Statement on the Sunrise Transmission Line Application (A.06-08-010) Presented at December 18, 2008 Commission Meeting by Commissioner Dian M. Grueneich

Introduction

Today we vote on whether to approve a $2 billion ratepayer investment in transmission infrastructure by granting San Diego Gas and Electric Company (SDG&E) a Certificate of Public Convenience and Necessity (CPCN) for the 123 mile long Sunrise Powerlink Transmission Project, using the Final Environmentally Preferred Southern Route.

I support issuance of a CPCN, but only if the approval includes enforceable requirements for SDG&E to develop substantial amounts of renewable resources to be carried over Sunrise. My Alternate contains such a provision and explains in detail that this requirement is both workable and necessary.

Because President Peevey's Alternate does not include such a renewable requirement, I cannot support it. Failure to place enforceable requirements on SDG&E and to instead rely on SDG&E's oral representations and statements of possible future Commission actions cannot justify approval of Sunrise. Without a renewable requirement, we spend $2 billion of ratepayer money on a new transmission line that provides no guarantee of benefits to SDG&E ratepayers, can be used to transmit non-renewable energy, and may well undercut this state's global warming goals. We also miss a major opportunity to create a vibrant green collar economy in Imperial Valley, and risk exporting these skilled jobs across our borders.

Discussion

The basis for approval of Sunrise – in both my Alternate and that of President Peevey – is that the line is needed to meet a 33% Renewable Portfolio Standard (RPS) and that doing so provides significant economic, reliability and greenhouse gas reduction benefits.

Both proposals find that Sunrise is not needed for reliability in San Diego until at least 2014 or to meet a 20% RPS. The record demonstrates that SDG&E has already received more than enough offers for renewable projects that do not need Sunrise, to fulfill its entire RPS obligation of 20% by 2010. The record for this case also shows that Sunrise would actually increase costs to meet the RPS target of 20% by approximately $90 million. In sum, this massive investment of ratepayer money cannot be justified based on near term reliability or 20% RPS needs.

Renewable Development in the Imperial Valley

Why then, does my Alternate Decision approve Sunrise? It does so because Sunrise can be justified under a 33% RPS requirement. Under a 33% RPS, if Sunrise promotes the development of a significant amount of new renewable energy projects in the Imperial Valley, Sunrise will offset GHG emissions from its own construction, provide reliability benefits, and generate $94 million annually in ratepayer benefits.

The linkage is simple –SDG&E ratepayers and Californians as a whole will receive the economic, reliability and GHG emission benefits of Sunrise if –but only if -- Imperial Valley renewables are developed at the levels and within the time frame projected by the California Independent System Operator (CAISO).

Let me also be clear that the distinction between Imperial Valley resources and resources in other states or outside the U.S. is important. With Sunrise, the San Diego local reliability area will include the Imperial Valley substation; therefore, SDG&E's ratepayers will receive free reliability benefits from renewables that connect to that substation that they would otherwise have to purchase from other resources.

But, if those Imperial Valley renewable resources are not developed, the record is clear that California and SDG&E ratepayers do not get the benefits we have promised, and could end up with a costly investment that increases GHG emissions.

However, under any scenario that approves Sunrise, one group will still get benefits – SDG&E shareholders. They will receive approximately $1.5 billion over the lifetime of Sunrise as their rate of return for the ratepayer funded capital investment, whether or not Sunrise is ever used to deliver any renewable power.

My Alternate

Let me briefly review the requirements in my Alternate for Imperial Valley renewable development – what is required, why it is necessary and why it is reasonable. I will then review the approach taken in President Peevey's Alternate and explain why it does not ensure Sunrise will carry Imperial Valley renewable resources.

The CAISO projects that Sunrise will facilitate development of over 1,900 MW of Imperial Valley renewable resources between 2011 and 2015, including 1,000 MW of high capacity-factor geothermal resources. According to the record in this case, if these resources are developed and delivered on Sunrise,

Sunrise will generate $94 million per year in net benefits to ratepayers. Therefore, we must take affirmative steps, as specified in my Alternate, to not only support development of the level of renewables currently under contract to SDG&E, but to ensure additional development of Imperial Valley renewables in significantly greater amounts.

SDG&E's current contracts for Imperial Valley would only generate about 20% of the energy that Sunrise is capable of delivering (assuming these projects are successfully developed, constructed, and operate as proposed). These proposed Imperial Valley renewable projects, which would generate 459 MWs, are far less than the 1,900 MW of Imperial Valley renewable development that the CAISO assumed would be operational by 2015. Of the amount under contract, only 60 MW is high capacity-factor geothermal resources, compared to development of the 1,000 MW of geothermal upon which the CAISO analysis – and Sunrise approval – is based.

Specific requirements to develop renewables are also needed because the record shows that Sunrise could facilitate the development of conventional, fossil-fired resources outside the state and carry existing fossil-fired generation. Existing transmission lines will connect Sunrise to out-of state resources, not only in the Southwestern U.S. but also to two existing gas fired plants totaling over 1,000 MW of capacity in Baja California in Mexico. Sempra Generation owns and operates one of these facilities and the LNG facilities that can provide natural gas to these plants.

My Alternate takes the position that business as usual, statements of hoped for outcomes, consideration of possible future regulatory action, and the like, will not get us the assurance of new Imperial Valley renewable development at the level and rate we need. Instead, to meet the promise of Sunrise as a renewable line, to obtain the level of ratepayer benefits needed to justify this line, and to set a firm foundation for the state's 33% RPS, we must do three things in this decision. First, we must include specific requirements for SDG&E to develop Imperial Valley renewables. Second, we must include firm commitments from this Commission to set the course for the other California investor owned electric utilities to promote Imperial Valley renewable development at the level consistent with the record in this decision. And, third, we must do so starting with procurement requirements in 2009.

My Alternate imposes a 3,500 gigawatt hour per year procurement requirement on SDG&E to be acquired through existing contracts, bilateral negotiations, and a 2009 request for offers in Imperial Valley. This amount is well within the amount of Imperial Valley renewables identified by the CAISO. My Alternate also commits this agency to require SCE and PG&E to issue Imperial Valley RFOs in 2010 in a combined amount of approximately 6,000 gigawatt hours per year, enough to achieve the level of renewable projects that the CAISO has claimed will be facilitated by Sunrise and is necessary to achieve ratepayer benefits from Sunrise. My Alternate provides flexibility in procurement and also emphasizes that we will include measures and conditions for the Imperial Valley RFOs to mitigate market power, protect ratepayers from unreasonable costs, and apply any newly developed contract viability rules to these resources.

All of these requirements are reasonable, all are workable, and most importantly they are not based on business as usual, possible future proposals by this Commission, or undefined and unenforceable promises.

Peevey Alternate

Now let me turn to the renewable language in President Peevey's alternate, explain what it says, and why it is insufficient.

President Peevey also finds that Sunrise will produce ratepayer benefits if a significant amount of new renewable resources are developed in the Imperial Valley. However, President Peevey's alternate does not impose <u>any</u> enforceable obligations on SDG&E. The Alternate is silent regarding any requirements for SDG&E to develop any renewables to be transmitted over Sunrise, to contract for any new Imperial Valley renewable resources, or to conduct any procurement activities specific to Imperial Valley. It does not state any commitment by this Commission, or for SDG&E, to ensure a specific level of renewable development in the Imperial Valley will be carried over Sunrise, even though the rationale for approving Sunrise hinges on success in these matters.

Instead, this Commission will wait and see what happens in our usual procurement process for 2009. If there are no or few bids from Imperial Valley developers, we will consider <u>proposals</u> that our staff monitor what is happening in the Imperial Valley, that the utilities hold bidders conferences in their procurement processes, and <u>perhaps</u> require that the utilities short list any Imperial Valley bids that they receive in 2010, if they do receive any at all. Yet, the history of our RPS procurement to date, and for SDG&E in particular, has been criticized by many as too slow and based more on contracts or promises of contracts than renewable delivery. Also, the CAISO itself states that delay in procurement of Imperial Valley renewables by only one year will reduce Sunrise's benefits by $11 million per year.

As I stated earlier, there are three things that must be included in the Sunrise decision to meet the promise of Sunrise as a renewable line. First we must include specific requirements for SDG&E to develop Imperial Valley renewables. That is missing from President Peevey's Alternate. Second, we must include firm commitments from this Commission to expand Imperial Valley renewable development to our other electric IOUs at a specified level consistent with the record in this decision. That is also missing from President Peevey's Alternate. And, finally, we must do so starting with procurement requirements in 2009. And, that too is missing from the Alternate.

President Peevey's alternate acknowledges the off-the-record representations of the CEO of SDG&E that SDG&E will voluntarily set a 33% RPS standard for itself, replace failed existing Imperial Valley contracts with new Imperial Valley renewables, and refrain from using Sunrise for coal fired generation contracts. However, the Alternate does not mandate that SDG&E comply with its own representations.

Conclusion

Today, despite the deepening recession, the foreclosure crisis, growing unemployment rates, and steadily increasing electric service shut off rates, we impose a requirement on SDG&E ratepayers to fund the $2 billion cost of Sunrise and the 11.5 percent rate of return for SDG&E shareholders. This is not our money, it is not SDG&E's money, it is ratepayer money. We have an obligation to ensure that SDG&E ratepayers, and not just shareholders, see a return on their investment. I am not willing to risk $2 billion of ratepayer money to the invisible hand of the market. I cannot in good conscience rely on promises to consider possible proposals for reform in our procurement process in the future, when the evidentiary basis for our decision so clearly depends upon development of Imperial Valley renewables at specific levels in specific timeframes.

Instead, we choose to put our faith – and ratepayer money - in hope for market forces to produce the results we desire, promises of possible reforms, and mostly waiting to see what happens while hoping for the best. This is an approach I do not support and I will file a dissent.