

September 7, 2004

California Energy Commission
Re: Docket No. 03-IEP-01 – Transmission
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5504

To whom it may concern:

Enclosed herewith are comments submitted in response to the workshop held on August 23, 2004 concerning the CEC draft white paper on upgrading California's transmission system released on July 2004. These comments were also submitted electronically at doCKET@energy.state.ca.us on September 7, 2004.

If any additional attention is required concerning this matter, please contact Mr. Roberto Sarmiento at (213) 367-2421.

Sincerely,

Randy S. Howard
Executive Assistant to the General Manager-
Power System

**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION**

In the Matter of:)	
)	
Integrated Energy Policy)	
Report (IEPR) Update:)	Docket 03-IEP-01
)	
Upgrading California's)	
Transmission System)	

Comments of the Los Angeles Department of Water and Power
on Topics Discussed at the
August 23, 2004, *Upgrading California's Transmission System: Issues and
Actions for 2004 and Beyond* Workshop

The Los Angeles Department of Water and Power (LADWP) welcomes this opportunity to provide comments concerning topics discussed at the above Workshop.

Social Discount Rate

The Los Angeles Department of Water and Power (LADWP) supports the concept of using a social discount rate in assessing the benefit of transmission projects for those projects that can be deemed desirable for the "public good." The Commission needs to ensure that due consideration is given when assessing whether a project can meet the public good standard and that merchant projects are properly separated from projects needed to maintain reliability.

However, the use of a method, such as that offered by the Consortium of Electric Reliability Technology Solutions (CERTS) that was developed by economists to define this rate, is unnecessary and may be subject to either intended or unintended manipulations and errors. The state already has access to a social discount rate that is well defined and documented in the long-term bond markets. These rates used by the state in borrowing money for public projects can and should be used since these monies are prioritized and dedicated for the public good.

Single-Purpose Transmission Lines

In the second paragraph from the bottom of page 7 of the Upgrading Transmission draft white paper, it states “the importance of avoiding single-purpose lines where possible” is recognized as a key assumption. When future transmission lines are planned and built by public entities for the purpose of maintaining adequate resources and ensuring reliability for native load, the assets dedicated to this purpose may be deemed “single-purpose” as construed under this statement. The ability to resource loads from specific generation and the ability to dedicate specified transmission paths to that generation is critical in any resource plan. This requirement is not only critical for vertically integrated utilities, like LADWP, but is also being recognized in other market structures as illustrated in the ISO’s latest request that future resources demonstrate their deliverability.

The LADWP has the obligation to serve its native load and, as such, dedicates its generation, transmission and distribution assets to that purpose. Recognizing this obligation, the LADWP has planned and built its electric infrastructure (generation, transmission, distribution) in a coordinated manner. LADWP’s ability to provide capital investment for this infrastructure is directly linked to its ability to dedicate projects and assets to the LADWP ratepayer.

LADWP’s Renewable Portfolio Standard and Transmission Plans for the Tehachapi Area

The Owens Gorge – Rinaldi 230 kV line, that runs near the Tehachapi area, is expected to serve a major role in LADWP’s Renewable Portfolio Standard (RPS). It is expected this 450 MW line will enable LADWP to bring renewable resources to the Los Angeles load center in helping achieve its RPS goals. Because of its favorable location, LADWP is exploring the options to maximize the utilization of this transmission line.

In June 2004, LADWP issued a Request For Proposal (RFP) in support of its RPS goals. LADWP’s considerations for upgrades or expansion of this transmission line will be centered on the RFP responses that LADWP receives. These RFP response evaluations are expected to be completed by November of this year.

The following is LADWP’s allocation for the 450 MW Owens Gorge – Rinaldi line:

170 MW is already dedicated to electricity generated from the Owens Gorge and other hydro facilities in the Owens Valley.

120 MW from the Pine Tree Wind Project is anticipated for interconnection to the line.

The 160 MW of remaining capacity on the line is anticipated to be used for future renewable energy projects that may be identified in our ongoing RFP process.

Joint Projects

The CEC has expressed its interest in incorporating input from municipals and identifying joint needs and common goals. LADWP has historically supported collaborative efforts between investor and publicly owned entities. LADWP has worked and currently is working with entities, such as Bonneville Power Administration, Southern California Edison, Salt River Project, Arizona Public Service, Western Area Power Administration, Imperial Irrigation District, Sacramento Municipal Utility District, Nevada Power Company, as well as cities, including the cities of Burbank, Glendale, Pasadena, Anaheim, Riverside, Vernon, Azusa, Banning, Colton and others.

LADWP has a long history of coordinated transmission planning where the needs of a number of utilities are met simultaneously. These coordinated planning efforts have resulted in the Pacific DC Intertie, the transmission built in conjunction with the Intermountain Power Project, and the Mead-Adelanto and Mead-Phoenix Projects. The benefits of these collaborations have increased reliability and transportation access across multiple systems while allowing multiple sources of capital to be used from both public and private sectors.

However, future collaborative efforts will face challenges in how joint projects can be planned, constructed and managed under the proposed FERC redesigned markets. The collaborative efforts between investor and public entities will need to overcome the questions of uncertainty in cost allocation, uncertainty in future rights, and uncertainty in future regulatory rules.

In closing;

- LADWP supports social discount considerations for transmission when a project can meet a public good standard and where merchant projects are properly separated from projects needed to maintain reliability. The discount rate should be based on the same rates as other public projects, which can be deemed as the State's long-term bond rate.
- LADWP's ability to provide capital investment for infrastructure is directly linked to its ability to dedicate projects and assets to the LADWP ratepayer. The issue of single purpose lines should not infringe upon a utility's ability to dedicate facilities to the purpose of serving its customers.

- Market redesign proposals through FERC and other organizations continue to recommend new operational rules, new cost allocations, and new allocations of rights over existing facilities and contracts. To be successful, collaborative efforts require certainty that the benefits and obligations under future agreements can and will be honored.

Dated: September 7, 2004

Respectively submitted,

Randy S. Howard
Executive Assistant to the General
Manager- Power System