

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation to facilitate proactive development of transmission infrastructure to access renewable energy resources for California.

Investigation 05-09-005
(Filed September 8, 2005)

ASSIGNED COMMISSIONER'S RULING

SUMMARY AND OVERVIEW

The purpose of this Ruling is to identify the next steps, if any, that are required to further this Commission's goal of proactively facilitating the construction of transmission facilities that will advance California's Renewable Portfolio Standard (RPS) goals. The following discussion summarizes the Commission's efforts to date in this regard, orders the Investor-Owned Utilities (IOUs) to provide additional information in this proceeding that will enable the Commission to further coordinate transmission and procurement activities both within the Commission and with the California Independent System Operator (CAISO), and invites comments from parties regarding any additional issues or activities that the Commission should be pursuing.

Through a process of workshops held and comments filed in the last quarter of 2005, parties identified top priority issues that needed to be addressed in this proceeding in 2006 to facilitate renewable transmission in California. As a result of these efforts, on December 21, 2005, I issued an Assigned Commissioner's Scoping Memo and Ruling (December Ruling) identifying the following issues to be acted upon in the first half of 2006:

- 1) Cost recovery issues raised by Public Utilities Code §399.25;¹
- 2) Streamlining the transmission permitting process where possible;
- 3) Coordinating RPS Procurement with transmission planning generally, and;
- 4) Identifying “low-hanging fruit,” or transmission infrastructure investments by the IOUs that do not require Certificate of Public Convenience and Necessity (CPCN) or Permit to Construct (PTC) review by the Commission, and which would facilitate renewable resource development without large-scale, long-term transmission upgrades.

In addition to the four key issues identified in the December Ruling, parties have identified, in the course of this proceeding, a host of additional issues for the Commission’s later consideration or action. These issues, some of which overlap with the four key issues, include:

- Pursuing CAISO adoption of a tariff for a renewables “trunkline” ratemaking designation;
- Pursuing temporary interconnection policies at the CAISO to allow renewable projects to come online while waiting for permanent transmission upgrades;
- Developing an assessment of transmission adequacy for signed RPS contracts and other potential RPS resources;
- Conducting a review of the Transmission Ranking Cost Report (TRCR) methodology used to calculate the cost of transmission to be added to RPS bids for bid comparison purposes;
- Coordination with the CAISO to ensure that California’s RPS goals are integrated into all aspects of the CAISO’s transmission planning and operations;

¹ All statutory references are to the California Public Utilities Code unless otherwise stated.

- Working with the CAISO to obtain a review of how the CAISO's congestion management schemes impact California's RPS goals and the possibility for improvements;
- Taking action to ensure that transmission built for renewables is actually used by them;² and
- Clarifying and potentially enhancing the role of regional transmission study groups in grid planning.

Discussion at a March 1, 2006 All-Party Meeting focused on: (1) the need for a backstop cost recovery mechanism for transmission investment; (2) the need for the Commission to streamline its internal transmission project review procedures; (3) the IOUs' January 25, 2006 reports on transmission availability for signed and potential RPS resources and identification of "low hanging fruit;" and (4) the progress of the Tehachapi Collaborative Study Group ("TCSG") and its anticipated recommendations in its Second Report, which it submitted to the Commission on April 19, 2006 (TCSG Second Report).

DISCUSSION

Since the March All-Party Meeting and the issuance of the TCSG Second Report, the Commission has taken a number of steps to address the issues identified in the December Ruling and discussed at the March All-Party Meeting, and has already implemented many of the recommendations contained in the TCSG Second Report.

Backstop Cost Recovery: Parties to this proceeding were clear that the Commission's adoption of a backstop cost recovery mechanism for RPS

² With regard to this issue, parties filed comments in this proceeding regarding whether it was necessary or appropriate to ensure renewable access to facilities funded under Public Utilities Code § 399.25. Parties correctly explained that access to transmission facilities is "subject to FERC-approved open access rules which provide grid access on a nondiscriminatory basis based on competitive bids." D.06-06-034, mimeo at 30-31. Consequently, the issue of guaranteeing renewable access to transmission built for them appears to be resolved.

transmission construction was key to California meeting its RPS goals. The TCSG Second Report urged the Commission, in Recommendation #2, “to adopt a decision implementing the provisions of P.U. Code Section 399.25 ... and ensure that all utility investments related to construction of Tehachapi transmission facilities will be recovered.” TCSG Second Report at 10. On June 15, 2006, the Commission issued Decision No. 06-06-034 in this proceeding, establishing a backstop cost recovery mechanism (Backstop Cost Recovery Decision).

Coordination with the CAISO on cost recovery: Beyond adoption of the Backstop Cost Recovery Decision, there is value in having a more uniform and broad-based cost recovery mechanism for transmission projects providing access to renewable resource areas. To this end, the CAISO is in the process of developing a new tariff category for certain types of RPS transmission facilities. The CAISO issued a White Paper on this topic on June 28, 2006,³ held a stakeholder meeting on July 7, 2006, and will likely make a FERC filing on this issue in the next few months.

Transmission project review streamlining efforts: One of the other key issues that parties asked us to address in this proceeding was the need to streamline the Commission’s transmission project review processes. This point was also emphasized in the TCSG Second Report at Recommendation #3. Through a process of workshops and written comments in this proceeding, Commission staff has developed “Streamlining Directives” that will commit the Commission and its various Divisions to streamlining its review and approval of transmission projects with the assistance of project applicants. The Streamlining Directives will be finalized shortly and posted on the Commission’s website.

³ The White Paper is available at: <http://www.aiso.com/1823/1823d95d585f0.pdf>

Coordination of RPS procurement with transmission planning: Parties identified the need for the Commission to coordinate RPS procurement with transmission planning generally as the third key issue for resolution in the first half of this year. The fourth key issue also identified for resolution in the first half of this year - the need to identify opportunities for accessing new RPS supplies with only modest transmission upgrades - is integrally related to the third key issue.

To initiate work on these issues, the IOUs were ordered to: (1) report on the status of transmission availability for contracted RPS resources and (2) identify potential RPS resources that might be procured without major transmission upgrades. In short, Southern California Edison Company (SCE) reported that a number of its signed RPS projects face implementation delays because of the unavailability of transmission to key resource areas, especially in the Tehachapi region.

Pacific Gas and Electric Company (PG&E) reported that few or no transmission upgrades were needed for contracted RPS projects and some potential future projects. However, limited renewable potential in the PG&E service territory might lead to a need for out-of-area imports requiring significant transmission upgrades.

San Diego Gas & Electric Company (SDG&E) reported that it was not currently experiencing delays in RPS implementation due to transmission issues. However, transmission-related delays might occur in the future, if, for example, a contracted generation facility in the Imperial Valley is fully built out.

The three IOUs filed abbreviated responses with regard to the transmission status of future or potential resources, including identification of RPS resources that would not require significant transmission expansion.

While preliminary and forward looking to only a limited extent, the transmission status reports provided a good start in our coordination efforts, and I hereby order the IOUs to update and file and serve these transmission status reports within thirty (30) days of this Ruling, as modified by the following discussion.

Our goal in this proceeding is not to duplicate the work of other Commission proceedings, but rather to integrate and supplement that work. The IOUs are currently required to file status reports in R.06-05-027 regarding RPS project development status and project-related transmission upgrades. These status reports are due on March 1 and August 1 of each year (RPS Project Status Reports). *See, e.g.* D.05-07-039, Ordering Paragraph 17 and D.06-05-039 at mimeo pp. 22-23. The RPS Project Status Reports filed on served on August 1, 2006 should serve as the basis for the updated transmission status reports to be filed and served in this proceeding, but they should be supplemented to clearly identify and elaborate on project-specific transmission obstacles and their potential solutions. They should also summarize and assess overall transmission obstacles and needs that could impact achievement of RPS goals.⁴ Finally, the updated transmission status reports should provide a forward-looking view by identifying: (1) transmission barriers for foreseeable future RPS supplies and (2) RPS supply opportunities not requiring major transmission upgrades.

I encourage the IOUs to be as forthright as possible in these filings. As noted in D.06-05-039, a future defense of a non-compliance penalty should include a showing that the IOU brought problems with achieving RPS goals to

⁴ To be clear, while building upon information filed and served in R. 06-05-027, this Ruling does not consolidate that proceeding with this proceeding.

the Commission without delay, proposed reasonable solutions, and filed applications as necessary. See D.06-05-039, Conclusion of Law 7(a).

Tehachapi project manager will play a key role in coordinating RPS procurement with transmission planning: Throughout this proceeding, parties have repeatedly emphasized that one person should be assigned to oversee all aspects of the Tehachapi transmission project. In this way, RPS procurement, much of which is currently focused on the Tehachapi region, can be coordinated with the Tehachapi transmission plan and transmission planning generally. This request for a project manager was most recently articulated as Recommendation #4 in the TCSG Second report.

In accordance with this request, the Commission's Energy Division appointed Tom Flynn to the position of Tehachapi Project Manager in June 2006. Mr. Flynn's responsibilities as Tehachapi Project Manager will be consistent with many of the recommendations in the TCSG Second Report. Mr. Flynn anticipates holding stakeholder meetings in the next month to discuss the project milestone schedule, and to set a schedule for his quarterly reports to stakeholders. To assist Mr. Flynn in these efforts, I hereby order Southern California Edison Company to, no later than July 20, 2006, provide to Energy Division detailed project schedules for Phases 2 and 3 of the Tehachapi Project, under both the existing proposal and consistent with the CAISO's newly proposed scenario - discussed below. Such schedules shall include, without limitation, construction start dates and in-service dates. I also encourage SCE to coordinate closely and often with both Energy Division and the CAISO on all aspects of Tehachapi transmission planning.

Coordination between transmission planning and long term procurement: In recognition of the need to ensure coordination between transmission planning and procurement, President Peevey has invited me to

work with him on certain aspects of the Commission's Long Term Procurement Proceeding (R.06-02-013). In that capacity, among other things, I hope to ensure that long term procurement plans include at least one procurement scenario consistent with the transmission found to be needed by the CAISO in its most current transmission plans for Northern and Southern California. These transmission plans should reflect the CAISO's increasing emphasis on planning for the transmission needs of renewable generation.

Implementation of additional recommendations in the TCSG Second Report and comments on early interconnection: As described above, the Commission has already implemented many of the recommendations contained in the TCSG Second Report, including: adoption of the Backstop Cost Recovery Decision (Recommendation #2); streamlining of internal procedures (Recommendation #3); and designation of a Tehachapi Project Manager (Recommendation #4).

Recommendation #1 in the TCSG Second Report was that the CAISO conduct additional studies to determine the appropriate paths for Phases 3 and 4 of the Tehachapi project and that it do so "in a forum that is open and collaborative." TCSG Second Report at 9. The CAISO is in the process of reviewing Phases 2, 3, and 4 of the Tehachapi project as part of its South Regional Transmission Plan (CSRTP), will hold stakeholder meetings on the plan this month, and will likely issue the final report on its Tehachapi recommendations in September.

I note here that a long term plan for the Tehachapi area, while absolutely necessary, does not obviate the need for project by project analysis to expedite interconnections in support of California's RPS objectives. In approving the power purchase agreement between SDG&E and Pacific Wind on May 25, 2006 by Resolution E-3979, the Commission recognized the critical need for a

determined pursuit of temporary interconnection in the Tehachapi region to meet California's RPS goals. The Commission encouraged the parties, including the CAISO "in the strongest possible terms to continue to explore viable Tehachapi transmission alternatives, including in particular temporary interconnection, to serve the Commission's goal of reaching 20% renewable energy deliveries by 2010." Resolution E-3979 at 9. I reiterate this Commission's commitment to working with the CAISO on this issue.

Recommendation #5 of the TCSG Second Report contains at least three sub-recommendations - all focused on accelerating the Commission's review of the Tehachapi project upgrades: (1) direct Energy Division and TCSG parties to develop a detailed project schedule with project milestones; (2) direct Energy Division to work with SCE to ensure that complete CPCN applications for Phases 2 and 3 of the Tehachapi project be filed as soon as possible; and (3) expedite the CPCN approval process for Phases 2 and 3 by proposing, on the Commission's own motion, without evidentiary hearings, a finding that those phases are needed to facilitate the achievement of RPS goals. TCSG Second Report at 13 and 108.

As discussed above, the Commission has identified Mr. Tom Flynn as the Tehachapi Project manager, and he will be working with Tehachapi stakeholders in the next month to develop a project schedule, with milestones, as recommended by the TCSG Second Report.

With regard to the TCSG Second Report's recommendation that the Commission propose, on its own motion, and without hearings, that Phases 2 and 3 of the Tehachapi project are needed to facilitate achievement of RPS goals - such action is not out of the question. However, I find that taking such action at this time would be premature, given a number of factors, including: (1) the uncertainty created by the CAISO's alternative route proposal, which may

alter the configuration of Phases 2, 3, and 4; (2) the availability of a more developed need record at the end of the year after the Commission rules on Segments 1, 2, and 3 of Phase 1 in A.04-12-007 and A.04-12-008; and (3) the availability of the CAISO needs analysis, as part of its Tehachapi recommendation, in September 2006. With time, these three factors should reach resolution and potentially provide evidence for the Commission to consider in making the type of early need determination recommended by the TCSG Second Report. Further, waiting for resolution of these three issues will not delay, in any way, the currently anticipated schedule for these CPCN applications, which SCE has indicated it will not file until March 2007, at the earliest.

CONCLUSION AND INVITATION FOR COMMENTS

As demonstrated by the developments outlined in this update, the Commission is committed to acting proactively to encourage the development of renewable resources, and specifically the development of RPS-related transmission projects, to enable California utilities to meet the State's RPS goals. To the extent that there are additional issues not addressed by this Ruling that parties believe should be addressed in 2006 or early 2007, please file and serve comments in this proceeding no later than August 8, 2006. I am particularly interested in two issues.

First, I am interested in knowing whether parties still believe that it is necessary for the Commission to reform the TRCR methodology and if so: (1) how this might be best accomplished in an expedited fashion; (2) whether TRCR reform is necessary to accommodate the implementation of locational marginal pricing (LMP); (3) whether the desire for TRCR reform is related to particular location-specific concerns; (4) whether parties believe TRCRs are an adequate proxy for projecting future transmission upgrades; (5) the impact of increased

remarketing and congestion costs associated with increased delivery flexibility;⁵ and (6) the desirability and feasibility of calculating project-related transmission costs on a net basis by considering system-wide effects rather than using a gross cost basis focusing only on one project at a time. Please see the discussion in D.05-07-040 at 7-8 and D.06-05-039 at 17-19. Parties with an interest in this last issue should present both concerns and recommendations, supported with sample calculations and information on how their proposals would work. See D.06-05-039, mimeo at 19.

Second, parties should comment on whether it is possible or appropriate to develop guiding principles to evaluate the transmission adequacy of contracted and proposed RPS projects. To the extent appropriate, proposed principles should attempt to be resource indifferent.

IT IS HEREBY ORDERED that:

1. The Investor-Owned Utilities shall file and serve transmission status reports as described in the text of this Ruling within thirty (30) days of this Ruling; and
2. Southern California Edison Company shall, no later than July 20, 2006, provide to Energy Division schedules for the Tehachapi Project as described in the text of this Ruling.

Dated July 13, 2006, at San Francisco, California.

⁵ See, e.g. D.06-05-039, mimeo at 15

/s/ DIAN M. GRUENEICH

Dian M. Grueneich
Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail, this day served a true copy of the original attached Assigned Commissioner's Status Update on all parties of record in this proceeding or their attorneys of record.

Dated July 13, 2006, at San Francisco, California.

/s/ DAVID NG

David H. Ng

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.