel-fired energy sources, evaluate these energy supply options in one or more alternatives with different combinations of energy supply options, and identify the combination of these sources of energy that best meet project objectives. Only after doing this analysis is it appropriate to evaluate transmission alternatives. It may be that one or more of these energy source alternatives obviates the need for any transmission enhancements between the Imperial Valley Substation and the proposed Central Substation. In such case, the Project would not be needed.

SDG&E should have fully evaluated its energy supply options and described how these comply with the loading order before it proposed a transmission line. Instead, it appears that SDG&E determined that it wanted a transmission line and is attempting to use the renewable energy priority identified in the loading order to justify its decision. Should the CPUC use such analysis in the EIS/EIR, it would violate state law. In the absence of a previous CEQA analysis that selects energy sources and determines the need for new transmission, the CPUC must fully consider these energy sources in accordance with the loading order as alternative means of achieving project objectives within the EIR/EIS.

"No wires" and other alternatives are required by CEQA

The CEQA Guidelines require, "that an EIR shall describe a range of reasonable alternatives to the project, or to the location of the project, which would feasibly attain most of the basic objectives of the project but would avoid or substantially lessen any of the significant effects of the project, and evaluate the comparative merits of the alternatives." § 15126.6. To implement the loading order the CPUC must first consider a full range of energy supply alternative packages, some of which will of necessity not

relate to transmission line construction. Alternatives that do not require significant transmission upgrades have been referred to as “no-wire” alternatives by various parties to this proceeding. Conservation Groups assert that the CPUC and BLM must fully evaluate such no-wire alternatives as well as alternatives that will require substantial transmission upgrades in their alternatives analysis. It is clear that no-wire alternatives must be considered as CEQA alternatives because they would (1) feasibly attain most of the basic project objectives; (2) avoid or substantially lessen significant effects, and (3) provide for a full consideration of the comparative merits of the alternatives.

Once such an analysis is complete, should the CPUC and BLM conclude that a significant amount of new out-of-basin capacity is needed (which Conservation Groups believe is not the case), then the CPUC and BLM must consider a range of reasonable transmission line alternatives, including the no project alternative, which would be appropriate if the amount of out-of-basin energy needed within the planning horizon does not exceed current import capacity. If additional energy import capacity is needed, then the CPUC must evaluate all transmission line alternatives that: (1) feasibly attain most of the basic project objectives; (2) avoid or substantially lessen significant effects, and; (3) provide for a full consideration of the comparative merits of the alternatives. Since a route through the southern part of San Diego County (including but not limited to a route along Interstate 8 and or the existing Southwest Powerlink) that does not transect Anza-Borrego Desert State Park and other protected areas would meet these three purposes for CEQA alternatives, it would appear that the CPUC must consider such an alternative. It is exactly this identification of alternatives that is a desired result of CEQA.

However, Conservation Groups assert that additional feasible transmission alternatives exist, including, but not limited to:

- New 230 kV lines located primarily in Mexico by the Comisión Federal de Electricidad (CFE) between the Imperial Valley and Miguel Substations;

- The joint Imperial Irrigation District and Los Angeles Department of Water and Power line proposed as part of IID’s full Green Path Project (GreenPath North);

- Four new 230 kV circuits (rather than one 500 kV line) – overhead and/or underground – from the Imperial Valley Substation into San Diego County.

- Upgrades to existing transmission lines through the use of high capacity, low-sag wires;

- Better integration of the SDG&E and CFE and SCE grids to improve increased reliability for both utilities, and;

- Reinforcing the SDG&E internal transmission grid to increase its internal flow capacity and reliability, particular in light of the age and condition of some older transmission lines.

Conservation Groups support consideration of additional alternatives presented by the Utility Consumers Action Network (UCAN) and encourage the Commission to require additional workshops, such as that held on October 13, 2006, to allow the parties' technical consultants to identify additional alternatives. The Commission should provide for a full investigation of no-wire and additional transmission alternatives to the maximum extent possible consistent with a Project schedule that complies with CEQA and NEPA.

II. The Powerlink would significantly harm people and nature

The Powerlink would irreparably scar the globally important Anza-Borrego Desert State Park and other protected areas

Depending on the selected route, the Powerlink would significantly harm scenic, biological, recreational and many other values of Anza-Borrego Desert State Park. The Project would also significantly harm many other protected areas including: Yuha Basin Area of Critical Environmental Concern; San Sebastian Marsh Area of Critical Environmental Concern; Coyote Mountains Wilderness; Fish Creek Mountains Wilderness; San Felipe Valley Preserve; Santa Ysabel Open Space Preserve; Mt. Gower Open Space Preserve; Barnett Ranch Open Space Preserve; Boulder Oaks Open Space Preserve; Sycamore Canyon Preserve; Goodan Ranch Del Mar Mesa Preserve; and Los Penasquitos Canyon Preserve.

The Project would significantly harm Anza-Borrego Desert State Park, designated wilderness in the park, and the other protected areas by de-designating state wilderness areas, harming special status species and natural communities, increasing the risk of wildfire, killing birds and bats, facilitating the spread of harmful invasive exotic plant species, degrading views and aesthetic values, increasing use by harmful off-road vehicles, impacting sensitive archeological, historic, cultural, and paleantological resources; harming recreational and educational experiences, causing noise pollution; degrading watersheds and water quality; and by significantly contributing to global warming, among other impacts.

Other alternative routes should be considered to avoid or reduce this harm. Besides the aforementioned "no wires alternatives," the draft EIR/EIS should include consideration of route alternatives alongside existing major transmission line and/or transportation corridors outside of Anza-Borrego Desert State Park and other protected areas. Although Conservation Groups do not endorse co-location of the Project along the existing Southwest Powerlink, existing lines in Mexico, and/or Interstate 8 in southern San Diego County, this alternative route would greatly reduce many of the problems discussed below, although impacts to communities must still be fully analyzed.

To the extent that SDG&E's preferred alternative is considered, the draft EIS/EIR should also include mitigation to avoid, minimize, and mitigate any impacts in part by providing measures recommended in sections below. Mitigation measures should also include: provision of funding to acquire Anza-Borrego Desert State Park inholdings and

adjacent natural lands for dedication as new park land equivalent to the amount of park land directly and indirectly (e.g. marred viewsheds, noise pollution) impacted by the Powerlink (estimated at roughly 90,000 acres); Installation of towers using helicopters wherever there are no existing access roads or recently disturbed areas, and; Consolidation of all other SDG&E powerlines to the extent existing routes may traverse the same areas as the Powerlink.

The Powerlink would harm special status species and natural communities

Construction and maintenance of the Powerlink would significantly harm special status species, including state and federally listed species, and natural communities.

Construction and maintenance of the Powerlink will harm special status species and natural communities when construction and maintenance activities kill animals and plants, destroy habitat, increase the risk of wildfire, kill birds and bats, facilitate the spread of harmful invasive exotic plant species, increase use by harmful off-road vehicles, cause noise pollution, degrading watersheds and water quality, and significantly contributes to global warming. Construction of the Project will also provide perches to ravens and other generalist predator bird species that improve their advantage in preying on smaller wildlife (e.g. Flat-tailed Horned Lizards, Desert Tortoises, snakes, and others).

The draft EIR/EIS should include route alternatives along the existing Southwest Powerlink, existing lines in Mexico, and/or Interstate 8 to minimize impacts to special status species and natural communities. In the event SDG&E's preferred alternative is selected, the EIS/EIR must acknowledge, contrary to claims by SDG&E in their Preliminary Environmental Assessment, that any impacts to the following species and natural communities are in fact significant according to NEPA and CEQA standards:

Any native grasslands
Any oak woodlands
Any wetlands
Coastal Sage Scrub
Maritime Succulent Scrub
Southern Maritime Chaparral
Vernal Pools
Bald Eagle
Arroyo Southwestern Toad
San Sebastian Leopard Frog
Desert Tortoise
Southwestern Pond Turtle
Flat-tailed Horned Lizard
Desert Pupfish
Burrowing Owl
California Gnatcatcher
California Spotted Owl
Coastal Cactus Wren
Least Bell's Vireo
Hermes Copper Butterfly
Quino Checkerspot Butterfly
San Diego Fairy Shrimp
Peninsular Bighorn Sheep
Stephen's Kangaroo Rat
Del Mar Manzanita
Cuyamaca Cypress
Del Mar Mesa Sand Aster
Encinitas Baccharis
Lakeside Ceanothus
Little Mousetail
Nuttall's Scrub Oak
San Diego Button Celery
San Diego Mesa Mint
San Diego Thorn Mint
Spreading Navarretia
Willowy Monardella

Golden Eagle

The draft EIS/EIR should not be released until completion of thorough, seasonally appropriate and protocol surveys for any potentially impacted species so that the document may identify and route adjustments around any potentially impacted populations. Such surveys should be conducted for the following species and others:

Arroyo Southwestern Toad
San Sebastian Leopard Frog
Desert Tortoise
Southwestern Pond Turtle
Flat-tailed Horned Lizard
Desert Pupfish
Burrowing Owl
California Gnatcatcher
California Spotted Owl
Coastal Cactus Wren
Golden Eagle
Least Bell's Vireo
Hermes Copper Butterfly
Quino Checkerspot Butterfly
San Diego Fairy Shrimp
Peninsular Bighorn Sheep
Stephen's Kangaroo Rat
Del Mar Manzanita
Del Mar Mesa Sand Aster
Encinitas Baccharis
Lakeside Ceanothus
Little Mounsetail
Nuttall's Scrub Oak
San Diego Button Celery
San Diego Mesa Mint
San Diego Thorn Mint
Spreading Navarretia
Willowy Monardella

To the extent that SDG&E's preferred alternative is considered, the draft EIS/EIR should include a mitigation measure to avoid, minimize, and mitigate any impacts in part by providing compensatory protections for impacted populations of the impacted species and natural communities. The draft EIS/EIR should also include a management and monitoring plan to accomplish mitigation measures for special status species and natural communities.

<u>The Powerlink would greatly increase the risk of harm from wildfire on people and nature</u>

Construction of the Powerlink would significantly increase the likelihood of wildfires through accidental ignitions from construction, aircraft collisions, downed lines, and illegal campfires, target shooting, hunting, and arson along and from access roads. The Powerlink would also significantly interfere with effective fire response.

Wildfires harm people when people are injured or killed, property is destroyed, and insurance is revoked or denied or rates increased. Wildfires harm biological resources, including state and federally protected species, when wildlife and plants are killed and entire native vegetation communities are type-converted to those dominated by exotic invasive plant species.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink,

existing lines in Mexico, and/or Interstate 8. To the extent that SDG&E's preferred alternative is considered, the draft EIS/EIR should also include a mitigation measure to avoid, minimize, and mitigate any impacts in part by providing funding to expand and improve emergency fire facilities, equipment, and personnel to ensure immediate emergency responses to all segments of the line. Another mitigation measure should be included to require locked gates on Powerlink access roads and other measures to prevent public motorized access. The draft EIS/EIR should also include a management and monitoring plan to accomplish fire mitigation measures.

Birds and bats would be killed by the Powerlink

The construction of the Powerlink would likely cause significant harm to birds and bats, including state and federally listed and protected migratory species, when they collide with transmission lines, towers, and any guy- wires, or when they are electrocuted.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, and/or Interstate 8 away from concentrated bird migration corridors in large canyons and valleys with riparian vegetation through the desert and mountains (e.g. Banner Canyon near Julian, Grapevine Canyon, San Felipe Valley, etc.). To the extent that SDG&E's preferred alternative is considered, the draft EIR/EIS should include the following mitigation measures: Use of tubular towers with no guy-wires instead of lattice towers; Installation bird perches on towers away from live wires; Use of red flashing tower safety lights with the longest off-cycle possible to maintain air safety, and; Provision of funding to park managers and independent academic researchers to regularly monitor and report bird and bat mortality and to identify and carry out any remedial measures. The draft EIS/EIR should also include a management and monitoring plan to accomplish bird and bat mitigation measures.

The Powerlink would facilitate the spread of harmful, invasive, exotic plant species

Construction of the Powerlink would significantly harm biological resources by facilitating the spread of exotic invasive plant species.

Exotic invasive grasses and other plants are spread by disturbance of native vegetation and microbiotic soil crusts. Several activities related to the Powerlink would promote proliferation of harmful exotic invasive plants, including direct construction and maintenance of the Powerlink, Powerlink-related accidental wildfire, and increased access by people. The spread of exotic invasive plants harms biological resources when they provide fine fuels which in turn increase the risk and expansion of wildfire, and when they reduce the diversity and numbers of plant and animal species, including state and federally listed species, among other effects.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink,

existing lines in Mexico, and/or Interstate 8 away from relatively wild areas which have not yet suffered extensive invasion by exotic species. To the extent that SDG&E's preferred alternative is considered, the draft EIR/EIS should include a mitigation measure to avoid, minimize, and mitigate impacts in part by funding the control and removal of exotic invasive plant species in natural lands along and around the Powerlink. The draft EIS/EIR should also include a management and monitoring plan to accomplish exotic species mitigation measures.

The Powerlink would harm visual resources and aesthetic values

Construction of the Powerlink would significantly harm visual resources throughout the Project area, by imposing huge transmission towers, long loops of wire, and substations on pristine landscapes.

Impacted areas would include but are not limited to lands in and adjacent to Anza Borrego Desert State Park, the previously listed parks and preserves, undeveloped BLM lands, the Imperial Valley, and scenic corridors along highways. Regardless of their location all transmission line routes would have substantial unmitigable impacts on pristine landscapes.

Impacts on Anza-Borrego Desert State Park would be enormous. There is a great difference between the existing transmission lines and the proposed 500kV line. The California Department of Parks and Recreation (DPR) estimates that the Project would impact the visual aesthetics of upwards of 90,000 acres in Anza-Borrego Desert State Park. Since one of the core purposes of the park is protection of these viewsheds, construction of the Project would severely damage these resources. Also, the route would parallel or pass near scenic highways such Highway 78 between Ocotillo Wells and San Diego County Road S-2 at Scissors Crossing. Millions of drivers every year travel this road specifically to enjoy the unsullied views.

In addition, alternate route segments near the Coyote Mountains Wilderness and Fish Creek Mountains Wilderness areas currently do not have any transmission or distribution lines through them. These are beautiful areas and remarkably unspoiled, but construction of the lines would ruin the aesthetic value of these areas.

In more general terms, the Powerlink would have significant impacts on the wide open views of the Imperial Valley. The California Desert Conservation Plan specifically seeks to limit the proliferation of transmission corridors in Imperial Valley to prevent industrialization of its landscape. It is the Conservation Groups' understanding that there are already two north-south utility corridors on BLM land in Imperial Valley. The California Desert Conservation Area plan states, "Applications for utility rights-of-way will be encouraged by BLM management to use designated corridors" and "Managers will first look to contingent corridors for possible solution to requests for developing rights-of-way outside of designated corridors" (1980 plan, as amended 1999, page 95). The scope of the environmental review should assess the impact of additional utility corridors in Imperial Valley.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, existing lines in the Imperial Valley, and/or Interstate 8. To the extent that SDG&E's preferred alternative is considered, the draft EIR/EIS should underground lines through areas of high scenic and aesthetic value, including through all of Anza-Borrego Desert State Park, Mesa Grande, the San Felipe Valley, the Santa Ysabel Valley, and any other portions of routes visible from the Coyote Mountains Wilderness, Fish Creek Mountains Wilderness, and any other protected land.

The Powerlink would facilitate increased access by harmful off-road vehicles

Construction of the Powerlink would significantly harm biological, archeological, historic, and cultural resources, including state and federally listed species, by facilitating increased access by off-road vehicles.

Off-road vehicles harm biological resources when they inevitably leave roads to enter adjacent land, thereby disturbing soils and microbiotic crusts and destroying native vegetation which in turn facilitates the spread of exotic invasive plants, killing small animals, and disturbing larger animals, including state and federally listed species.

Off-road vehicles harm archeological, historic, and cultural resources when delicate soils at archeological sites are disturbed, and ORV riders illegally collect artifacts, graffiti or target practice on cultural rock features, and vandalize historical structures, among many other impacts. Large ugly new transmission towers will also significantly reduce the ability of people today to experience the views and features experienced long ago by indigenous people, early explorers, and settlers thereby reducing our ability to understand the historical cultural landscapes.

Other alternatives should be considered to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, existing lines in the Imperial Valley, and/or Interstate 8 to discourage off-road vehicle use in more remote natural areas. In the event SDG&E's preferred alternative is considered, the draft EIS/EIR should include a mitigation measure to avoid, minimize, and mitigate impacts in part by requiring SDG&E to fund park managers and work with private property owners to install locked gates on access roads and to monitor any ORV trespass problems and immediately respond by constructing strategic vehicle barriers or other measures. The draft EIS/EIR should also include a management and monitoring plan to accomplish ORV mitigation measures.

The Powerlink would significantly conflict with the San Diego Multiple Species Conservation Plan

The Powerlink will significantly reduce the viability of the San Diego Multiple Species Conservation Plan when the Project crosses permanent natural open space

preserves established for the conservation of species covered by the plans as mitigation for development elsewhere.

The Project will harm the MSCP preserves when construction and maintenance activities kill animals and plants, destroy habitat, increase the risk of wildfire, kill birds and bats, facilitate the spread of harmful invasive exotic plant species, increase use by harmful off-road vehicles, cause noise pollution, degrading watersheds and water quality, and significantly contributes to global warming.

The Powerlink could upset this balance in the anticipated event of SDG&E's selection of a route through existing San Diego MSCP preserve areas. For example, the City of San Diego, the County of San Diego, the U.S. Fish and Wildlife Service, and the California Department of Fish and Game have all labored for years to build the San Diego MSCP Del Mar Mesa Preserve. Now, an alternative Powerlink route north of Los Penasquitos Canyon along an undeveloped SDG&E easement would bisect the area and significantly threaten the ecological integrity of the preserve and the continued existence of several threatened or endangered species. The Sunrise Powerlink could thereby carve through the heart of important protected land, and mitigation for any impacts will likely be totally insufficient given that there simply is no other landscape like it left.

Other alternatives should be considered to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, existing lines in the Imperial Valley, and/or Interstate 8. In the event SDG&E's preferred alternative is considered, the draft EIS/EIR should clearly articulate the relationship between state and federal endangered species permitting for the Project and both SDG&E's existing San Diego County regional habitat conservation plan and the existing subarea plans for the City and County of San Diego. Mitigation for any impacts to biological resources in any MSCP-related preserve should be doubled to offset impacts from both the Powerlink and impacts from the original project that were mitigated in these preserves.

The Powerlink would harm sensitive archeological, historic, and cultural sites

Construction, operation, and maintenance of the Powerlink would significantly harm sensitive archeological, historic, and cultural sites.

The Powerlink would harm archeological, historic, and cultural resources located along the various possible routes by its construction, operation, and maintenance. Bulldozing for new pads may directly destroy important sites. Already survey markers already appear to have been placed on top of important archeological and cultural sites. Also, access roads are likely to increase human use in sensitive areas, thereby increasing the risk of artifact theft or destruction.

Also, the Powerlink passes near the Pedro Fages trail, Juan Bautista de Anza trail, Picacho-San Diego trail, Stephen Kearny's 1846 route, and the Butterfield Overland Stage route. Its construction, operation, and maintenance, as well as it very presence,

would damage the archeological, historic, visual, and recreation values of these historic trails and routes.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, and/or Interstate 8 away from relatively wild areas which have not yet suffered extensive impacts to archeological, historic, and cultural resources. To the extent that SDG&E's preferred alternative is considered, the draft EIR/EIS should include a mitigation measure to avoid, minimize, and mitigate impacts in part by fully surveying the route to avoid direct impacts and, where such avoidance is not feasible, documenting and preserving all resources. Funding should also be provided to acquire important, currently unprotected cultural, historic, and archeological sites for dedication as new park land equivalent to the number and value of sites directly and indirectly impacted by the Powerlink. The draft EIS/EIR should also include a management and monitoring plan to protect sites placed at risk by the Powerlink.

The Powerlink would result in cumulative significant harm to people and nature by attracting new nearby electrical generating facilities and power-dependent businesses

Construction of the Powerlink would significantly harm the environment by promoting the development of large-scale renewable energy facilities that have been planned for undisturbed natural lands in proximity to various Powerlink routes, including one thermal solar energy facility.

Construction, operation, and maintenance of these facilities would displace native habitat and animals and potentially impact groundwater resources and watersheds. Several of the proposed facilities are located in or immediately adjacent to extremely sensitive natural lands, parks and public lands. The Powerlink might unjustifiably encourage their construction by providing a convenient nearby transmission facility and impacts from these facilities on sensitive lands, wildlife, and plants should be considered a significant indirect effect of the Powerlink. Areas that especially need to be analyzed include San Felipe Valley (wind facilities), Ocotillo Wells Vehicular Recreation Area (geothermal, wind and solar facilities), McCain Valley (wind facilities), Borrego Valley (wind, geothermal, solar facilities), the Jacumba/Boulevard/Campo region (wind facilities), and Imperial Valley (solar, wind, geothermal, trash burner, and sludge burner facilities).

While Conservation Groups support the development of renewable energy facilities, they believe that impact of new renewable energy facilities should be mitigated by being developed on previously disturbed land and away from sensitive biological resources and others.

The Powerlink would result in cumulatively significant harm to people and nature by promoting completion of the "full loop"

Construction of the Powerlink would significantly harm the environment by permitting completion of the "full loop" transmission alternative identified by SDG&E, including additional transmission lines from the proposed Central Substation to an interconnection with grid in Southern California Edison's service area. An additional segment of the full loop could be the transmission portion of the LEAPS project currently being considered by the Federal Energy Regulatory Commission. The full impacts of such additional transmission lines would include most if not all of the types of impacts of the Powerlink itself.

Conservation Groups anticipate that the CPUC and BLM will consider the "full loop" alternative because it is feasible. However, even if the agencies elect to not consider this project as an alternative, they must evaluate the cumulative impacts of the construction of such a transmission line extension. The Powerlink and the full loop are very closely related such that completion of the Powerlink makes completion of the full loop to be inevitable. The Powerlink and full loop are so closely related that CAISO models the Powerlink and LEAPS project together, such that the benefits of both lines identified by CAISO are dependent on each other. Given this close relationship, the full loop alternative and all related harm to people and nature should be considered to be a foreseeable cumulative impact of the Powerlink.

<u>The Powerlink will harm recreational and educational experiences</u>

Construction, operation, and maintenance of the Powerlink would significantly harm recreational and educational experiences by reducing important aesthetic values of such experiences.

The presence of huge transmission towers, lines, and substations will substantially reduce the recreational value of any area within sight of such facilities. Californians recreate in natural areas to avoid things such as transmission lines. The presence of such lines in parks and public lands will substantially reduce use of these areas by the millions of residents and guests who travel to these lands to get away from human-made intrusions. Such reduction of use will have a deleterious effect throughout these parks due to lost income.

Specific impacts to recreational users would include impacts to users of the Pacific Crest Trail, California Riding and Hiking Trail, trails inside affected open-space preserves, trails inside the Cleveland National Forest, trails inside Anza-Borrego Desert State Park, and the Desert Trail. (The Desert Trail is an approximately 1,300 mile long trail corridor that stretches from Mexico to Oregon. The trail is not marked, but must be navigated using maps. The conservation organization Desert Survivors is the steward of the trail in California.)

Also, the Powerlink would impacts organized youth recreation by school programs and Boy and Girl Scout programs, as well as the recreational activities of outdoor recreation organizations, such as the Sierra Club and hunting and fishing clubs.

The Powerlink would have significant impacts to designated and open camping areas including Tamarisk Grove Campground, Yaqui Well Primitive Camp, Angelina Spring, Nude Wash, and along Old Kane Spring Road. There is concern that the public perception of harm from large power towers could cause a significant decline in the use of those campgrounds and thus a loss of revenue to State Parks.

One of the major attractions of this park is its unspoiled scenic vistas. Degradation of that experience would adversely impact the quality of those experiences.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, and/or Interstate 8 away from areas with high recreational values. Funding should also be provided to acquire Anza-Borrego Desert State Park inholdings, adjacent natural lands, and other at-risk recreational areas for dedication as new park land equivalent to the amount of park land directly and indirectly impacted by the Powerlink.

The Powerlink would cause noise pollution

The Project as proposed by SDG&E would also significantly and permanently increase noise levels all along its route. The scope of environmental review should include a detailed assessment of the impacts on humans and wildlife, both during construction and afterwards.

A permanent increase in noise especially threatens the quiet, nonindustrial character of Anza-Borrego Desert State Park, its wilderness areas, and its wildlife. Park visitors travel long distances to experience serenity and solitude. Both would be permanently damaged by the Project. Since the Park has dispersed camping, the entire route of the Project should be considered as a campground and therefore sensitive to noise, not just Tamarisk Grove Campground and Yaqui Wells primitive camp. Other camping locations of special importance are Angelina Spring, the back walls of Nude Wash, and all along Old Kane Springs Road.

Noise impacts from the far western alternate route in Imperial County would damage the Coyote Mountains Wilderness Area and the Fishcreek Mountains Wilderness Area, especially during construction.

Further, transmission line noise could disrupt wildlife behavior, including big horn sheep behavior, thereby harming sensitive species.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, and/or Interstate 8 away from relatively wild areas and residents. It is not possible to mitigate for noise impacts, therefore the only option to minimize this impact is to adjust the Powerlink route away from sensitive areas.

The Conservations Groups are skeptical of SDG&E's sound readings and ask that they be remeasured inside Anza-Borrego Desert State Park. The assertion of SDG&E's PEA that sound levels in Grapevine Canyon were "high relative to typical rural sound levels" due to ATV activity appears particularly dubious, given that many types of ATV are not permitted in the Park. Additional sound readings should be taken inside Anza-Borrego Desert State Park in areas that are not next to highway 78. Additional sound readings should also be taken for the far western alternate route in Imperial County, once it has left the Plaster City Open Area.

The Powerlink would harm watersheds, groundwater, and water quality

Construction of the Powerlink would significantly harm watersheds and water quality.

The Powerlink would impact waterways by increasing erosion due to maintenance of rights of way and use of access roads by off-road vehicles. Such increased erosion would biological resources and others. The proposed alternate route follows an existing 69 kv line, a much smaller line with a smaller right of way. Maintenance of this line has resulted in numerous instances where work by SDG&E sub-contractors has resulted in scars to the land and significant quantities of soil being placed or eroded into waterways. Such impacts would likely increase due to the construction, operation, and maintenance of the Powerlink.

Other alternatives should be consider to avoid or reduce this harm, including the "no wires" alternatives and alternative routes along the existing Southwest Powerlink, existing lines in Mexico, and Interstate 8 away from sensitive watersheds and groundwater. To the extent that SDG&E's preferred alternative is considered, the draft EIR/EIS should include a mitigation measure to avoid, minimize, and mitigate impacts in part by designing all infrastructure to minimize erosion and limit the need for maintenance that regularly disturbs the land, and by fully assessing groundwater resources and designing the Powerlink to minimize impacts to such resources. The draft EIS/EIR should also include a management and monitoring plan to accomplish watershed and groundwater protection.

The Powerlink would significantly contribute to global warming

Construction of the Project may increase the use of existing fossil-fuel fired power plants and promote the construction of new fossil-fuel fired power plants outside California, where they would be beyond the reach of state environmental protection laws. The emissions from these plants would contribute to global climate change. On the other hand, SDG&E claims that the Project will be used to transmit energy generated by renewable energy power plants, yet these plants are not in operation but rather are speculative in nature. To understand the potential impact of the Project on global climate change, the scope of environmental review for the Project must assess the likelihood of the use of the Project by both fossil fuel-fired and renewable energy power plants.

In addition, the State of California has recognized that prevention of global climate change is a priority for the State. In particular, the State enacted to recent laws, AB 32 and AB 1368, both of which are intended to reduce global warming gas emissions caused by the energy usage of Californians. Whereas SDG&E has focused on the impacts of these laws on the Project, the scope of the environmental review for the Project must assess the Project's impact on the ability of these laws to reduce greenhouse gas emissions.

Numerous studies published in the peer-reviewed scientific literature show that anthropogenic emissions of CO_2 are dramatically affecting the environment, including the environment in California. The findings of the international climate experts forming the Intergovernmental Panel on Climate Change (IPCC) provide a convenient summary of much of this literature, and are endorsed by the U.S. EPA, the National Academy of Sciences, and the U.S. Climate Science Program. The IPCC's most recent report concludes that 1) carbon dioxide emissions from human activities have significantly increased the atmosphere's CO2 concentration, and will continue to do so; 2) that the increased CO2 causes global warming—i.e., a significant increase in average global temperatures; 3) that the effects of global warming are already manifesting; and 4) future CO2 emissions will have additional and severe effects. The IPCC also concluded that burning fossil fuels was the primary source of carbon dioxide emissions, and that fossil fuel use would be the dominant influence on global climate change in the next century.

Human emissions of carbon dioxide have significantly altered the atmosphere

The United Nations Environment Programme and the World Meteorological Organization in 1988 appointed an international group of scientists to the IPCC to investigate climate change. The United States Senate has recognized the IPCC as the preeminent international body established to provide objective scientific and technical assessments on climate change. S. Exec. Rep. No. 102-55, 102nd Cong., 2d Sess. (1992), 9 (IPCC's work is "viewed throughout most of the international scientific and global diplomatic community as the definitive statement on the state-of-the-knowledge about global climate change").

The IPCC concluded that human activity has caused a dramatic increase in the amount of atmospheric CO2. The IPCC's Third Assessment Report (TAR), completed in 2001, found that in the 250 years following the industrial revolution the atmospheric concentration of CO2 had increased by 31%. Concentrations rose "at first slowly and then progressively faster . . . echoing the increasing pace of global agricultural and industrial development."[2] *TAR: The Scientific Basis*, 187. Since 1958, when scientists began taking direct measurements of CO2, atmospheric concentrations have increased by approximately 17%. During the 1980s and 1990s, atmospheric CO2 concentrations

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[2] IPCC, 2001: *Climate Change 2001: The Scientific Basis. Contribution of Working Group I to the Third Assessment Report of the Intergovernmental Panel on Climate Change* [Houghton, J.T.,Y. Ding, D.J. Griggs, M. Noguer, P.J. van der Linden, X. Dai, K. Maskell, and C.A. Johnson (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, 881pp.

increased an average of 0.4% per year, and that "[a]bout three-quarters of the anthropogenic emissions of CO2 to the atmosphere during the past 20 years is due to fossil fuel burning." *TAR: The Scientific Basis*, 7.

The National Academy of Sciences, the Environmental Protection Agency, and the U.S. Climate Science Program have explicitly endorsed the IPCC's estimates. In 2001, the White House requested that the National Academy of Sciences (NAS) analyze some of the key *TAR* findings. National Research Council, *Climate Change Science: An Analysis of Some Key Questions* (2001). The NAS concluded that "[t]he [NAS] committee generally agrees with the assessment of human-caused climate change presented in the IPCC Working Group I (WGI) scientific report." *Id.* at 1. In particular, the NAS concurred in the IPCC's conclusion that atmospheric CO2 concentrations had increased by more than 30% because of human activity, and that the rate of increase is accelerating. NAS reported that concentrations of atmospheric CO2

> did not rise much above 280 ppmv until the Industrial Revolution. By 1958, when systematic atmospheric measurements began, they had reached 315 ppmv, and they are currently ~370 ppmv and rising at a rate of 1.5 ppmv per year (slightly higher than the rate during the early years of the 43-year record). Human activities are responsible for the increase.

Id.

After publication of the NAS Report and pursuant to its obligations under the United Nations Framework Convention on Climate Change (UNFCCC), the United States submitted the *U.S. Climate Action Report 2002*(*CAR*) to the Secretariat of the UNFCCC. EPA served as the lead agency in the preparation of the *CAR* and coordinated the involvement of a dozen other federal agencies and the Executive Office of the President. The *CAR* incorporated the NAS report as an appendix, and reiterated its conclusion that human activity had caused atmospheric CO2 concentrations to increase. *Id.* at 4.

The inter-agency U.S. Climate Science Program's July 2004 report, *Our Changing Planet 2004-2005*, states that "Atmospheric concentrations of CO_2 and CH_4 have been increasing for about two centuries as a result of human activities and are now higher than they have been for over 400,000 years. Since 1750, CO_2 concentrations in the atmosphere have increased by 30%." U.S. Climate Change Science Program and Subcommittee on Global Change Research, *Our Changing Planet*, 78-79 (2004).

This year, the Environmental Protection Agency reiterated these conclusions. Every year, the EPA prepares the official *U.S. Inventory of Greenhouse Gas Emissions and Sinks* to comply with the United Nations Framework Convention on Climate Change. The 2004 inventory, released in April of 2006, states that "[s]ince the Industrial Revolution (i.e., about 1750), global atmospheric concentrations of CO2 have risen about 35 percent (IPCC 2001, Hofmann 2004), principally due to the combustion of fossil fuels." EPA 430-R-06-002 at ES-2.

As these reports make clear, it is an accepted fact that human activities can significantly influence atmospheric CO2 levels, and that fossil fuel consumption is the principle source of this influence.

Carbon dioxide emissions are causing global warming (an increase in global temperatures)

The mechanism underlying carbon dioxide's ability to increase temperatures, called the greenhouse effect, is well understood. Radiation coming from the sun has a relatively short wavelength. Once solar radiation hits the earth's surface, it is transformed into longer-wavelength radiation and heat. CO2, like all greenhouse gasses, allows short wavelength radiation to pass through the atmosphere but blocks longer wavelengths, effectively trapping heat. Increasing the amount of CO2 in the atmosphere increases the magnitude of the greenhouse effect, trapping more heat and causing a net warming of the earth's atmosphere.[3]

The scientific consensus is that the human-caused increase in atmospheric CO2 has already strengthened the greenhouse effect and caused an increase in global average temperatures. In 1995, the IPCC's *Second Assessment Report* on climate change found that "the balance of evidence, from changes in global mean surface temperature and from changes in geographical, seasonal and vertical patterns of atmospheric temperature suggests a discernible human influence on global climate." *IPCC Second Assessment Report, Synthesis Report* (1995), 5 (emphasis added); *see also*, *IPCC Third Assessment Report, Working Group I, Summary for Policymakers* (2001) at 10.

After the *Second Assessment Report*, additional data, improved analysis, and more rigorous evaluation have given the IPCC an even greater understanding of climate change. *Id*. at 2. In 2001, the IPCC completed its *Third Assessment Report* and concluded that "[t]here is new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities." *Id.* at 10 (emphasis added). Increased levels of CO2 in the atmosphere were identified as the greatest contributor to increased temperatures. *Id.*

U.S. agencies have adopted this conclusion as well. The NAS, in its analysis of the IPCC's findings, stated that "the IPCC's conclusion that most of the observed warming of the last 50 years is likely to have been due to the increase in greenhouse gas concentrations accurately reflects the current thinking of the scientific community on this issue." National Academy of Science, *Climate Change Science: An Analysis of Some Key Questions*, 3 (2001). The EPA stated that "[g]reenhouse gases are accumulating in Earth's atmosphere as a result of human activities, causing global mean surface air temperature and subsurface ocean temperature to rise," *CAR* at 4, and that "[t]he warming that humans are causing will change Earth's climate . . . tens or possibly a hundred times faster than natural rates of climate change." *US EPA Global Warming*

[3] Climate Change Science: An Analysis of Some Key Questions. http://fermat.nap.edu/html/climatechange/1.html

FAQ.[4], The U.S. Climate Science Program reports that "[c]arbon dioxide (CO_2) is the largest single forcing agent of climate change," accounting for the majority of the increased greenhouse effect. *Our Changing Planet*, 78, 80.

Global warming has already caused significant effects

The IPCC found that the global average surface temperature has increased 0.6°C (1°F) over the 20th century. *TAR: The Scientific Basis*, 2. The record culminates with the 1990s, which the IPCC determined was the warmest decade since records were first kept in 1861. *Id*.

Two sources of information indicate that the increase in temperature is already having effects. First, the increase has been correlated with numerous changes in regional environments. The IPCC's Working Group II concluded:

> Available observational evidence indicates that regional changes in climate, particularly increases in temperature, have already affected a diverse set of physical and biological systems in many parts of the world. Examples of observed changes include shrinkage in glaciers, thawing of permafrost, later freezing and earlier break up of ice on rivers and lakes, lengthening of mid- to high-latitude growing seasons, poleward and altitudinal shifts of plant and animal ranges, declines in some plant and animal populations, and earlier flowering of trees, emergence of insects, and egg-laying birds.

Climate Change 2001: Impacts, Adaptation and Vulnerability (TAR: Impacts), 3 (emphasis added). More specifically, the NAS report emphasized that the effects of global warming are being experienced now:

> The warming trend is spatially widespread and is consistent with the global retreat of mountain glaciers, reduction in snow-cover extent, the earlier spring melting on rivers and lakes, the accelerated rate of rise of sea level during the 20th century relative to the past few thousand years, and the increase in upper-air water vapor rates and rainfall rates over most regions. A lengthening of growing season also has been documented in many areas, along with earlier plant flowering season and earlier arrival of migratory birds. Some species of plants, insects, birds, and fish have shifted toward higher latitudes and higher elevations.

Id. 16.

Second, recent studies have established explicit causal linkages between global warming and certain observed environmental changes. Most obviously, the increase in temperatures had reduced the average number of days of freezing temperatures. The *Climate Action Report* stated that "[a]lthough a 0.6°C (1°F) warming may not seem large compared to daily variations in temperature, it caused a decline of about two days per

[4] Available at http://yosemite.epa.gov/oar/globalwarming.nsf/UniqueKeyLookup/SHSU5BUN59/$File/gw_faq.pdf

year in the number of days that minimum temperatures fell below freezing." *CAR*, 84.

Causation has also been established for the increase in sea level. The TAR found that "global average sea level rose between 0.1 and 0.2 metres [between 4 and 8 inches] during the 20th century," and that "it is very likely [between 90% and 99% certain] that the 20th century warming has contributed significantly to the observed sea level rise." *TAR: The Scientific Basis* at 4, 10.

In December 2004, the scientific journal *Nature* reported groundbreaking findings linking global warming pollution and the European heat wave of 2003 that killed more than 15,000 people. Emissions of carbon dioxide and other global warming pollutants have already at least doubled the risk of extreme heat waves like the one experienced in 2003, according to a team of scientists led by Peter Stott at the British Met Office.[5] They also find that as greenhouse gas emissions continue to rise, 2003 temperatures will become the norm by the 2040s, with half of the summers being even hotter than last year's. A companion paper describes this work as "a breakthrough"; "the first successful attempt to detect man-made influence on a specific extreme climatic event."[6]

Future carbon dioxide emissions will have significant, and potentially catastrophic, impacts

The amount of future warming and its consequent effects will depend on the amount of future CO2 emissions. The IPCC's *Third Assessment Report* considered climate models for a range of emissions scenarios, comparing the effects of differing amounts of emissions of carbon dioxide and other air pollutants. Across all scenarios, the Third Assessment Report found that "the impacts of climate change will be more severe the greater the cumulative emissions of greenhouse gases. The various effects of climate change pose risks that increase with global mean temperature."[7] (*TAR: Synthesis Report*, 66) According to the NAS, "[i]n general, . . . risk [to human welfare and ecosystems] increases with increases in both the rate and the magnitude of climate change." *CAR*, 254. Added CO2 emissions therefore create additional impacts on the environment.

Recognizing the impact of increased emissions, the NAS states that "national policy decisions made now and in the longer-term future will influence the extent of any damage suffered by vulnerable human populations and ecosystems later in this century." *Climate Change Science*, 1. The consequences of emissions are especially severe because CO2 emitted today will remain in the atmosphere for more than 100 years. *Our Changing Planet*, 30. Therefore,

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[5] Stott, *et al.*, Human Contribution to the European Heatwave of 2003, *Nature* (432:610), Dec. 2, 2004.
[6] Schär and Jendritsky, Hot News from Summer 2003, *Nature* (432:559), Dec. 2, 2004.
[7] IPCC, 2001: *Climate Change 2001: Synthesis Report. A Contribution of Working Groups I, II, and III to the Third Assessment Report of the Integovernmental Panel on Climate Change* [Watson, R.T. and the Core Writing Team (eds.)]. Cambridge University Press, Cambridge, United Kingdom, and New York, NY, USA, 398 pp.

> stabilisation of atmospheric CO2 concentrations at 450, 650 or 1,000 ppm [160%, 232%, or 357% of historic levels]would require global anthropogenic CO2 emissions to drop below 1990 levels, within a few decades, about a century, or about two centuries, respectively, and continue to decrease steadily thereafter. Eventually CO2 emissions would need to decline to a very small fraction of current emissions.

TAR: The Scientific Basis, 12. The IPCC's estimate of that "very small fraction" is 740 million metric tones of CO2 annually—less than 3% of global anthropogenic CO2 emissions in 2003. *Id.* at 187, Carbon Dioxide Information Analysis Center, U.S. Department of Energy.[8] Actions that push total CO2 emissions above that level, or that impede reducing emissions to that level, will therefore aggravate the effects of global warming.

Every additional increase in temperature can have drastic impacts. Scientists and agencies agree on the nature of many likely effects, and that additional emissions make these effects more severe. As explained by the EPA, "[a] few degrees of warming increases the chances of more frequent and severe heat waves, which can cause more heat-related death and illness,"[9] as well as "more frequent droughts, … greater rainfall, and possibl[e] change[s in] the strength of storms."[10]

Other agencies predict similar consequences. The IPCC identified the following adverse impacts as either "likely" or "very likely" to occur, and increase in extent with the quantity of CO2 emissions:

- Higher maximum temperatures over most land areas;
- Higher maximum temperatures and more hot days over nearly all land areas;
- Higher minimum temperatures and fewer cold days and frost days over nearly all land areas;
- Reduced diurnal temperature range over most land areas;
- More intense precipitation events over many areas; and
- Increased summer dry conditions and associated risk of drought over most mid-latitude continents.

TAR: The Scientific Basis, 15. The NAS makes a comparable set of global predictions:

> Some models project an increased tendency toward drought over semi-arid regions, such as the U.S. Great Plains. Hydrologic impacts could be significant over the western United States, where much of the water supply is dependent on the amount of snow pack and the timing of the spring runoff. Increased rainfall

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[8] Carbon Dioxide Information Analysis Center, Department of Energy. http://cdiac.ornl.gov/trends/emis/tre_glob.htm

[9] U.S. Environmental Protection Agency, climate change web site, last updated on April 6, 2001, http://www.epa.gov/globalwarming/faq/fundamentals.html.

[10] U.S. Environmental Protection Agency, climate change web site, last updated on April 6, 2001, http://www.epa.gov/globalwarming/faq/moredetail.html.

> rates could impact pollution run-off and flood control. With higher sea level, coastal regions could be subject to increased wind and flood damage even if tropical storms do not change in intensity. A significant warming also could have far reaching implications for ecosystems.

Climate Change Science, summary.

Similarly, the EPA's *Climate Action Report* recites at length the detrimental effects to public health and welfare caused by climate change. For example, according to the *CAR*, heat waves are "very likely" to increase in frequency and severity. *CAR*, 106. These changes in weather and climate are "likely" to affect air quality in several ways including higher concentrations of ground-level ozone. *Id*. 107.

Increases in temperature and the frequency and severity of droughts and floods, and similar effects are not speculative, worst case scenario outcomes; they are expected to occur. In the *Climate Action Report*, "the term *likely* is used to indicate that a suggested impact is more plausible than other outcomes, and the term *very likely* is used to indicate that an outcome is much more plausible than other outcomes." *Id.*, 83. The IPCC quantifies its predictions, explaining that "very likely" and "likely" mean with 90-99% and 66-90% confidence, respectively. *TAR: The Scientific Basis*, 2.

Beyond these expected impacts, carbon dioxide emissions raise the additional danger of sudden and catastrophic changes. The IPCC explains that:

> The climate system involves many processes that interact in complex non-linear ways, which can give rise to thresholds (thus potentially abrupt changes) in the climate system that could be crossed if the system were perturbed sufficiently. These abrupt and other non-linear changes include large climate-induced increase in greenhouse gas emissions from terrestrial ecosystems, a collapse of the thermohaline circulation . . . , and disintegration of the Antarctic and the Greenland ice sheets.

TAR: Synthesis Report, 82. The NAS evaluation of the IPCC's findings reiterated this possibility:

> It is also possible that [the] climate could undergo a sudden large change in response to accumulated climate forcing. The paleoclimate record contains examples of sudden large climate changes, at least on regional scales. Understanding these rapid changes is a current research challenge that is relevant to the analysis of possible anthropogenic climate effects.

Climate Change Science, 1. Scientists have recognized predict that the risk of abrupt climate change increases as CO2 emissions rise. The IPCC explained

> The probability of large-scale, high-impact events within a 100-year time horizon such as shutdown of the thermohaline circulation or collapse of the West

> Antarctic ice sheet is very low for warming less than a few °C. The risk, which is a product of the probabilities of these events and the magnitude of their consequences, is largely unquantified. For greater warming, and over a time horizon longer than 100 years, the probabilities and the risks increase, but by an amount that cannot now be estimated.

TAR: Synthesis Report, 68.

In summary, although some quantity of global warming is now inevitable, every additional contribution to global CO2 emissions increases the severity of the predicted impacts and the risk of sudden catastrophic change.

Probable Impacts of Global Climate Change on California

Climate change science has advanced to the point where scientists are able to identify the probable impacts on the regional environment, society and economy. In 2001, the US Global Change Research Program released *Climate Change Impacts on the United States: The Potential Consequences of Climate Variability and Change,*[11] (*National Assessment*) predicting effects of climate change for each region in the U.S. Recent scientific studies predict that without action to reduce global warming emissions, California's environment, air quality, water resources, and economy will suffer. For instance, global warming will drastically change rainfall patterns in California, resulting in less water during the critical dry months, and too much water during the rainy season.[2] This will make it nearly impossible for California's complex water delivery system to function. Too little spring runoff will reduce the reliability of flow for hydropower and critical freshwater habitats, and cause serious problems for the state's $27 billion agriculture industry, and too much winter rain will increase the likelihood of flooding.

Other global warming effects predicted in California this century include:

- Adverse health impacts from increases in air pollution caused by higher temperatures. More than 95% of Californians live in areas that fail to meet federal or state air quality standards.[3] Recent gains in air quality could be threatened as rising temperatures cause an increase in ozone and smog, particularly affecting children, seniors, and those with existing illness.[4]
- Warm wet winters followed by dry summers, leading to higher rodent populations and an increased risk of outbreaks of hantavirus, a deadly pulmonary disease.
- Diminished snowpack levels in the Sierra Nevada range and changes in the timing of spring runoff.6
- A doubling of catastrophic wildfires in some regions due to faster and more intense burning associated with warming, drying vegetation, and elevated wind speed.7

[11] National Assessment Synthesis Team, Climate Change Impacts on the United States: The Potential Consequences of Climate Variability and Change, US Global Change Research Program, Washington DC, 2000 (National Assessment Overview).

- Damage to the state's extensive coastline and ocean ecosystems due to an increase in storms and significant rise in sea level.8
- Agriculture crop losses caused by projected heavy precipitation and plant damage from excess soil moisture.9
- Significant effects on consumers, businesses, and the state's economy due to increased food, water, energy, and insurance costs, additional environmental losses, and demands upon the public health infrastructure.

http://www.calcleancars.org/factsheets/effects_ca.pdf

Given the State of California's demonstrated commitment to reduce global warming gas emissions, the environmental assessment for the Project must review potential sources of electricity to be transmitted on the Project and assess the propensity of the Project to either promote or discourage the development of renewable energy power plants, on the one hand, and the use of the Project by existing and future fossil fuel fired power plants on the other. Since CAISO and the CPUC have access to detailed information about potential energy sources, including their heat rates and fuels, and because the models used by CPUC and CAISO staff determine likely use of the Project by existing and future power plants, it is feasible for the CPUC and BLM to modify these models to assess the emissions of power plants that use the Project. If the CPUC and BLM can model cost impacts of the Project based on detailed information about power plants and fuel prices, it is also possible for them to model greenhouse gas emission impacts of these same power plants and therefore to compare the Project's impact of greenhouse gas emissions relative to non-transmission alternatives.

<u>The Powerlink would conflict with the Anza-Borrego Desert State Park General Plan</u>

Despite claims by SDG&E, the Anza-Borrego Desert State Park General Plan ("General Plan") would in fact require amendment as the company's existing rights-of-way are not adequate to facilitate construction of the Powerlink. The draft EIS/EIR must therefore fully consider the harmful effects of the Project on designated state wilderness areas.

SDG&E claims that the following language in the General Plan authorizes construction of the Project through Anza-Borrego Desert State Park:

> 2.3.3.6 Utilities
> Utility companies (such as San Diego Gas & Electric and the Imperial Irrigation District) have existing transmission lines through the Park. These companies have the responsibility to address California's future need for additional electrical power, which is critical to the continued economic viability of the State. Anticipated electrical needs in Southern California will require the utility companies to evaluate proposals to expand the existing level of service. The location, operation, and construction of such utility corridors may adversely affect Park resources through fragmentation of the Park's vast desert landscapes, biological connectivity, and possible destruction of cultural resources.

> Reconciling the inherent conflicts between the future electrical needs of the State and the protection of Park resources, will require the utility companies and State Parks to work closely together in planning for the size and location of these future facilities.

Page 2-96. (Emphasis added.)

SDG&E's interpretation of this language is absurd. First, SDG&E neglects to disclose that this language is included in Section 2.3.3 of the General Plan entitled "Regional Planning Influences," along with sections related to the influence on planning of the U.S. Fish and Wildlife Service, the California Department of Fish and Game, and the California Department of Transportation. The term "planning influence" means that the language in this section is intended to acknowledge factors that will influence future planning efforts. A mere acknowledgement of a planning influence does not authorize any particular action, much less the construction of a 500 kV line through Anza-Borrego Desert State Park.

The language of this paragraph is not directive, nor is it specific to SDG&E's Project (SDG&E is referred to only as an example of a utility company), but merely states the obvious reality that future utility planning efforts will require coordination with the Department of Parks and Recreation (DPR). In particular, the third sentence in this paragraph says that utilities "will . . . evaluate proposals to expand the existing level of service." This statement merely recognizes that utilities do in fact plan for future activities. The fourth sentence recognizes that increased levels of utility service may adversely impact Anza-Borrego Desert State Park, which is an obvious risk. The fifth and final sentence recognizes the legal and practical reality that reconciling the conflicting needs of utilities and natural resources will require that DPR and utilities work together to plan future facilities. DPR and SDG&E did work together in an attempt to plan for the Project, and therefore DPR fulfilled its obvious obligation to "work" with SDG&E. But, this language is silent as the outcome of an irreconcilable difference between utilities and DPR, because it is not directive but explanatory. An obligation to "work closely together" does not require that anything be built.

Obviously, this language does not authorize the construction of a 500 kV transmission line in Anza-Borrego Desert State Park. A mere recognition that DPR and utilities will work to plan future utility expansions does not speak to any requirement that DPR accede to utility demands. Further, such interpretation would prevent DPR from complying with its statutory trust obligations to protect natural resources. Moreover, since this language could apply to any transmission line anywhere in Anza-Borrego Desert State Park, if it is interpreted as an authorization for SDG&E to build the Project, then DPR could not refuse to allow the construction of any transmission line anywhere within the park. Such result would be absurd.

Also, SDG&E fails to cite to other language within the General Plan related to utilities. Below is a presentation of all General Plan language addressing utilities and discussion of how this language does not authorize construction of the Project.

ATTACHMENT A: WILDERNESS & PRESERVE – NAMING & CLASSIFICATION
Delineations of Various Parcels Within Anza-Borrego Desert State Park (ABDSP)
* * *
III. New Proposed Cultural Preserve
We-nelsch CP - Located in the western-most wedge of a road junction known as Scissors Crossing, a new parcel of land has been added to ABDSP. Bounded by County Road S-2 at the north and State Highway 78 at the southeast, the State Park boundary forms northern and southern extents of the approximately 443-acre parcel that staff proposes be classified as a CP. The existing dirt road that runs through the parcel is not included in the CP designation. The Preserve boundary extends to within 30 feet of either side of the centerline of this road. The existing power line that runs through the parcel is also not included in the CP designation. The Preserve boundary abuts both sides of the existing utility easement.

Page 4. This language makes clear that the boundaries of the We-nelsch Cultural Preserve are bounded by the existing utility easement. Any expansion of the utility easement in this area would reduce the size of this Cultural Preserve and require a change in the classification of the additional land needed for the expanded easement.

Power Easements for utility companies are located within the Park. One major electrical transmission line (69KV) that crosses the Park generally from east to west also extends north from State Highway 78 to serve the community of Borrego Springs, as well as ABDSP. This transmission line is operated by San Diego Gas & Electric Company and contains the "Narrows" substation, south of State Highway 78. A major connecting transmission line extends to the east and is operated by the Imperial Irrigation District. Additionally, several lower voltage electrical distribution line easements accommodate provision of electricity to other users and Park facilities. Finally, there is a 17-mile easement, which is currently vacant and generally extends from the Narrows to Scissors Crossing (see Figure 6.6).

Page 2-8. This language merely describes in general terms the existing utility infrastructure and easements in Anza-Borrego Desert State Park.

2.4.4 AESTHETIC RESOURCE ISSUES
To varying degrees, all aspects of the Park's beauty and grandeur are threatened by the activities of man:
● The blackness of the night sky is threatened by the spread of urban development and the ambient light that accompanies it.
● The visitors' sense of wilderness can be diminished by seeing man-made features such as trails, roads, and utility transmission corridors; forming artificial lines that slash across the textures and subtle lines of the desert landscape. The

degree to which such man-made features follow the land's natural contours and color, affects the aesthetic nature of visitors' experience.
● Early settlers introduced exotic plants that now choke out the native landscape and suck great amounts of water, drying out visually refreshing desert streams.
● Military aircraft flyovers and highway-legal vehicle traffic are noisy intrusions that overwhelm the overall sense of solitude and calm.
● Scenic viewsheds are not adequately identified and specifically managed for.
Development outside of the Park but within its scenic viewsheds may spoil the visitor's sense of isolation and the Park's wilderness qualities. The plan for the future of ABDSP seeks to ensure the protection of the aesthetic resources that delight today's visitors, guaranteeing that the Park's beauty and mystery will be here for many future generations to discover anew.

Pages 2-105 to 106. This section identifies that utility transmission corridors diminish beauty and grandeur and makes clear that the General Plan seeks to ensure the protection of these resources.

3.2.4.5 Wilderness Zone (WZ)
Purpose and Intent
As stated in the PRC (5093.31), the purpose of wilderness is to "…assure that an increasing population, accompanied by expanding settlement and growing mechanization, does not occupy and modify all areas on state-owned lands within California, leaving no areas designated for preservation and protection in their natural condition. Boundaries for the proposed wilderness areas are delineated so as not to include or affect existing designated roadways and are therefore, typically located 30 feet from the center line of unimproved roads and/or to the right-of-way in the case of highways or other paved roads. In addition, these boundaries do not include the existing SDG&E utility easement and access in Grapevine Canyon. Among other things, the expansion of designated wilderness is intended to prevent bisecting the natural areas and vistas so important to the public's enjoyment of ABDSP, without obstruction by man-made features.

The WZ provides an additional level of protection to park resources that is commensurate with the importance of those resources to the Park. While the General Plan does not propose to close any roads, currently open to the public, with the additional WZ acreage, roads may be recommended for closure or relocation by the future Roads Management Plan. If such a road were located along the boundary of a State Wilderness, relocation into the State Wilderness would require a change in sub-unit classification to be approved by the State Parks and Recreation Commission.

Page 3-15 to 16. The first paragraph of the foregoing language makes clear that the wilderness areas in Grapevine canyon include all of the land in Grapevine Canyon except for SDG&E's existing easement (its preferred route). While the second paragraph does not speak directly to the utility easements, it is instructive in that it states that relocating a road into a wilderness area would require that a change in sub-unit classification be

approved by the State Parks and Recreation Commission. It follows that relocation or expansion of a utility easement would also require action by the State Parks and Recreation Commission.

3.3 GOALS AND GUIDELINES

3.3.1 PARK-WIDE GOALS AND GUIDELINES

This section presents the goals and guidelines that apply park-wide for planning facilities for public access, interpretation, recreation, park administration, and cultural and natural resource management. It addresses planning issues that apply to all geographic areas of the Park. The Declaration of Purpose and Park Vision drive these goals and guidelines, as well as those for specific areas of the Park.

* * *

3.3.1.8 Leadership

* * *

GUIDELINE – Leadership 1f: Provide leadership and coordination with agencies regarding both park operations and long-term vision. These agencies include the Desert Managers Group (Bureau of Land Management, Bureau of Reclamation, National Park Service, the Department of Defense, and the Department of Homeland Security), resource agencies (such as the US Fish & Wildlife Service, the California Department of Fish and Game), trustee agencies (such as the U.S. Forest Service and Caltrans), as well as public utilities (such as San Diego Gas & Electric and Imperial Irrigation District.

3.3.1.11 Infrastructure and Operations

* * *

GOAL – Operations 4: The department shall work with local agencies, Caltrans, and utility companies to minimize the adverse impacts associated with developments.

GUIDELINE – Operations 4a: Should Caltrans or utility companies propose to improve or expand existing facilities (within existing easements); the department will work in collaboration with them to minimize adverse impacts to Park resources and the visitor experience. By evaluating proposed designs, DPR will be able to foster implementation of park friendly project elements (such as: reducing intrusion of footings, built elements that can be camouflaged to blend with or match natural surroundings, spacing between facilities to be less obtrusive to vistas, etc).

GUIDELINE – Operations 4b: If Caltrans or utility companies propose new facilities, in areas not presently developed for such use, the department will work with the appropriate parties to evaluate alternatives that result in a net improvement to the environment. As well, such evaluation will strive to ensure projects which are consistent with the Management Zones delineated in this General Plan. Considerations within this process may be as specific as: abandoning old easements, removing old facilities, restoring old utility roads or

scars from existing facilities (also see Guideline 4a above for other design considerations).

Pages 3-46 and 3-52. The foregoing provisions include management goals and guidelines related to utilities. It should be noted that there are 30 pages of park-wide goals and guidelines relating to many additional and competing concerns, including: Data Driven Management Decisions; Physical Resources; Biotic Resources; Cultural Resources; Interpretation; Collections; Visitor-Use & Opportunities (Recreation); Leadership; Community Involvement & Marketing; Real Property Additions & Management; and other Infrastructure & Operations related matters. Guideline 1f merely states that DPR will coordinate with utilities. Guideline 4a states that within existing easements that DPR will work to minimize impacts. Guideline 4b states that where a utility proposes to expand its facilities into new areas that DPR will evaluate alternatives that result in a net environmental improvement and that will be consistent with Management Zones. There is no limitation on the word "alternatives," except that they must result in a "net environmental improvement." That DPR may consider mitigation does not require that it accept mitigation in all circumstances, nor would this be consistent with state law. Therefore, such alternatives could include proposals that eliminate the need for the proposed utility expansion.

3.3.2.7 Grapevine Canyon
Grapevine Canyon lies in the central portion of ABDSP. A diversity of resources occur here, including, riparian areas and important prehistoric archaeological sites.
GOAL – GC 1: Encourage efforts to protect and document the sensitive and fragile resources in Grapevine Canyon.
GUIDELINE – GC 1a: Evaluate the feasibility of creating designated camping areas within Grapevine Canyon that will protect archaeological sites, fragile vegetation communities, and wildlife habitat.
GUIDELINE – GC 1B: Investigate potential vehicular routes of travel within the canyon that will avoid sensitive resources while providing access for visitors and utility companies.

Page 3-59. This provision relates to area specific guidelines in Grapevine Canyon, through which SDG&E's preferred route would pass. This provision is silent as to any expansion of SDG&E use of its easement and merely states that DPR will consider changing the roads in the canyon and still provide access for utility companies. This general statement does not authorize any expansion and would be required for SDG&E to maintain its existing infrastructure.

4.4.3 ALTERNATIVE 2
Alternative 2 (Figure 6.8) proposes about 1,300 acres of new State Wilderness and proposes 206,900 acres of Backcountry. In ABDSP, Backcountry has the potential to allow new roads and utility lines through the Park. The number of utility trucks and utility-type facilities within the Park would have the potential to increase significantly. Backcountry land-use designation in Coyote Canyon would

permit new roads and utility facilities that may cause an adverse effect on bighorn sheep habitat and wilderness qualities. This is the least environmentally sensitive alternative allowing for roads and low level facility development throughout approximately 206,900 acres of ABDSP. This alternative is inconsistent with the Park purpose and does not provide the same level of protection to natural and cultural resources as the Preferred Plan.

Page 4-7. Alternative 2 is one of the alternatives required by CEQA when DPR plans its parks. In it the DPR specifically considered and rejected an alternative that would have changed land from "wilderness" designation to "backcountry" designation. This would have allowed utility companies to expand their easements. Since the DPR rejected this alternative, contrary actions would be in violation of the General Plan as adopted.

4.5.3 SIGNIFICANT EFFECT AND PROPOSED MITIGATION
The General Plan was developed to guide future park management decisions in the way most appropriate to fulfill the Park Vision and California State Parks Mission. Both the Park Vision and the Department's Mission place a high value on resource protection. Through application of the General Plan Goals and Guidelines, the Plan will be largely self-mitigated. Though the majority of development will be contained to limited portions of ABDSP, the development, maintenance, and use of facilities such as buildings, roads and trails, parking lots, campsites, picnic areas, utilities, and septic systems have the potential for significant short- and long-term impacts to the environment. Negative impacts could include soil disturbance, dust, increased erosion, altered drainage patterns, lowered water quality and quantity, degradation of cultural resources, and degradation of sensitive plant communities or populations of plants or animals.

Page 4-9. This provision merely recognizes that utilities have the potential for impacts to the environment, an obvious truth.

It is important state what all of the foregoing language does not say. Nothing in the General Plan authorizes activities within the specific corridors identified by SDG&E. On the contrary, General Plan language on utilities could apply to any utility plan anywhere in Anza-Borrego Desert State Park. At no point does the General Plan authorize expansion of existing SDG&E easements; Rather, it confirms where these easements are bounded by wilderness zones. At no point does the General Plan mention any planned new transmission line, much less a 500 kV transmission line. The Plan does not state that the DPR must agree to new transmission lines proposed by utilities. This language merely recognizes the reality that DPR will need to address conflicts between utility needs and natural resources – but it does not breathe a single word that limits the DPR's ability to say "no" to a utility proposal. Instead, the General Plan is full of language directing DPR to protect park resources, including among other things wilderness, viewsheds, endangered species, cultural resources, recreational opportunities and others. The General Plan requires that DPR consider a wide range of matters when it evaluates whether or not construction of the Project is appropriate. Therefore, SDG&E's reading of this language is unreasonably overbroad.

Further, the General Plan and state law prohibit the construction of transmission lines in wilderness areas and it is clear that expansion of an existing utility easement into state wilderness areas would require a change in designation of the land required for such expansion. It is the Conservation Groups' understanding that the easements relied on by SDG&E for its preferred route are no wider than 100 feet – in some areas narrowed to 25 feet – for much of the line's route with wilderness on both sides. Since SDG&E will require a minimum of 150 feet for construction of utility towers and access roads for these 500 kV lines, the construction of the Project would require an expansion of SDG&E's easement into wilderness. Such changes may be authorized only by the State Parks and Recreation Commission as a General Plan amendment.

The scope of the environmental review must include a full assessment of the extent and nature of SDG&E's rights of way through Anza-Borrego Desert State Park, including detailed maps of such rights of way in relation to designated wilderness and other features and descriptions of the precise boundaries of all rights of way. Moreover, such unprecedented de-designation of state wilderness would likely establish a significant harmful precedent for future impacts on state wilderness areas throughout California. The CPUC must assess the impact of this precedent on California's wilderness system.

Thank you for your consideration.

Sincerely,

/s/
David Hogan
Urban Wildlands Program Director
Center for Biological Diversity

/s/
Paul Blackburn
Energy Committee Chair
San Diego Chapter Sierra Club