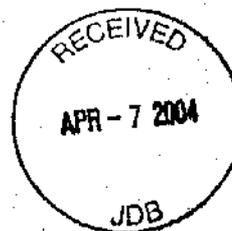


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CALIF ENERGY COMMISSION

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April 2, 2004

Hon. John L. Geesman, Commissioner
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Commissioner Geesman:

SDG&E heartily commends the Energy Commission's efforts to highlight electric transmission licensing issues in the 2004 Integrated Energy Policy Report (IEPR) Update proceeding. Our recent experience with licensing for two separate transmission projects commonly known as (1) the Valley Rainbow 500kV Interconnect and (2) the 230kV Miguel - Mission #2 line raises serious questions about the State's ability to license electric transmission facilities.

In 2000 the California ISO Board of Governors found that Valley Rainbow was needed to meet statewide reliability criteria and directed SDG&E to proceed with engineering and licensing. However, the CPUC subsequently denied the Valley Rainbow application in December 2002, which has left SDG&E facing a reliability resource shortfall starting in 2005.¹ This unexpected development forced SDG&E to conduct an expedited resource solicitation over the past year. We are currently awaiting a CPUC decision in that expedited proceeding, without which SDG&E will be unable to meet our 2005-2007 reliability capacity requirements under California ISO planning criteria.

Similarly, an application for the Miguel - Mission #2 line (which SDG&E proposes to construct on existing right of way and structures) was filed with the CPUC in July 2002 with a proposed in-service date of June 2004. This licensing application has experienced many unexplained delays and we are still awaiting the CPUC's final Environmental Impact Report. As a result of these delays, SDG&E cannot complete the project until at least June 2006 and our ability to meet even a 2006 in-service date will be jeopardized if the CPUC fails to issue its final decision in the next couple of months. According to estimates developed by the California Independent System operator, every month of delay on this project is costing California ratepayers \$3.35 million in congestion costs. This amounts to \$40 million in added ratepayer costs per year that could have been avoided with a more efficient licensing process.

¹ Ironically, while the CPUC's decision alleged that Valley Rainbow was not needed within a five year "planning horizon" the decision acknowledged that this horizon was arbitrary. Based on the CPUC's own assumptions the Valley Rainbow project need date was well within a 10 year planning horizon. Since transmission projects of this scope can often take up to seven years to license and construct, use of an arbitrary five year planning horizon makes licensing of such projects virtually impossible regardless of routing alternatives that are available.

A robust, well-planned electric transmission system is vital to the continued economic growth and security of the State. Unless decisive action is taken to remedy the State's current transmission licensing problems, California's electric customers will continue to experience greater and greater erosion of economics and reliability in the long-term. Transmission licensing uncertainty severely undermines California's ability to develop reliable and efficient long-term resource plans. Due to the long lead-time for transmission licensing and construction, such uncertainty will inevitably force the State to rely on shorter-term resource additions that are bound to be less efficient than an integrated long-term resource plan unless this problem is resolved through changes in the State's energy policies.

SDG&E supports initiation of the CPUC's recently issued Order Investigating Rulemaking (OIR) (04-01-026) with the hope that it will provide the elements that are currently missing from the transmission regulatory environment needed to support a reliable and economically-efficient supply of electricity for California consumers. As a respondent in this proceeding SDG&E urges the CPUC to organize its processes and discharge its legal mandates over transmission planning and siting matters in ways that accord substantial deference to CAISO transmission expansion need determinations, based on a 10-year planning horizon to ensure reliable and economic transmission service. Each element of the planning and siting process should be defined and scheduled so that the process can overcome the current propensity toward delay and confusion about how the necessary functions are discharged. It is important that the State Agencies work together to promote efficiencies and avoid unnecessary redundancies in the transmission review process.

In order to protect our State's future an Integrated Energy Policy must resolve these transmission expansion issues to ensure access to the optimum mix of long-term energy resources for California, including economic energy imports from outside of the State. This will require licensing and construction of hundreds of miles of new high capacity transmission corridors in California over the next 10-20 years. To support such expansion it is essential that the State's energy policy include a process to designate appropriately sited utility planning corridors across State-owned lands such as the Anza Borrego Desert State Park.

I applaud your efforts to develop a long-term vision for the State's transmission system and pledge you my full support in achieving this crucial goal.

Sincerely yours,



James P. Avery
Sr. Vice President, Electric Transmission

cc: Michael R. Peevey, President, CPUC
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