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AZ CORP COMMISSION DOCKET CONTROL

MAYES PROPOSED AMENDMENT # 1 REVISED

Reference to "Sample Form of Order Denying CEC as Issued by the Siting Committee"

DATE PREPARED: May 29, 2007

COMPANY: Southern California Edison

AGENDA ITEM NO. 3

DOCKET NO. L-00000A-06-0295-00130

OPEN MEETING DATE: May 30, 2007

Arizona Corporation Commission

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Page 1, Line 25 Insert:

MAY 29 2007

Discussion

Standard for Review

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In determining whether to approve a new Certificate of Environmental Compatibility ("CEC"), the Commission is guided by ARS § 40-360.06 and ARS § 40-360-07(B). Together, these statutes require the Commission to determine the environmental impact and need for new transmission lines. Specifically, ARS § 40-360.07(B) states that "In arriving at its decision, the commission shall comply with the provisions of ARS § 40-360.06 and shall balance in the broad public interest, the need for an adequate, economical and reliable supply of electric power with the desire to minimize the effect thereof on the environment and ecology of the state."

The Commission finds that the Devers Palo Verde 2 ("DPV2") power line, as proposed by Southern California Edison ("SCE") fails to meet the need standard as delineated in ARS § 40-360-07(B). The Commission also finds under ARS § 40-360.06, that DPV2 would have negative impacts on the environment, especially in and around the Kofa National Wildlife Refuge ("Kofa").

Falling short of the requirements of both ARS § 40-360.06 and ARS § 40-360-07(B), the Commission finds that the CEC, as issued by the Power Plant and Line Siting Committee ("Committee") should be denied for the following reasons.

Adequacy

The Commission finds that the record does not demonstrate that DPV2 is necessary to meet the resource adequacy requirements of Arizona utilities. In fact, it is evident that the line would

actually impair Arizona's ability to provide for its growing energy demands. The record indicates that Arizona utilities will need to access the excess capacity at the Palo Verde Hub by 2010. If this is the case, it would appear that the construction of DPV2 would place Arizona utilities in the position of having to build additional generation and transmission to fill the gap created by the exportation of power from Arizona to California across DPV2. What is more, SCE believes that additional generation will have to be built in Arizona simply to allow it to take full advantage of PVD2, meaning that not only would currently existing Arizona power resources be conscripted for use in California, but that Arizona would be forced to become host to new power plants designed purely for use by California consumers. This would represent an unnecessary usurpation of Arizona's land, water and air shed.

While it is obvious that the line is not needed for Arizona's resource adequacy, it is not even clear that DPV2 is required by California. The power that would flow across DPV2 represents a small portion of SCE's total electricity requirements and the record reflects that the Company has a number of other resource options at its disposal, including the construction of additional indigenous natural gas-fired generation and the harnessing of California's numerous renewable resources.

For these reasons, the Commission finds that DPV2 does not meet the adequacy prong of the three-part test for the Commission to determine the need for the project.

Economical

The record is clear, and no party appears to dispute, that the primary beneficiaries of DPV2 would be California ratepayers. If approved, California Independent System Operator ("CAISO") ratepayers would incur \$650 million in costs associated with the proposed line, but would reap \$1.1 billion in savings. By contrast, this project would result in rate increases for Arizona consumers. Specifically, the evidence indicates that the proposed line would drive up spot market prices at the Palo Verde Hub of \$2.90 per MWh, or 5 % over current spot market prices, which would inevitably result in higher power rates paid by Arizonans. The evidence presented by Staff demonstrates that Arizona ratepayers would suffer a net economic loss of \$242 million over the life of the line. SCE has made assertions in the record that it will generally not seek to purchase power at the Palo Verde Hub during the summer months, when the power needs for Arizonans are at their apex. However the Company made no assurances that it will not make such purchases. Instead, an SCE exhibit demonstrates that there could be times during the summer that SCE would have an economic interest in buying power at the Palo Verde Hub, further enhancing our concerns that this power line will redound to the detriment of Arizona ratepayers.

While SCE presented evidence showing net benefits of \$213 million to Arizona ratepayers, these benefits were calculated utilizing construction jobs which may or may not be located in Arizona; increased access to renewable energy which will likely be monopolized by California due to its own aggressive renewable portfolio requirements; amorphous and loosely defined efficiencies resulting from an improved investment climate; and synergies with TransWest Express, a power line advocated by Arizona Public Service Company that is still in the rudimentary planning stages. Staff testimony argued that these benefits are hypothetical, and further pointed out that

any benefits that might accrue from many of these ancillary effects of the power line are unrelated to anything contained in ARS § 40-360-07(B). The Commission agrees that these benefits are highly speculative and not relevant to the prescriptions of ARS § 40-360-07(B), and therefore finds that Applicants have failed to prove the existence of an economic need for this project.

Reliability

SCE argues that the proposed line will improve reliability for both Arizona and the West and points to statements by the Western Governors Association in favor of transmission lines that will bolster the soundness of the Western grid. Arizona has done much to advance these goals by approving hundreds of miles of new transmission lines in recent years. Additionally, the Arizona Corporation Commission's Staff has taken a lead role in advocating for more advanced reliability measures than many other Western states currently employ. Specifically, Staff objects to PVD2's use of special protection schemes, ("SPS") or remedial action schemes ("RAS"). According to Staff, these protective schemes are ill-advised for long-term application and the Commission has rejected their use for new installations in Arizona, believing that to utilize such schemes would compromise rather than enhance reliability. Further, SCE's proposal would have allowed the expansion of CAISO's control area into Arizona, limiting Arizona's ability to determine FERC tariffs related to the line inside Arizona borders. To remedy its concerns over this loss of sovereignty, Staff offered Condition 6(b), which was rejected by the Committee.

Additionally, with improved capacitors on the California side of the line, SCE could potentially import up to 1800 MW of power across DPV2, up from the line's current 1200 MW rated capacity. The additional 600 MW that could potentially be transported to California would further strain the Arizona grid and hamper the state's ability to provide energy and power reserves to Arizona ratepayers.

The Commission concurs with Staff that DPV2 "adds new reliability risks and consequences" and does not meet Arizona's reliability standards. If constructed, the line will not improve the reliability of Arizona's electric grid. Rather, the Commission finds that the line could actually spell a step backward from Arizona's practice of implementing reliability protections that exceed industry, regional and national norms.

SCE argued that Arizona law allows the Commission to take into consideration the needs of other states when deciding whether to approve a CEC. *Grand Canyon Trust v. A.C.C.*, 210 Ariz. 20 (App. 2005). Even when the needs of other states are taken into account along with Arizona's needs, when the Commission performs the balancing in the broad public interest, referred to in ARS § 40-360.07, the Commission finds that the project's negative effect on the environment and ecology of Arizona outweighs any need for adequate, economical and reliable supply of electric power the project could provide for this state as well as other states.

Because the Applicant has failed to demonstrate that there is a need for an adequate, economical and reliable supply of electric power associated with DPV2, the Commission finds that when it balances in the broad public interest the negative effect of the project on the environment and ecology of the state, the proposed line has failed to meet the test under ARS § 40-360.07(B).

Environment

Approximately 24 miles of DPV2 would pass through the Kofa National Wildlife Refuge. The record in this case indicates that Kofa is one of only 535 such areas in the United States, one of only 9 of its kind in Arizona, contains over 665,000 acres, and is a primary habitat for bighorn sheep. The evidence shows that the negative environmental impacts associated with constructing a power line that further partitions Kofa include a diminishment of the visual ascetics of Kofa, damage to recreational opportunities valued by numerous Arizonans, and deleterious and irreparable impacts to wildlife in the area. These detriments clearly outweigh the purely speculative benefits the Applicants have argued might one day be associated with DPV2 and therefore Applicants have failed meet the requirements of ARS § 40-360.06.

Page 2, Line 17, DELETE Finding of Fact 5, INSERT New Finding of Fact 5:

“the Commission’s findings 1 through 4 above and all of the findings in the Commission’s discussion of this matter addressed in this decision serve as the Commission’s findings of fact and conclusions of law in reaching its decision.”

Make all conforming changes as necessary.