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Ms. Irene Stillings
Executive Director
San Diego Regional Energy Office
8520 Tech Way
Suite 110
San Diego, CA 92123

Dear Ms. Stillings:

This letter provides San Diego Gas & Electric Company's (SDG&E) comments on the draft San Diego Regional Energy Infrastructure Study, dated October 1, 2002, prepared on behalf of the San Diego Regional Energy Office and other sponsors. SDG&E appreciates the opportunity to offer our perspective and to correct some of the misconceptions contained in the Draft Study, many of which occur because the Draft Study is out of date. The Draft Study was written before the state made its final determination of the amount of power allocated to SDG&E from California's long-term energy contracts. With that allocation complete, the San Diego region now has virtually no need for additional power for years to come, a situation that will require significant revisions to the Draft Study.

Even without updating, the Draft Study remains a valuable addition to the on-going discussion of how to meet the region's growing energy needs, in part because it reaffirms the assessment of most energy industry participants that more energy infrastructure is needed.

In fact, several of the Draft Study's recommendations are already being implemented, including:

- **Renewables:** SDG&E recently announced that it will purchase enough energy in 2003 from renewable resources to power more than 100,000 homes. That number will increase to approximately 183,000 homes in 2004. In addition, the power allocated to SDG&E customers by the state includes additional renewable resources.
- **Energy Efficiency:** Over the last decade, SDG&E's energy-efficiency programs have saved customers approximately \$200 million, and 1,800 gigawatt-hours of electricity, which is enough to power 300,000 homes for a year. The programs also reduced system peak demand by approximately 1,000 megawatts.

- **Infrastructure:** SDG&E is addressing the need for additional electric transmission infrastructure through its proposal for the Valley-Rainbow Interconnect, a transmission line that will ensure a reliable energy supply by making it possible to access to the power allocated by the state, as well as other competitively priced power, for years to come.

As the Draft Study indicates, San Diego clearly needs more electric transmission and generation, although the need for significant generation has been delayed by the state's allocation of power to the region. The Draft Study is also correct when it says that enhanced use of conservation and renewable energy should play an important role in providing the region's energy needs. Potential developers of that infrastructure, including SDG&E, have long been challenged by the difficulty of developing needed additions because of opposition by special interest groups. Accordingly, SDG&E hopes that the Draft Study's recognition of the need for infrastructure of all types will represent the first step in a unified community effort to support attempts to develop adequate transmission, generation, and pipeline capacity to meet local needs.

The intent of the Draft Study – to explore San Diego energy infrastructure needs – was well meaning. However, events have preempted many of the Draft Study's conclusions and recommendations.

In this letter, SDG&E describes the key conclusions the Draft Study should have drawn, and, by attachments, identifies some of the statements that the authors will want to amend.

Conclusions the Study Should Have Reached:

1. **The Region has Sufficient Energy Available to it for Years to Come, as a Result of the State's Recent Allocation of Power**. As noted earlier, this finding is driven by an event that occurred just as the report was being finalized. This event constitutes a sea change in the region's energy needs and calls for significant re-visitation of the report's conclusions. The Draft Study expresses concern about a "tight supply/demand balance" during the period 2002-2006. In fact, given the state's Department of Water Resources allocations, existing utility generation, and anticipated added renewable supplies, area consumer requirements are essentially fully met for the next 5 years. The problem does not appear to be adequacy of committed supplies, but adequacy of transmission to ensure reliable operation. This is why the Valley-Rainbow Interconnect is so important.
2. **Valley-Rainbow Should Be Supported Now:** The importance of the Valley-Rainbow Interconnect to the community has been the subject of years of study and public participation. On October 9, the Draft Study author, Todd Davies, specifically mentioned during his presentation that this third transmission line should be built. Perhaps that explains why the main text of the Draft Study explains in some detail the need for a northern transmission path like Valley-Rainbow. Yet, the Draft Study fails to explicitly support the project. At the same time, it fails to identify how regional requirements will be economically met absent Valley-Rainbow. By failing to support Valley-Rainbow, the Draft Study ignores

Study observes, then ignores, the California ISO – an organization with the expertise and responsibility to carry out objective assessments of the need for new transmission infrastructure - has repeatedly stated that the Valley-Rainbow project is needed and must be built. In contrast to the Draft Study’s apparent conclusion that there are alternatives that will take the place of Valley-Rainbow (relying on its expectation of the timely development of a project whose construction has been indefinitely suspended), the ISO has stated clearly and unequivocally “a do-nothing, wait-and-see approach ... would be highly risky and inappropriate.” At present, the Draft Study proposes instead to expose San Diegans to a “highly risky” strategy of doing nothing and hoping sufficient power generation will be built within the region.

3. **Developers of Local Energy Infrastructure Need Local Support:** The San Diego region has never coordinated its support for new energy infrastructure. For example, although the Draft Study now supports repowering of supply at the Encina and South Bay power plants, when SDG&E proposed to repower a South Bay unit in the 1990s, it received significant resistance from community and special-interest groups. Likewise, today, SDG&E has encountered resistance, including from some of the Draft Study’s sponsors, in its effort to develop the northern transmission addition advocated by the Draft Study, although it has garnered considerable support from numerous civic, business, labor and governmental organizations. Now under serious consideration, the Valley-Rainbow Interconnect transmission project has the support of the California Independent System Operator, which has determined that it needs to be built. If the Draft Study represents a serious statement of intent to support added infrastructure to achieve a balanced portfolio, then its sponsors need to demonstrate their resolve by supporting that development. Weak or partial support, or ambivalence, will likely result in energy shortages. Unified community support is needed to ensure that necessary infrastructure projects are successfully undertaken.
4. **Prudent Planning requires a Broad and Balanced Portfolio of New Supply and Infrastructure Based on Realistic Assessments:** The Draft Study correctly concludes that the energy future for San Diego will necessarily include new transmission, renewable energy supplies, distributed generation, new gas-fired combined cycle central station generating plants, energy efficiency, and demand-side management. However, SDG&E is concerned that the Draft Study is overly optimistic in its predictions about the amount of long-term development that can be achieved by local renewables, distributed generation, energy efficiency, and demand management. For example, SDG&E believes that there is considerable uncertainty about the cost effectiveness and ultimate customer acceptance of these resources. Fortunately, the resource plan that SDG&E has developed and filed with the California Public Utilities Commission is – and will remain in the future -- flexible enough to accommodate some variability in these assumptions. However, prudent planning requires that we not paint ourselves into a corner by foregoing needed infrastructure in the hope that uncertain resources will develop.
5. **Infrastructure Developers and Planners Were Excluded from Most of the Study’s Development:** The Draft Study expresses dismay at the inability to control regional planning better and stresses the need for a “comprehensive and timely” study. It says, “At the time

meaningful planning input – developers of generation, and gas and electric transmission and distribution providers, including SDG&E. Had the sponsors included these parties more broadly, instead of limiting their participation to simply providing data, some of the misconceptions could have been avoided. If the sponsors intend to take any further action, it should be far more inclusive. It is only by involving all key stakeholders to the fullest extent possible that a regional approach can successfully be undertaken to meet the region's infrastructure needs.

Planning and Support for Energy Efficiency is Already Occurring: The Draft Study implies that the state is disregarding energy efficiency and demand management. To the contrary, SDG&E has a long history of supporting energy efficiency programs, as described above. SDG&E plans to continue to offer these beneficial programs to our customers by remaining involved in all aspects of program development, support, and delivery, both on its own, and in coordination with other providers, including the REO. What is needed is the regulatory support to allow these programs to reach more consumers, something the REO can help foster through active support in the regulatory process.

6. **There is Fragmentation in State Infrastructure Approvals, but Another Governmental Agency is Not the Answer:**

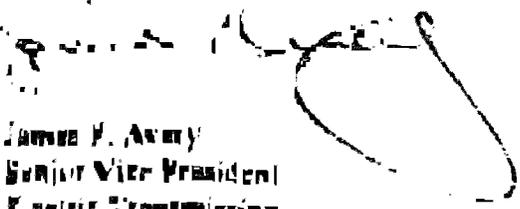
The Draft Study implies that the region is handicapped by a fragmented planning structure. There is fragmentation, not in planning, but in the approval process. For example, to complete the Valley-Rainbow Interconnect transmission project, SDG&E's proposal will require review and approval by at least three agencies. These overlapping processes have delayed approval of the project by more than three years. The Draft Study does not propose to fix this regulatory overload. Instead, it proposes yet another agency, with uncertain authority. Another governmental agency will not reduce the impediments caused by the fragmented approval process.

7. **Infrastructure Planning is Already Occurring:** The Draft Study states that little infrastructure planning is occurring and that SDG&E no longer performs that function. While activities surrounding deregulation may have given that impression, SDG&E has been and continues to plan and build gas and electric transmission and distribution. For example, in the last five years, SDG&E has added 400 MW of import capability to its transmission system. SDG&E has spent more than \$949 million on electric transmission and distribution infrastructure development during that period. The Valley-Rainbow Interconnect project also demonstrates that SDG&E continues to plan for the future needs of the area. Finally, under state law SDG&E must develop and carry out a plan to meet the energy needs of its service territory. SDG&E has already developed a detailed short-term resource plan for 2003. Based on its planning strategies, SDG&E entered into contracts for substantial renewable resources – enough to power more than 100,000 homes in 2003 and approximately 183,000 homes in 2004. Next year, SDG&E will develop its recommendations for a longer-term resource plan and accompanying policies, all of which will reflect the large allocation of long-term power from the State. These proposals will be brought forth in an open forum where there will be substantial opportunity for public input and comment at the CPUC.

SDG&E's review of the Draft Study found a number of specific statements that need to be reconsidered. Attached is a summary of the most significant of these.

SDG&E welcomes any further dialogue on existing or potential infrastructure and stands ready to work with any organization in the community, including the SJREC, that is interested in engaging in such discussions.

Sincerely,



James F. Army
Senior Vice President
Electric Transmission

JFA:m
Attachment

cc: David Boy, SJREC Chairman