# Project Site

EXHIBIT NO. 1
Application:
A-4-OXN-07-096
So. Cal. Edison

EXHIBIT NO. 1
Application:
A-4-OXN-07-096
So. Cal. Edison

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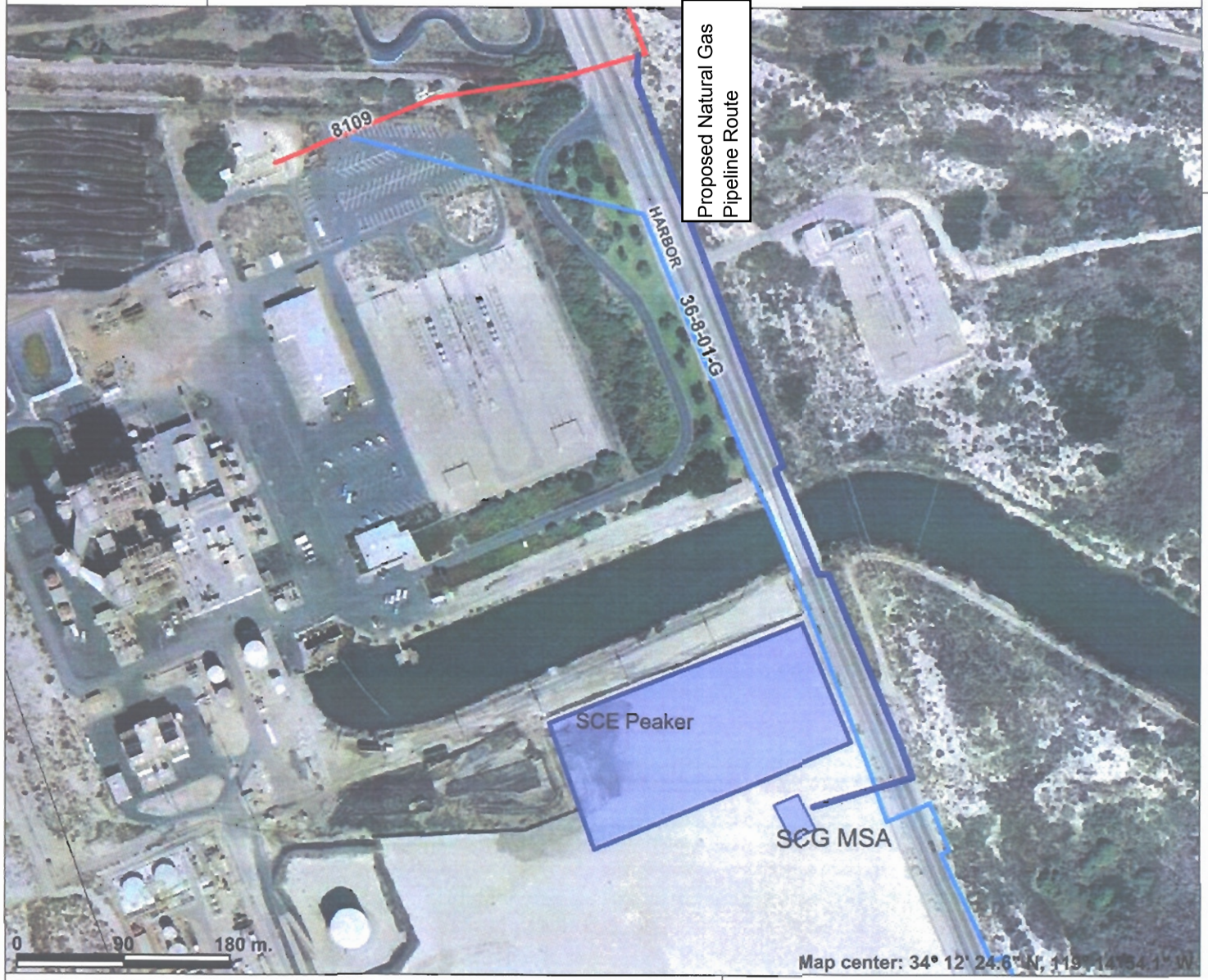
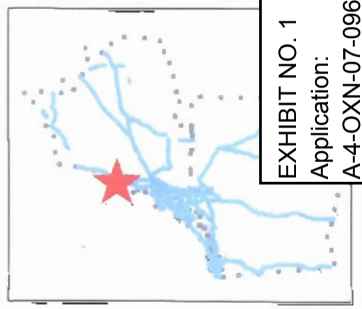
# SCE McGrath Beach Peaker



Legend

- Counties
- Gas Pipelines
- SCG LDS
- SCG TS
- SDGE LDS
- SDGE TS
- STORAGE
- Road Centerlines
- Pacific Ocean

Scale: 1:5,071

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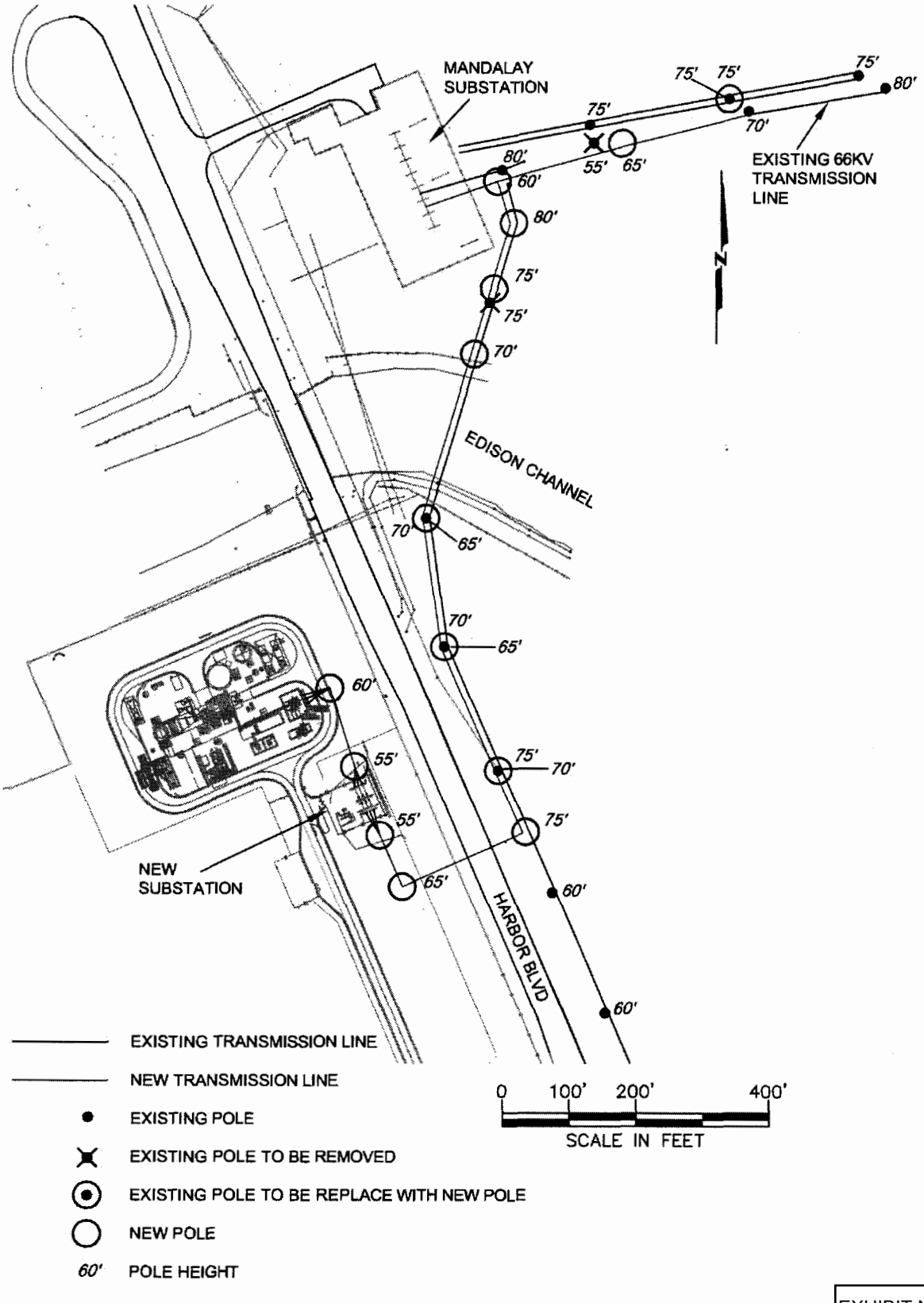


**Figure 5. Conceptual Layout of Transmission Line**

EXHIBIT NO. 1
Application:
A-4-OXN-07-096
So. Cal. Edison

MP1/MSW/sid 8/15/2006

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

| | |
|---|---|
| Order Instituting Rulemaking to Consider Refinements to and Further Development of the Commission's Resource Adequacy Requirements Program. | Rulemaking 05-12-013 (Filed December 15, 2005) |
| Order Instituting Rulemaking to Integrate Procurement Policies and Consider Long-Term Procurement Plans. | Rulemaking 06-02-013 (Filed February 16, 2006) |

# ASSIGNED COMMISSIONER'S RULING ADDRESSING ELECTRIC RELIABILITY NEEDS IN SOUTHERN CALIFORNIA FOR SUMMER 2007

## 1. Summary

In the captioned dockets and in other pending proceedings, this Commission is working with partners including the California Independent System Operator (CAISO), the California Energy Commission (CEC), regulated entities, and other stakeholders to develop and enhance the electric infrastructure so that it meets California's growing need for reliable, cost-effective, and environmentally sound electric service. Significant progress has been achieved since the electric market disruptions of 2000-2001, and the procedural steps needed to maintain this progress are well under way.

In light of recent events, I find it is necessary to take additional action. The heat storm that hit California in July 2006, and the surprising growth in electricity demand throughout the state that had become evident even before the heat storm, have exposed certain vulnerabilities in the electric generation and



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

transmission infrastructure that require immediate attention to assure reliability in 2007, particularly in parts of southern California. Accordingly, as set forth in more detail below, I direct Southern California Edison Company (SCE) to expand its Air Conditioning Cycling Program (ACCP, also referred to as Summer Discount Plans) to target an additional 300 megawatts (MW) of program capacity for the summer 2007 season. In addition, SCE should pursue the development and installation of up to 250 MW of black-start, dispatchable generation capacity within its service territory for summer 2007 operation. In connection with this added generation capacity, I invite SCE to file an advice letter to establish a memorandum account in which it would record the acquisition and installation costs.

## 2. Background

In the captioned rulemaking dockets and in predecessor proceedings initiated in the wake of the energy crisis of 2000-2001, this Commission has established policies for procurement of electric generation by investor-owned utilities (IOUs) and by other load-serving entities (LSEs) subject to the Commission's jurisdiction.[1] Throughout these proceedings, a fundamental goal of the Commission has been assuring that Californians served by these LSEs receive reliable electric service through cost-effective, environmentally sound, sustainable, and competitive procurement of electric generation capacity. Key elements of this procurement regime include the following:

[1] The Commission has found that the service territories of the three largest electric IOUs in California account for approximately 80% of California's electricity usage.



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

- The California Energy Action Plan (EAP II), which establishes a preferred loading order of resources, beginning with energy efficiency and demand response.
- Review and approval of the IOUs' Long Term Procurement Plans (LTPPs) in conjunction with the CEC's demand forecast.
- Establishment of Resource Adequacy (RA) procurement obligations whereby each jurisdictional LSE must acquire the resources needed to serve its own customer load plus a 15%-17% planning reserve margin.

## 3. Discussion

I am confident that the adopted procurement regime, described above, is successfully meeting California's electric system needs and will continue to do so. I recognize, however, that the LTPP and RA programs are still under development and that the adopted program elements have not been in place for sufficient time to bear full fruit. Despite the Commission's ongoing efforts to assure that adequate operating resources are made available to the CAISO at the times and places the CAISO needs those resources for electric grid operations, it is critical that we continually monitor system developments and be prepared to act as necessary.

Last month's heat storm, and the evident and surprising growth in demand that had occurred even before the heat storm, give rise to the need for further action. The CAISO's assessment for the summer of 2006 indicated that it could handle a demand in excess of 48,000 MW, close to what demand was forecasted to be under extreme temperatures that materialize once every



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

10 years, with limited to no impact on firm load customers.[2] However, the CAISO reports, the peak demand during that heat wave was 51,000 MW, well above any of the scenarios it had assumed in its assessment.[3] As the CAISO notes, that was over 12% higher than last year's record, 6% higher than the worst case scenario the CAISO analyzed in its assessment, and 38% higher than the peak demand of the crisis year 2001; it represents the demand forecasted not to appear until five years from now.[4] Across the CAISO's service area, weighted average temperatures ranged between 106 and 110 degrees Fahrenheit on various days, something California and the West have not experienced in recent history; these temperatures were higher than anything recorded in the 30-year history of the temperature models used by the CAISO.[5] Also, staff informs me, the demand forecasts used to plan for resource needs in California may not have fully incorporated the impacts of recent population growth in the warmer inland areas of California.

The good news for California is that the right policies were put in place in recent years, and all parties pulled together during the recent heat storm with the result that the CAISO was able to meet the resulting reliability challenge. Looking ahead to next summer, however, I am persuaded that additional steps should be taken now to assure reliability. While there is no way at this time to determine whether the unusually high temperatures experienced this summer in

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[2] *See* Prepared Statement of Yakout Mansour, President and Chief Executive Officer of CAISO, before the California State Senate Committee Governmental Organizations, dated August 9, 2006. The statement is available at the CAISO's website.

[3] *Id.*

[4] *Id.*

[5] *Id.*



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

California and much of the nation are the product of global climate change trends, it is prudent to go forward with the expectation that a repeat of this summer's experience, and/or a continuation of the unexpectedly high growth in overall demand, are possible in 2007. The CAISO advises that the situation is particularly severe in southern California.[6] Recognizing that time does not allow for development of large new projects between now and next summer, the CAISO recommends that the Commission take steps to direct IOUs to develop

> ... a combination of quick-start generation and demand response opportunities that can be developed over the next six to twelve months to increase available supply at the peak hours and enhance grid reliability.[7]

Accordingly, in response to critical near-term needs in southern California that have been recently identified by the CAISO, I take the following actions.

First, consistent with the preference to be accorded to demand response programs under EAP II, I direct SCE to target an additional 300 MW of ACCP program capacity for the summer 2007 season. SCE is directed to determine if shifting existing demand response funds can cover the costs of the additional 300 MWs or if additional funds (incremental to those previously approved in D.06-03-024) are necessary. SCE is directed to provide this information to the Commission via the process outlined in A.05-06-006, *et al.*[8]

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[6] *See* letter from Yakout Mansour, President and Chief Executive Officer of CAISO, dated August 9, 2006. A copy of the letter is attached to this ruling.

[7] *Id.*

[8] On August 9, 2006 I issued an Assigned Commissioner Ruling in A.05-06-006, *et al.*, directing the IOUs to submit proposals August 30, 2006 to expand their existing demand response programs.



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

Second, I direct SCE to pursue new utility-owned generation that can be online in time for summer 2007. I take this action out of concern that SCE's current, ongoing Request for Offer (RFO) process may not be completed in time for summer 2007 needs. As I noted earlier, competitive IOU procurement processes are key elements of the Commission's procurement regime. As it goes forward with its RFO, SCE should not reduce the amount of capacity it contracts for through the RFO due to development of generation specified in this ruling. Additionally, SCE should promptly evaluate any offers of resources similar to those covered in this ruling that may be online by August 1, 2007. Should SCE consider any such offers potentially viable, it should make best efforts to reach agreement with the bidders and file a request for contract approval with the Commission by November 15, 2006. The Commission will target action on any such requests not later than January, 2007. Offers considered by SCE but not deemed August 1-capable, and offers SCE is unable to reach agreement on before November 15, 2006, should continue to follow the schedules and procedures laid out in the RFO. I would expect contracts filed by SCE pursuant to this section to contain financial guarantees of operation on or before August 1, 2007.

To avoid undue impacts on the ongoing RFO process, SCE should pursue development of not more than five non-RFO generation units. Such units should be black-start capable and dispatchable, and should bring collateral benefits to SCE's transmission and distribution system as well as the CAISO grid.

It does not appear possible for SCE to develop and for the Commission to consider proposals for ratemaking treatment of the costs of developing and installing the utility-owned generation described above prior to the time such generation would be installed. Accordingly, I invite SCE to file an advice letter to establish a memorandum account to record the acquisition and installation



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

costs of such generation facilities. Because of the urgent need for capacity for summer 2007 and the unusual steps being taken in this ruling, SCE may choose in its later rate application to request, and the Commission may wish to consider, for resources built pursuant to this ruling, different ratemaking treatment than that established in D.06-07-029 for utility-owned resources.

In this ruling I have focused on actions that are to be undertaken by SCE in light of the CAISO's stated concern about reliability in southern California. As a precaution to assure reliability throughout the service territories of all of the IOUs, I will direct Pacific Gas and Electric Company and San Diego Gas & Electric Company to submit reports in the LTPP proceeding addressing the need for similar actions in their territories, particularly with respect to air conditioning cycling.

This ruling is being issued in R.05-12-013 and R.06-02-013 because of the related subject matter; however, these proceedings are not consolidated.

**IT IS RULED** that:

1. In order to address and resolve potential resource inadequacies that could affect reliability in southern California in the summer of 2007, Southern California Edison Company (SCE) is directed to take necessary steps to expand its demand response programs and to develop black-start, dispatchable resources in accordance with the foregoing discussion.

2. Not later than 15 days from the date of this ruling, Pacific Gas and Electric Company and San Diego Gas & Electric Company shall file reports in Rulemaking 06-02-013 addressing the need for actions in their territories similar to those addressed in this ruling with respect to SCE, particularly with respect to air conditioning cycling.



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

3. In addition to the service lists in the captioned dockets, a copy of this ruling shall also be served on the service list in Application (A.) 05-06-006, A.05-06-008, and A.05-06-017.

Dated August 15, 2006, at San Francisco, California.

/s/ MICHAEL R. PEEVEY
Michael R. Peevey
*Assigned Commissioner*



EXHIBIT NO. 2
Application:
A-4-OXN-07-096
So. Cal. Edison

EXHIBIT NO. 3
Application:
A-4-OXN-07-096
So. Cal. Edison

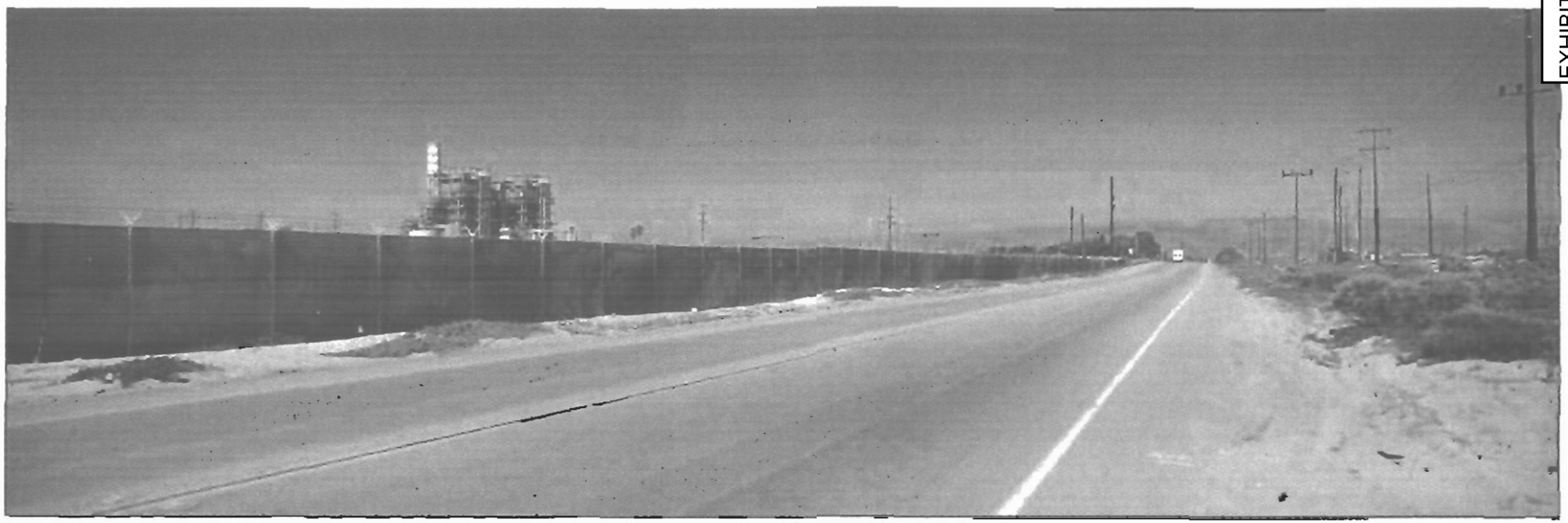
VP1 - Project view from northeast corner of the SCE property - before

NOT APPLICABLE

VP1 - Project view from northeast corner of the SCE property - after

FILENAME: Project-Viewpoint 1.dwg

EXHIBIT NO. 3
Application:
A-4-OXN-07-096
So. Cal. Edison



VP2 - Project view from midpoint of the SCE property - before

NOT APPLICABLE

VP2 - Project view from midpoint of the SCE property - after

FILENAME: vp 1.dwg

EXHIBIT NO. 3
Application:
A-4-OXN-07-096
So. Cal. Edison

VP3 - Project view from southeast corner of the SCE property - before

NOT APPLICABLE

VP3 - Project view from southeast corner of the SCE property - after

FILENAME: vp 3.dwg

EXHIBIT NO. 3
Application:
A-4-OXN-07-096
So. Cal. Edison

VP4 - View of transmission lines from the north - **before**

NOT APPLICABLE

VP4 - View of transmission lines from the north - after

FILENAME: vp 4.dwg

EXHIBIT NO. 3
Application:
A-4-OXN-07-096
So. Cal. Edison

VP5 - View of transmission lines from the south - before

NOT APPLICABLE

VP5 - View of transmission lines from the south - after

FILENAME: vp 5.dwg