

Date: January 25, 2006

File #:

To: ROY M. KUGA – VP, GAS & ELECTRIC SUPPLY
FONG WAN – VP, ENERGY PROCUREMENT

From: STEWART M. RAMSAY – VP, ASSET MANAGEMENT AND ELECTRIC TRANSMISSION

Subject: Electric Transmission In Support of PG&E's Procurement Activities



The purpose of this letter is to provide Electric Transmission's response to your December 19, 2005 letter. Your letter provides a number of suggestions for transmission expansion to improve access to cost-effective resources throughout the West and suggestions for limiting local capacity requirements within the PG&E service area.

Transmission Expansion:

The 2005 Expansion Plan, dated December 21, 2005, was issued to the CAISO and other stakeholders shortly after we received your letter. We believe that you will find that our plan, as filed with the ISO, identified several projects that should allay your concerns as well as those of other providers. This Expansion Plan proposes a number of projects for expanding the Electric transmission system to access resources in the near-term from within the PG&E service area as well as North and South of the service area. The plan also discusses a number of potential projects for accessing resources in the longer term. Additional details about these projects can be found at the page(s) of 2005 Expansion Plan referenced in parentheses in the discussion that follows.

Access to Southern California Resources

1. The 2005 Expansion Plan proposes two options for accessing up to 1,100 MW of Southern California resources. These options are the Midway-Gregg 500 kV line, which also provides added reliability benefits and generation dispatch flexibility to the Fresno area, and the Midway-Los Banos 500 kV line. Electric Transmission will be doing additional evaluations of these options. Because the Midway-Gregg 500 kV line provides additional benefits, additional studies will focus on this option first. The CAISO has been asked to approve the Midway-Gregg 500 kV line. (Refer to page 3-230)

Further resource development in Southern California would drive the need to extend 500 kV transmission line from Gregg or Los Banos to Tesla Substation. This extension would provide access to an additional 900 MW of Southern California resources. Electric Transmission is not currently seeking CAISO approval of this project but will do so when it appears additional

resource development or other factors indicate the timing is right. (Refer to page 4-1 through 4-3)

Access to Northern California or Northwest Resources

2. The Vaca Dixon – Contra Costa 230 kV Reinforcement Project increases electric transmission capacity for accessing between 200 and 300 MW of additional power from potential resources located in the vicinity of and north of Vaca Dixon Substation into the San Francisco Bay Area and south of the Bay Area. This project involves reconductoring the Vaca Dixon - Lambie (approximately 16 miles) and Vaca Dixon – Peabody (approximately 6 miles) sections of the Vaca Dixon – Contra Costa 230 kV lines with 1113 SSAC conductors or larger. If necessary, associated line terminal equipment would be upgraded to accommodate the higher ratings. A companion project (Contra Costa 230 kV Reconductoring Plan), which would reductor the Lambie – Contra Costa and Peabody – Contra Costa 230 kV lines with 1113 SSAC conductors or larger has also been identified in the 2005 Expansion Plan. The CAISO has been asked to approve these projects (Refer to Page 3-219 and Page 3-203.)
3. The Cottonwood – Vaca Dixon 230 kV Reinforcement Project increases electric transmission capacity for accessing between 300 and 400 MW of additional power from potential resources located in the vicinity of and north of Cottonwood Substation. This project involves installing 230 kV series capacitors on the four 230 kV lines between Cottonwood and Vaca Dixon substations. The CAISO has been asked to approve this project. (Refer to Page 3-223.)
4. The Vaca Dixon – Sobrante – Moraga 230 kV Reinforcement Project increases electric transmission capacity for accessing additional potential resources between Round Mountain, Cottonwood and Vaca Dixon substations for delivery to the San Francisco Bay Area. The scope of this project is driven by the amount of resource development in this area after the reductoring of the Vaca Dixon – Lambie – Contra Costa and Vaca Dixon – Peabody – Contra Costa 230 kV lines is complete (Item 2). The project could involve reductoring the Vaca Dixon – Moraga 230 kV No's. 1 and 2 lines, and installing a switching station (with 8 line terminations) to connect the Vaca Dixon – Moraga 230 kV No's. 1 and 2 lines and Lakeville – Sobrante 230 kV No's. 1 and 2 lines. The CAISO has been asked to approve this project. (Refer to Page 3-225.)
5. The Table Mountain – Vaca Dixon 230 kV Reinforcement increases electric transmission capacity for accessing additional potential resources north of Table Mountain Substation for delivery to the San Francisco Bay Area. The scope of the project is driven by the amount and location of resource development in the north of Table Mountain area after the completion of the Cottonwood – Vaca Dixon 230 kV Reinforcement Project (Item 3). If resource development occurs in the Table Mountain area, the project could involve reductoring existing 230 kV lines or constructing new 230 kV lines between Table Mountain and Vaca Dixon substations. If resource development occurs in the Round Mountain – Cottonwood area, the project

5 (continued)

could involve looping the Pit 1 - Cottonwood 230 kV Line into Round Mountain Substation and reconductoring the four 230kV lines between Cottonwood and Vaca Dixon substations, or building a new Round Mountain – Cottonwood – Vaca Dixon 230 kV line. The CAISO has been asked to approve this project. (Refer to Page 3-228.)

6. Electric Transmission is conducting an analysis of the possible development of an undersea electric transmission line that would enhance power supplies in northern California by connecting the region with sources of low-cost and renewable electricity in the Pacific Northwest. (Refer to Page 4-9.)

Electric Transmission is also active in the Northwest Transmission Assessment Committee (NTAC) examining additional alternatives to increasing transmission system capability into California to accommodate potential generation development in the Northwest.

Electric Transmission plans to proceed with the additional studies and development of the projects described above and will provide status reports at CAISO stakeholder meetings throughout 2006. We encourage your continued participation in these meetings.

In addition under AB 970 (Docket I.00-11-001), Electric Transmission files a brief monthly status report on transmission projects it is implementing within the PG&E service area with the CPUC. Projects related to accessing resources are included in that filing, which is a public document, served on parties in this docket, and is available at the CPUC docket office.

Local Capacity Requirements

As indicated in your letter, the level of local capacity requirements proposed by the CAISO is indeed greater than the RMR requirements. We are working with the CAISO to reduce the Local Capacity Requirements by using operating procedures. In addition, Electric Transmission has proposed several projects aimed at reducing RMR and identified congestion. Detailed information regarding projects for Local Capacity Requirement will be made public via the CAISO Stakeholder process or CPUC AB 970 reporting.

Please contact Chifong Thomas (CLT7) and Ben Morris (BEM8) with a copy to Alice Reid (ALR4) if you need further detail about our response.

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Cc:

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