

**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.

A.05-12-014
(Filed December 14, 2005)

**BRIEF OF DUKE ENERGY NORTH AMERICA IN RESPONSE
TO THE ASSIGNED COMMISSIONER'S QUESTIONS**

DUKE ENERGY NORTH AMERICA, LLC
Melanie Gillette
Director, State Regulatory Affairs
980 Ninth Street, Suite 1420
Sacramento, CA 95814
Telephone: (916) 441-6233
Facsimile: (916) 441-2569
E-mail: mlgillette@duke-energy.com

GOODIN, MACBRIDE, SQUERI,
RITCHIE & DAY, LLP
Brian T. Cragg
505 Sansome Street, Suite 900
San Francisco, CA 94111
Telephone: (415) 392-7900
Facsimile: (415) 398-4321
E-mail: bcragg@gmsr.com

Attorneys for Duke Energy North America, LLC

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On February 10, 2006, Assigned Commissioner Dian Grueneich issued a ruling that required San Diego Gas & Electric Company (“SDG&E”) to respond to a list of questions concerning its proposal for the processing of its application seeking a Certificate of Public Convenience and Necessity for its proposed Sunrise Powerlink transmission line. The ruling also invited other parties to submit briefs responding to a different set of questions. Duke Energy North America, LLC (“DENA”) submits this brief in response to Question 3 of the latter set of questions, which asks, “Has SDG&E complied with the requirement of § 1003 of the Pub. Util. Code?”

I. DENA’S INTEREST IN THIS PROCEEDING

As described in DENA’s response to SDG&E’s application, filed on January 18, 2006, in SDG&E’s service territory DENA operates the South Bay Power Plant under a lease with the Unified Port of San Diego, and DENA has been exploring options for replacing the South Bay plant when the current lease expires. DENA expects to file an Application for Certification for the South Bay replacement project with the California Energy Commission by

June 30, 2006. DENA's current development schedule could lead to the South Bay replacement facility coming on line as early as 2010.

DENA generally supports efforts to construct both generation and transmission projects that improve the reliability and economic efficiency of the California electric system. The South Bay replacement project will help to meet these important goals by providing efficient new generation in the SDG&E load center. In-area generation supports and complements SDG&E's efforts to upgrade its transmission system. Because of its location on the SDG&E transmission system, a replacement South Bay plant will also provide benefits to the transmission system by reducing SDG&E's internal losses and increasing SDG&E's import capacity.

In DENA's view, it is clear that SDG&E needs to focus on **both** improvements to its transmission system **and** efforts to replace older generation with new, clean, and efficient in-area generating units. DENA is concerned that the Sunrise application seeks to bolster the case for new transmission with an inaccurate assessment of the role of new in-area generation. An inappropriate over-reliance on transmission and imported power might not result in cost-effective improvements in reliability and could expose SDG&E's customers to higher prices or shortages when load growth or other changing circumstances in the exporting regions tighten supplies at the other end of the transmission line.

II. THE APPLICATION DOES NOT MEET THE REQUIREMENTS OF SECTION 1003

As relevant to the Sunrise Powerlink proposal, Public Utilities Code section 1003 reads as follows:

Every electrical . . . corporation submitting an application to the commission for a certificate authorizing the new construction of any electric plant, line, or extension . . . shall include all of the

following information in the application in addition to any other required information:

(a) Preliminary engineering and design information on the project. . . .

(b) A project implementation plan showing how the project would be contracted for and constructed. This plan shall show how all major tasks would be integrated and shall include a timetable identifying the design, construction, completion, and operation dates for each major component of the plant, line, or extension.

(c) An appropriate cost estimate, including preliminary estimates of the costs of financing, construction, and operation, including fuel, maintenance, and dismantling or inactivation after the useful life of the plant, line, or extension.

(d) A cost analysis comparing the project with any feasible alternative sources of power. The corporation shall demonstrate the financial impact of the plant, line, or extension construction on the corporation's ratepayers, stockholders, and on the cost of the corporation's borrowed capital. The cost analyses shall be performed for the projected useful life of the plant, line, or extension, including dismantling or inactivation after the useful life of the plant, line, or extension.

(e) A design and construction management and cost control plan which indicates the contractual and working responsibilities and interrelationships between the corporation's management and other major parties involved in the project. This plan shall also include a construction progress information system and specific cost controls.

SDG&E's application did not mention section 1003 and its requirements, and it is not surprising that the application did not include the information required by section 1003, except incidentally, as required by other statutory or regulatory provisions.

A. Subdivisions (a) and (b): Preliminary Engineering and Design Information and a Project Implementation Plan

The application lacks preliminary engineering and design information and a project implementation plan, as required by subdivisions (a) and (b) of section 1003, presumably

because the engineering, design, and implementation plan of the Sunrise project will depend to some extent on the physical requirements of the route eventually selected.

B. Subdivision (c): An Appropriate Cost Estimate

Although the application includes an estimate of the costs of the Sunrise project, the range of this estimate—\$1.015 billion to \$1.437 billion—is extremely broad.¹ SDG&E states that it intends to provide “detailed engineering cost estimates based on a specific project route” as part of its later Preliminary Environmental Assessment (“PEA”) filing,² so apparently SDG&E acknowledges that its application may not comply with the requirements of section 1003(c). The cost estimates in the application do not include any estimate of the costs of “dismantling or inactivation after the useful life of the plant, line, or extension,” as required by section 1003(c), and presumably the PEA filing will include all cost components required by the statute.

DENA also notes that cost estimates for transmission lines tend to grow considerably over time. For example, the summary of SDG&E’s 2004 Long-Term Resource Plan included as Attachment A to D.04-12-048 identified a “500kV transmission line interconnecting SDG&E’s Imperial Valley substation with a substation interconnected to the existing SDG&E 230 kV transmission grid”—essentially the same location as the Sunrise Powerlink. The “conceptual cost” of this transmission line in 2004 was \$650 million, or roughly one-half of the cost estimates for the Sunrise project.³ In a matter of two years, the estimated cost for this proposed line has doubled. Similarly, the estimated cost of transmission to serve the

¹ Application, Vol. 2, p. II-1.

² Application, Vol. 2, p. II-1.

³ D.04-12-048, Attachment A, SDG&E’s summary, p. 8.

Otay Mesa power plant grew from \$128 million to \$209 million in 18 months.⁴ If the currently estimated cost of the Sunrise Powerlink increases at the rate that applied to the estimates for the Otay Mesa transmission line, for example, the actual cost of constructing the Sunrise Powerlink project could be in the range of \$2 billion to \$3 billion.

C. Subdivision (d): Comparison with Alternatives

Section 1003(d) requires an application to include “a cost analysis comparing the project with any feasible alternative sources of power.” Although Part 2 of the application included a chapter on alternatives to the project, this discussion of alternatives contains misstatements about in-area generation alternatives and unsupported conclusions, as discussed in DENA’s response to the application, filed on January 18, 2006. In addition, the lack of information about the total costs of the Sunrise project makes it impossible for the Commission to arrive at any conclusions about the relative costs of the Sunrise proposal and alternatives. Once again, the discussion of alternatives in the application fails to address the costs of “dismantling or inactivation after the useful life of the plant, line, or extension,” as required by section 1003(d).

D. Subdivision (e): Design and Construction Management and Cost Control Plan

Finally, the application also lacks any design and construction management and cost control plan, as required by section 1003(e). In light of the tendency for estimated costs of transmission project to escalate quickly, as discussed above, a cost control plan may be particularly important in this case.

⁴ See D.05-06-061, p. 64.

III. CONCLUSION

In short, SDG&E's application does not comply with the requirements of section 1003. Presumably SDG&E intends to meet the statute's requirements as part of its PEA filing. DENA is particularly interested in assuring that the Commission has before it a complete and accurate assessment of the comparison between the Sunrise project and the alternative of in-area generation, and DENA's participation in this proceeding will help ensure that the evidentiary record on this point is well-developed.

Respectfully submitted this February 24, 2006 at San Francisco, California.

GOODIN, MACBRIDE, SQUERI,
RITCHIE & DAY, LLP
Brian T. Cragg
505 Sansome Street, Suite 900
San Francisco, California 94111
Telephone: (415) 392-7900
Facsimile: (415) 398-4321

By /s/ Brian T. Cragg
Brian T. Cragg

Attorneys for Duke Energy North America,
LLC

CERTIFICATE OF SERVICE

I, Melinda LaJaunie, certify that I have on this 24th day of February 2006 caused a copy of the foregoing **BRIEF OF DUKE ENERGY NORTH AMERICA IN RESPONSE TO THE ASSIGNED COMMISSIONER'S QUESTIONS; A.05-12-014** to be served on the parties on the attached service list via U.S. Mail and/or Electronic Mail.

Hand Deliveries have been sent via messenger to the parties below:

Commission Dian Grueneich
California Public Utilities Commission
State Building, Room 5200
505 Van Ness Avenue
San Francisco, California 94102

ALJ Kim Malcolm
California Public Utilities Commission
State Building, Room 5115
505 Van Ness Avenue
San Francisco, California 94102

I declare under penalty of perjury that the foregoing is true and correct. Executed this 24th day of February 2006 at San Francisco, California.

/s/ Melinda LaJaunie
Melinda LaJaunie

SERVICE LIST – A.05-12-014
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THOMAS A. BURHENN
SOUTHERN CALIFORNIA
EDISON
thomas.burhenn@sce.com

DON WOOD SR.
PACIFIC ENERGY POLICY
CENTER
dwood8@cox.net

SCOT MARTIN
scotmartin478@msn.com

DAVID LLOYD
CABRILLO POWER I, LLC
david.lloyd@nrgenergy.com

DIANE J. CONKLIN
RAMONA ALLIANCE
AGAINST SUNRISE
POWERLIN
dj0conklin@earthlink.net

ELIZABETH EDWARDS
RAMONA VALLEY
VINEYARD ASSOCIATION
edwrdsgrfx@aol.com

MARY ALDERN
hikermomma1@yahoo.com

FREDERICK M. ORTLIEB
CITY OF SAN DIEGO
fortlieb@sandiego.gov

MICHAEL SHAMES
UTILITY CONSUMERS'
ACTION NETWORK
mshames@ucan.org

PAUL BLACKBURN
SIERRA CLUB, SAN DIEGO
CHAPTER
sdenergy@sierraclubsandiego.org

KEVIN O'BEIRNE
SAN DIEGO GAS &
ELECTRIC COMPANY
ko'beirne@semprautilities.com

JOHN W. LESLIE
LUCE, FORWARD,
HAMILTON & SCRIPPS, LLP
jleslie@luce.com

DAVID HOGAN
CENTER FOR BIOLOGICAL
DIVERSITY
dhogan@biologicaldiversity.org

CARRIE DOWNEY
HORTON KNOX CARTER &
FOOTE
cadowney@san.rr.com

PATRICIA C. SCHNIER
barbschnier@yahoo.com

NORMAN J. FURUTA
DEPARTMENT OF THE
NAVY
norman.furuta@navy.mil

NORMAN J. FURUTA
DEPARTMENT OF THE
NAVY
norman.furuta@navy.mil

BILLY BLATTNER
SAN DIEGO GAS &
ELECTRIC COMPANY
wblattner@semprautilities.com

MICHEL PETER FLORIO
THE UTILITY REFORM
NETWORK (TURN)
mflorio@turn.org

OSA L. WOLFF
SHUTE, MIHALY &
WEINBERGER LLP
wolff@smwlaw.com

Regina DeAngelis
CALIF PUBLIC UTILITIES
COMMISSION
rmd@cpuc.ca.gov

BRIAN T. CRAGG
GOODIN MACBRIDE
SQUERI RITCHIE & DAY
LLP
bcragg@gmssr.com

JEDEDIAH J. GIBSON
ELLISON, SCHNEIDER &
HARRIS LLP
jjg@eslawfirm.com

JAMES H. CALDWELL JR.
PPM ENERGY, INC.
james.caldwell@ppmenergy.com

CLAY E. FABER
SOUTHERN CALIFORNIA
GAS COMPANY
cfaber@semprautilities.com

CASE ADMINISTRATION
SOUTHERN CALIFORNIA
EDISON COMPANY
case.admin@sce.com

MATTHEW JUMPER
SAN DIEGO INTERFAITH
HOUSING FOUNDATION
mjumper@sdihf.org

REBECCA PEARL
ENVIRONMENTAL HEALTH
COALITION
rebeccap@environmentalhealth.org

KEVIN/TERRY KING
tking28@cox.net

LESLIE A. BELLAH
ferretti@uia.net

SUSAN BROWNE
skbnc88@aol.com

TOM GORTON
BORREGO SUN
tgorton@cableusa.com

PAT/ALBERT BIANEZ
patricia_fallon@sbcglobal.net

GREG SCHUETT
gregschuett@mac.com

LAUREL GRANQUIST
celloinpines@sbcglobal.net

JOHN RAIFSNIDER
skyword@sbcglobal.net

PAUL RIDGWAY
cpuc@92036.com

CAROLYN A. DORROH
RAMONA COMMUNITY
PLANNING GROUP
carolyn.dorroh@cubic.com

CHRISTOPHER P. JEFFERS
polo-player@cox.net

CONSTANCE J. BULL
RAMONA ALLIANCE
AGAINST SUNRISE
POWERLIN
conniebull@cox.net

LARA LOPEZ
soliviasmom@cox.net

MARY KAY FERWALT
mkferwalt@yahoo.com

PAMELA RUTH WHALEN
RAMONA ALLIANCE
AGAINST SUNRISE
POWERLIN
pwhalen2@cox.net

CAROLYN MORROW
GOLIGHTLY FARMS
Csmmarket@aol.com

JOSEPH RAUH
RANCHITA REALTY
joe@ranchitarealty.com

STEVE/CAROLYN
ESPOSITO
cesposit@sdcoe.k12.ca.us

E. GREGORY BARNES
SAN DIEGO GAS &
ELECTRIC COMPANY
gbarnes@sempra.com

DONALD C. LIDDELL
DOUGLASS & LIDDELL
liddell@energyattorney.com

JIM BELL
jimbellelsi@cox.net

SCOTT J. ANDERS
UNIVERSITY OF SAN
DIEGO - LAW
scottanders@sandiego.edu

CRAIG ROSE
THE SAN DIEGO UNION
TRIBUNE
craig.rose@uniontrib.com

JENNIFER PORTER
DIEGO REGIONAL ENERGY
OFFICE
jennifer.porter@sdenenergy.org

SUSAN FREEDMAN
SAN DIEGO REGIONAL
ENERGY OFFICE
susan.freedman@sdenenergy.org

CENTRAL FILES
SAN DIEGO GAS &
ELECTRIC
centralfiles@semprautilities.com

EILEEN BIRD
sanrocky@aol.com

CHARLES E. WHEATLEY
chuckw@qualcomm.com

SHERIDAN PAUKER
SHUTE, MIHALY &
WEINBERGER LLP
wolff@smwlaw.com

JUSTIN AUGUSTINE
THE CENTER FOR
BIOLOGICAL DIVERSITY
jaugustine@biologicaldiversity.org

DAVID T. KRASKA
PACIFIC GAS AND
ELECTRIC COMPANY
dtk5@pge.com

JASON YAN
PACIFIC GAS AND
ELECTRIC COMPANY
jay2@pge.com

MICHAEL S. PORTER
PACIFIC GAS AND
ELECTRIC COMPANY
mspe@pge.com

CALIFORNIA ENERGY
MARKETS
cem@newsdata.com

SERVICE LIST – A.05-12-014
(Updated February 22, 2006)

RICHARD W.
RAUSHENBUSH
LATHAM & WATKINS
Richard.Raushenbush@lw.com

Scott Logan
CALIF PUBLIC UTILITIES
COMMISSION
sjl@cpuc.ca.gov

VICKI TING
PACIFIC GAS AND
ELECTRIC COMPANY
vwt2@pge.com

Terrie D. Prosper
CALIF PUBLIC UTILITIES
COMMISSION
tdp@cpuc.ca.gov

J.A. SAVAGE
CALIFORNIA ENERGY
CIRCUIT
editorial@californiaenergycircu
it.net

CLARE LAUFENBERG
CALIFORNIA ENERGY
COMMISSION
Claufenb@energy.state.ca.us

MRW & ASSOCIATES, INC.
mrw@mrwassoc.com

JUDY GRAU
CALIFORNIA ENERGY
COMMISSION
jgrau@energy.state.ca.us

DAVID KATES
DAVID MARK AND
COMPANY
dkates@sonic.net

PUC/X75447.v1

CALIFORNIA ISO
e-recipient@caiso.com

ANDREW B. BROWN
ELLISON, SCHNEIDER &
HARRIS, LLP
abb@eslawfirm.com

KEVIN WOODRUFF
WOODRUFF EXPERT
SERVICES
kdw@woodruff-expert-
services.com

MELANIE GILLETTE
DUKE ENERGY NORTH
AMERICA
mlgillette@duke-energy.com

G. ALAN COMNES
CABRILLO POWER I LLC
alan@comnes.net

LOS ANGELES DOCKET
OFFICE
CALIFORNIA PUBLIC
UTILITIES COMMISSION
LAdocket@cpuc.ca.gov

Billie C. Blanchard
CALIF PUBLIC UTILITIES
COMMISSION
bcb@cpuc.ca.gov

Kim Malcolm
CALIF PUBLIC UTILITIES
COMMISSION
kim@cpuc.ca.gov

Scott Cauchois
CALIF PUBLIC UTILITIES
COMMISSION
wsc@cpuc.ca.gov