BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company (U 338-E) for a Certificate of Public Convenience and Necessity Concerning the Devers-Palo Verde No. 2 Transmission Line Project.	Application 05-04-015 (Filed April 11, 2005)
Order Instituting Investigation on the Commission's Own Motion into Methodology for Economic Assessment of Transmission Projects.	Investigation 05-06-041 (Filed June 30, 2005)

ADMINISTRATIVE LAW JUDGE'S RULING ADDRESSING PHASE I TESTIMONY AND EVIDENTIARY HEARINGS

A joint workshop was held on September 14 - 15, 2005 in these proceedings. Following the workshop, parties filed comments and reply comments on Phase 1 issues, as provided in the scoping memo and a September 27, 2005 Administrative Law Judge's (ALJ) ruling.[1] In today's ruling, I address the scope of Phase 1 testimony and evidentiary hearings.

The September 27, 2005 ALJ ruling established that Phase 1 will address the following issues related to Investigation (I.) 05-06-041, in addition to issues related to need for the Devers-Palo Verde No. 2 (DPV2) transmission project under consideration in Application (A.) 05-04-015:

[1] The ALJ granted an extension for the filing of reply comments until October 26, 2005. The schedule for Phase 1 testimony and evidentiary hearings remains as established in the September 27, 2005 ALJ ruling.

1. What general principles or methodologies should be employed in assessing the economic benefits of transmission projects within the Commission's jurisdiction?
2. Is the California Independent System Operator's (CAISO) Transmission Economic Assessment Methodology (TEAM) approach, as applied to Path 26 and to DPV2, consistent with such general principles or methodologies?
3. Are the following procedures a reasonable approach at this time for the Commission's assessment of the economic benefits of transmission projects?
    a. In I.05-06-041, the Commission would adopt principles, a framework for decision-making, and criteria for the economic analysis of transmission lines.
    b. In subsequent certificate proceedings, the Commission would evaluate whether the CAISO, in evaluating economic need for the proposed project, has followed the guidance provided by the Commission in a reasonable manner.
    c. If so, the Commission would adopt the CAISO's economic determination, so that the outcomes at the CAISO and the Commission would be consistent.
4. After the Commission adopts general principles or methodologies for assessing the economic benefits of transmission projects, how should the Commission evaluate in a certification proceeding whether the CAISO, in evaluating economic need for the proposed project, has followed the guidance provided by the Commission in a reasonable manner?
5. If the Commission determines in a certification proceeding for a transmission project proposed for its economic benefits that a CAISO assessment of need has followed the guidance provided by the Commission in a reasonable manner, are there additional requirements that must be met in the Commission's determination of economic benefits and need for the project?
6. For those certification proceedings for transmission projects proposed for economic benefits where there is no CAISO assessment of need that the Commission has found to be

> reasonable and consistent with guidance provided in this investigation, what requirements should the Commission adopt for consideration of economic benefits and need?

In the September 27, 2005 ALJ ruling, I directed that parties address in their comments whether portions of the Phase 1 issues should be decided based on the filed comments and, thus, should not be addressed in Phase 1 testimony and evidentiary hearings. Based on review of the comments and reply comments, I find that parties should be allowed to submit testimony on, and evidentiary hearings should address all of the Phase 1 issues. To the extent not based on disputed facts, parties may present policy positions through post-hearing briefs rather than through testimony. I also provide the following additional guidance regarding Phase 1 testimony.

In the September 27, 2005 ruling, I determined that a complete validation of CAISO's TEAM approach should not be pursued in Phase 1. As reiterated in today's ruling, Phase 1 will address whether, absent Commission validation of TEAM, the procedures identified in item 3 above are a reasonable approach at this time for the Commission's assessment of the economic benefits of transmission projects and how the Commission should evaluate whether the CAISO has followed the guidance the Commission provides through adoption of general principles or methodologies (item 4). In their comments, parties presented widely differing views regarding these issues, ranging from support of Commission deferral to a CAISO determination of need (San Diego Gas & Electric Company (SDG&E)) to establishment of a rebuttable presumption regarding a CAISO need determination to the view that the procedures identified in item 3 "move too far too fast" (The Utility Reform Network).

As they have done in comments, parties may address alternatives to the procedures identified in item 3 in Phase 1 testimony and briefs, as appropriate. I

am particularly concerned about the SDG&E and CAISO proposals regarding deferral or establishment of a rebuttal presumption prior to a Commission validation of the TEAM approach. Parties should address whether the fact that the Commission has not validated TEAM affects the procedures that the Commission should use at this time to assess the economic benefits of transmission projects. As noted in the September 27, 2005 ruling, the Commission may undertake additional investigation in I.05-06-041 after Phase 1 to validate the TEAM approach or may take other steps to further streamline the regulatory review of transmission projects proposed for their economic benefits.

The following factual issues, while not all-inclusive, have been raised in the workshop and in comments as relevant in Phase 1:

- Input assumptions and their verification;
- Composition of and access to databases of loads and resources;
- Demand and supply forecasts;
- Extrapolation of benefit calculations to later years;
- Use of statistical analyses, including choice of cases and assignment of probabilities;
- Identification and computation or other means of incorporating relevant costs and benefits:
    - Type(s) of modeling and modeling criteria,
    - Access to models and inputs,
    - Costs and benefits quantified through models and other means, and
    - Non-quantifiable considerations;
- Appropriate sensitivity, contingency, alternatives, and "tipping point" analyses;
- Identification of, computation of, and reliance on relevant benefit perspectives;

- Appropriate metric(s) for economic assessment, e.g., benefit-cost ratio, net present value of benefits compared to costs, levelized benefits and costs, and/or payback period;
- Decision criteria;
- Effect of changes in market design, resource adequacy requirements, or other regulatory factors on market behavior and economic analyses; and
- Incorporation of future refinements to analysis methodology.

In their Phase 1 testimony, parties should address these factors, in addition to other relevant issues, and the extent to which they are relevant to I.05-06-041 and/or A.05-04-015 issues.

I note two developments since Southern California Edison Company (SCE) and the CAISO performed their economic analyses of DPV2 that warrant the Commission's attention in Phase 1. First, parties should address in Phase 1 testimony whether and, if so, how the recent increases in natural gas prices may affect the economics of DPV2. Second, on October 21, 2005, the Arizona Public Service Company (APS) announced that it will explore building two transmission lines from Wyoming to northern Arizona and will assess integration of those lines with DPV2 and other transmission projects. The APS press release is Attachment A to this ruling. SCE should address whether it proposes to use DPV2 to import electricity from fuels other than natural gas. SCE and the CAISO should address how use of DPV2 to import such electricity would affect the economics of DPV2.

In the September 27, 2005 ALJ ruling, I directed that any party presenting benefit-cost analyses for DPV2 "should specify, through a formula if appropriate, exactly how a change in the cost of DPV2 would change any benefit-cost ratios or other benefit-cost comparisons in its testimony." Similarly, any party presenting benefit-cost analyses for DPV2 should provide yearly benefit and cost results so

that, for example, the Commission could evaluate effects on the benefit-cost analyses of different discount rates or benefit growth rates.

The Energy Action Plan II adopted by the Commission and the California Energy Commission describes that a range of discount rates could be used to evaluate transmission lines. Parties should address in their Phase 1 direct testimony the issue of discount rates, including the appropriateness of using a social discount rate versus the utility cost of capital and, if the Commission uses a social discount rate in analyzing DPV2 or other transmission lines, what that discount rate should be.

I remind parties that information distributed or otherwise obtained during the workshop, including documents attached to the September 27, 2005 ALJ ruling, is not part of the evidentiary record. Any party wishing to rely on factual information from the workshop should take steps to have it entered into the evidentiary record, as appropriate.

Therefore, **IT IS RULED** that:

1. The evidentiary hearings in Phase 1 of these proceedings shall address all issues identified in the September 27, 2005 Administrative Law Judge's Ruling, as reiterated in this ruling and consistent with the additional guidance provided herein.

2. Parties may address alternatives to the procedures identified in item 3 above in Phase 1 testimony and briefs, as appropriate. Parties shall address whether the fact that the Commission has not validated the California Independent System Operator's (CAISO) Transmission Economic Assessment Methodology affects the procedures that the Commission should use at this time to assess the economic benefits of transmission projects.

3. Parties shall address in Phase 1 testimony whether and, if so, how the recent increases in natural prices may affect the economics of the Devers-Palo Verde No. 2 (DPV2) project.

4. In Phase 1 testimony, Southern California Edison Company (SCE) shall address whether it proposes to use DPV2 to import electricity from fuels other than natural gas. SCE and the CAISO shall, and other parties may, address how use of DPV2 to import such electricity would affect the economics of DPV2.

5. In their Phase 1 testimony, the parties shall address the factual issues identified in this ruling, in addition to any other relevant issues.

6. Each party submitting testimony in Phase 1 shall specify yearly benefit and cost results as part of any benefit-cost analysis it presents for the DPV2 project.

7. In their Phase 1 testimony, the parties shall address the issue of discount rates, including the appropriateness of using a social discount rate and, if the Commission uses a social discount rate in analyzing the DPV2 project, what that discount rate should be.

Dated October 28, 2005, at San Francisco, California.

/s/ CHARLOTTE F. TERKEURST

Charlotte F. TerKeurst
Administrative Law Judge

Attachment A

APS NEWS

FOR IMMEDIATE RELEASE

October 21, 2005

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APS TO SPONSOR FEASIBILTY STUDY FOR NEW TRANSMISSION PROJECT FROM WYOMING TO ARIZONA

PHOENIX – Arizona Public Service Company (APS) announced today that it will explore building two 500,000-volt (500-kV) transmission lines from Wyoming to northern Arizona. The completion of the TransWest Express Project would provide Arizona and other western states increased capability to access electricity generated from coal, wind and other resources.

"We face a real challenge in the coming years to meet the growing needs of Arizonans with a reliable and diverse resource portfolio," said Jack Davis, President and Chief Executive Officer of APS. "To do that, we need more access to power supplies throughout the West. This project provides a meaningful opportunity to benefit customers in Arizona and throughout the region and to help fulfill our state and federal energy policy goals of developing more environmentally friendly generation and strengthening the Western power grid."

APS will seek input and participation of interested parties to jointly examine the technical and economic feasibility of the project and the relevant environmental and regulatory considerations. This joint feasibility analysis will be performed within the various regional and subregional transmission planning groups and reliability organizations.

Arizona Gov. Janet Napolitano expressed her support of the project. "A healthy economy depends on the State's ability to provide essential services, and abundant, reliable electrical power is one of those needs," she said. "As Chair of the Western Governors' Association, I look forward to raising this proposal with my fellow WGA

states for prompt review and discussion as it could play a key role in linking economic and environmentally compatible energy sources with the growing power needs of Arizona and the West."

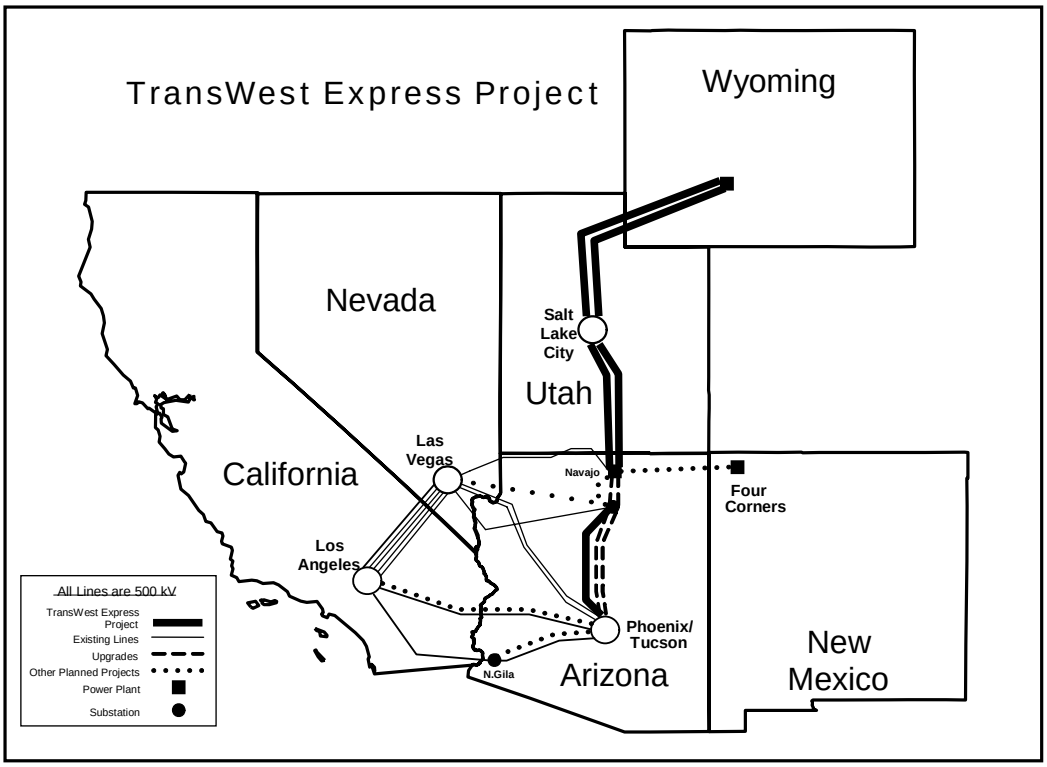
Another state leader in support of the project is Jeff Hatch-Miller, Chairman of the Arizona Corporation Commission. "Maintaining Arizona's quality of life and jobs requires adequate and affordable power," he said. "We have enough energy to meet today's demand but we must think outside the box in order to secure the power Arizona will need a decade from now. Linking to new, clean-burning coal technologies and abundant wind resources to our north will provide us with the needed electricity, protect Arizona's environment and potentially lower our cost of power. This ambitious and far-sighted project promises real benefits for Arizonans."

In addition to the new lines, the feasibility study will also assess the benefits of integrating these new transmission facilities with other transmission projects already planned, including the Dine Navajo Transmission Project, the Palo Verde – Devers #2 Project, the Palo Verde - North Gila #2 Project, and planned upgrades to the existing Navajo Transmission System lines and the Mead – Phoenix line. In addition, the feasibility study will assess the benefits of a third line from the Navajo Generating Station in northern Arizona to the Phoenix area (see map below).

"This is an extraordinarily ambitious undertaking that will require unprecedented cooperation and support from government, regulators, generators, utilities and other stakeholders," said Davis. "This is certainly not a one utility, go-it-alone project."

The Phase 1 feasibility study is expected to take about one year. Later phases would include required permitting, approvals, construction and eventual completion of the project with an expected in-service date of 2013.

Below is a conceptual line route. If the project proceeds, a final route will be proposed as part of the regulatory process in each of the affected states.



APS, Arizona's largest and longest-serving electric utility, serves more than 1 million customers in 11 of the state's 15 counties. With headquarters in Phoenix, APS is the largest subsidiary of Pinnacle West Capital Corporation (NYSE: PNW).

(End of Attachment A)

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Addressing Phase I Testimony and Evidentiary Hearings on all parties of record in this proceeding or their attorneys of record.

Dated October 28, 2005, at San Francisco, California.

/s/ ELIZABETH LEWIS
Elizabeth Lewis

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* *

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If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.