

ORIGINAL



0000074804

RECEIVED

αp

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA 94102
2007 DEC 27 A 10:54
AZ CORP COMMISSION
DOCKET CONTROL

MICHAEL R. PEEVEY
PRESIDENT

TEL: (415) 703-3703
FAX: (415) 703-5091

December 20, 2007

Chairman Mike Gleason
Commissioner Jeff Hatch-Miller
Commissioner Kristin K Mayes
Commissioner William Mundell
Commissioner Gary Pierce
Arizona Corporation Commission
Attn: Docket Office
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED
DEC 27 2007

DOCKETED BY

Re: SCE Devers-Palo Verde Transmission Project, Docket No. L-00000A-06-0295-00130

Dear Chairman Gleason and Commissioners,

This letter is a follow up to my December 13, 2007 letter and contains additional information on issues raised at the public witness testimony period for the above referenced project. As I stated in my last letter, the CPUC strongly supports a collaborative approach to dealing with regional energy planning for the western grid and we are more than happy to provide the ACC with information to assist you in your decision-making process. At the October 30, 2007 ACC meeting, several questions were asked by one or more ACC Commissioners of CPUC Commissioner Dian Grueneich who appeared before you. The CPUC staff has gathered the following information and is pleased to respond to your questions through this letter as we understand that the ACC staff is meeting with SCE to discuss potential modifications to the Devers-Palo Verde transmission project. I and my fellow CPUC Commissioners continue to strongly support the SCE project and ask the ACC to reconsider its position.

Questions were raised on each of the following topics. Some of these questions were addressed in my December 13, 2007 letter to each of you regarding California's ambitious plans for additional generation, energy efficiency and demand side management programs. (A copy of this letter is attached for your convenience.) Additional information

Chairman Gleason & Commissioners

December 20, 2007

Page 2

supplementing CPUC Commissioner Grueneich's statements responding to your questions is provided below.

Net Generation Installed in California

California generates about two thirds of its consumed electricity in-state and imports about one-third from out-of-state generators. To complete the energy picture, California produces in-state 13% of the natural gas it consumes and imports 87% from out-of-state production areas. As California has deregulated its energy industry, the CPUC no longer requires the utilities it regulates to build all generation needed for customers but approves procurement plans which depend not only upon generation built and owned by the utilities but firm, long-term contracts with other generators as well as energy efficiency and demand side management programs. (See attached Dec. 13 letter.)

The California Energy Commission issues permits for thermal powerplants 50 MWs or larger sited within California. The owner of a CEC permitted powerplant site often depends upon a long-term power sales agreement with a CPUC-regulated utility or a municipality to secure financing. Thus, the CPUC's procurement decisions can affect the pace of powerplant construction both within and outside of California.

Record Evidence in CPUC Proceeding for Devers-Palo Verde Transmission Project

SCE did not submit in our proceeding and the CPUC accordingly did not rely upon evidence showing construction, tax, liquidity and diversification benefits to California ratepayers. As the primary purpose of the project is to alleviate congestion on the existing transmission path between Phoenix and southern California our proceeding focused upon a cost-benefit analysis of surplus energy that could be transported during off-peak and off-seasonal times from existing southwest resources to California. If we had included construction, tax and other benefits in our analysis, the record supporting construction of the Devers-Palo Verde project would have been enhanced.

Natural Gas Transported by EPNG to Arizona and California

El Paso Natural Gas Company (EPNG) is one of the largest interstate natural gas pipeline companies serving California, Arizona and other southwest states. EPNG's system today is used to transport significant volumes of natural gas to both California and Arizona. While EPNG historically was the major interstate pipeline serving California, today it is one of four interstate pipelines to California and much of the capacity of the EPNG system, which formerly served California, now serves the growing demand in Arizona and other southwestern states. In addition, Arizona has benefited from EPNG's most recent expansions within California and to the California border. Finally, southern California has significant

storage facilities that have helped prevent constraints on the EPNG pipeline in the past during winter and summer peak conditions. Without these storage facilities, the southwestern natural gas market would not have sufficient pipeline capacity to meet the peak demand in all of our states. Moreover, in 2008, the Southern California Gas Company will file an application to provide off-system gas transportation which could allow access to California storage facilities for Arizona customers. Therefore, Arizona has enjoyed substantial indirect benefits attributable to the California natural gas storage system, and could enjoy direct benefits in the near future.

California Review and Approval of LNG Projects

Several LNG projects have been proposed to meet California's and the Southwest's ongoing need for natural gas. Only one of these projects is under construction, Sempra's Costa Azul receiving station in Baja California, Mexico. Once Costa Azul achieves commercial operation

and the first LNG tanker deliveries are made, regasified LNG may flow from Costa Azul through natural gas pipelines in California to the Arizona market as early as 2009. For example, there is a direct link from Baja California, Mexico to Ehrenberg, Arizona on the North Baja Pipeline.

The CPUC recognizes the need for LNG supplies and has opened a rulemaking to consider long-term contracts that will be essential to assure delivery of LNG to California and other states. Once again, California's long-term procurement decisions, as determined by the CPUC, will allow investment and construction of the needed infrastructure.

As you might imagine, the permitting of a LNG receiving station in proximity to any urban population needs to be closely examined by the responsible federal, state and local authorities. While the CPUC does not have primary siting authority or jurisdiction over LNG facilities, we have publicly explained the need for LNG supplies, which would be available to California and other states.

CPUC Policy on Double Circuit Transmission Towers

The CPUC's general orders regarding the construction of transmission line towers do not favor single or double circuit towers. However, given the need for additional electric transmission capacity, we would expect both options to be considered and evaluated by an applicant seeking our approval of a major transmission project.

Air Conditioning Demand Response Programs

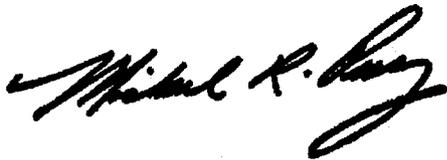
The CPUC in coordination with the CAISO is implementing demand response programs which include cycling of air conditioning units. For CPUC regulated utilities demand

Chairman Gleason & Commissioners
December 20, 2007
Page 4

response programs are expected to reduce peak demand by nearly 1800 MWs. (See attached Dec. 13, 2007 letter.).

The CPUC respectfully asks that that the ACC take official notice of this letter pursuant to R14-3-109(T)(4)-(5) so that it may be included in the ACC record for the Devers-Palo Verde project. We reiterate our strong support for SCE's transmission project and ask you to reconsider your position on this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael R. Peevey". The signature is written in a cursive, flowing style.

MICHAEL R. PEEVEY
President

Attachment

cc. Parties to SCE Devers-Palo Verde application
Randolph L. Wu, PUC General Counsel
Sean Gallagher, PUC Director Energy Division



PUBLIC UTILITIES COMMISSION

STATE OF CALIFORNIA
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA 94102

MICHAEL R. PEEVEY
PRESIDENT

TEL: (415) 703-3703
FAX: (415) 703-5091

December 13, 2007

The Honorable Mike Gleason
Arizona Corporation Commission
Commissioners Wing
1200 W. Washington, 2nd Floor
Phoenix, AZ 85007

Dear Chairman Gleason:

California wishes to work collaboratively with your agency and with your state on mutually beneficial energy projects. I wanted to take this opportunity to follow up on discussions that I had last summer with Commissioner Hatch-Miller regarding California's efforts to meet its energy needs. The timing of this letter is also prompted, in part, by Commissioner Mundell's November 20, 2007, letter to Secretary Bodman regarding designation of the Southwest Area National Corridor.

I am troubled by the approach reflected in Commissioner Mundell's letter, for instance, which appears to link Arizona's recent rejection of a transmission project that would have strengthened the electrical connection between your state and ours with what Commissioner Mundell refers to as "California's energy problems." As I'll detail below, we in California are engaged in an ambitious effort to improve both the reliability and environmental characteristics of our electric system, with thousands of megawatts of generation and demand side projects both installed and planned for the near future.

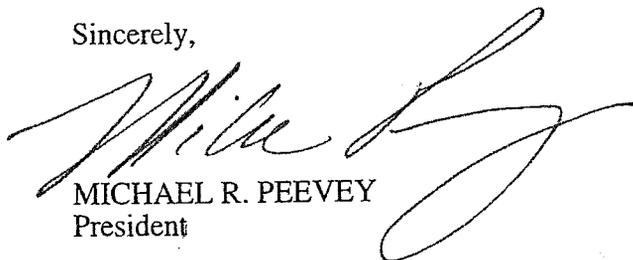
But perhaps more importantly, I believe that it is far more productive for us to work together than to take pot-shots at each other. Neither Arizona nor California is an island, electrical or otherwise. Both of our states are part of the Western Interconnection, which relies for its continued safe and reliable operation on the actions of utilities, regulators, and others throughout the west. Both California and Arizona benefit from the larger interconnected system, which strengthens reliability, and provides access to diversified supply, shared reserves and economy generation, as well as to renewable generation.

Arizona's utilities are certainly cognizant of the benefits of interstate transmission. I note for instance that Arizona Public Service (APS) is currently pursuing the Transwest Express project, which would deliver "up to 3,000 megawatts of clean, low-cost coal and renewable wind energy from Wyoming to utilities in Arizona" and other western states.¹ We are similarly advised that on November 20, 2007, the Arizona Power Plant and Transmission Line Siting Committee approved APS' proposed Palo Verde - Yuma project, which would, among other things, facilitate deliveries of renewable energy resources from California's Imperial Valley to Arizona.

¹ See http://www.aps.com/general_info/newsrelease/newsreleases/NewsRelease_328.html.

California is proud of its efforts to meet its changing resource needs. The CPUC's program of biennially updated, ten-year Long Term Procurement Plans provides the ongoing structure to approve additional resources if the planned 22,000 MW of new resources are not sufficient to meet future needs. Please contact my office if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mike P.", is written over the typed name and title.

MICHAEL R. PEEVEY
President

Attachment

CALIFORNIA NEW RESOURCE SUMMARY TABLE, 2006 - 2015 (MW)
(Southern California values in Red Italics)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10-Year Cumulative TOTAL
Thermal Generation¹	1,487 <i>642</i>	665 <i>505</i>	1,420 <i>1,010</i>	1,600 <i>675</i>	1,975 <i>455</i>	300 <i>300</i>					7,447 <i>3,587</i>
Renewables²	89 <i>51</i>	87 <i>8</i>	140 <i>89</i>	405 <i>322</i>	826 <i>601</i>	948 <i>503</i>	852 <i>576</i>	350 <i>350</i>	250 <i>250</i>	250 <i>250</i>	4,197 <i>3,000</i>
CA Solar Initiative³	50 <i>26</i>	85 <i>44</i>	169 <i>88</i>	216 <i>113</i>	263 <i>137</i>	311 <i>162</i>	352 <i>183</i>	408 <i>212</i>	468 <i>244</i>	677 <i>352</i>	3,000 <i>1,560</i>
Energy Efficiency⁴	442 <i>262</i>	478 <i>273</i>	528 <i>300</i>	535 <i>303</i>	519 <i>299</i>	530 <i>294</i>	539 <i>285</i>	557 <i>279</i>	570 <i>285</i>	585 <i>290</i>	5,283 <i>2,870</i>
Demand Response⁵	160 <i>150</i>	245 <i>233</i>	97.13 <i>72</i>	355 <i>294</i>	279 <i>144</i>	206 <i>58</i>	154 <i>16</i>	123 <i>10</i>	102 <i>11</i>	70 <i>1</i>	1,791 <i>989</i>
TOTAL	2,228 <i>1,131</i>	1,560 <i>1,063</i>	2,354 <i>1,559</i>	3,111 <i>1,707</i>	3,862 <i>1,636</i>	2,295 <i>1,317</i>	1,897 <i>1,060</i>	1,438 <i>851</i>	1,390 <i>790</i>	1,582 <i>893</i>	21,718 <i>12,006</i>

Notes:

1. Thermal generation that is operational, under construction, or under CPUC order to be constructed by IOUs.
2. Values represent minimum contract capacities for CPUC regulated utilities (PG&E, SCE, SDG&E).
3. Annual MW totals include established targets for the CPUC-C&I and CEC-New Solar Home Program and staff estimates for MW installations under Low-Income and Multi-family programs, and installations on buildings in Municipal and Publically-owned Utility Service Areas. The plans and annual MW targets for these programs are not yet fixed and are subject to change. Overall targets are assumed to be reached by 2015, but some installation will take place in out years.
4. Average peak EE MW were estimated by multiplying GWh by the ratio each utility used in 2004/5 filings (ranges from .19 to .21).
5. Estimates based on program performance to date and IOU DR projections, rather than program goals or enrollment.