

Allowing rolling in of interconnection and upgrade costs associated with new supply, rather than directly assigning such costs to the generator.

Use of the interconnection authority contained in section 210(d) of the Federal Power Act to help alleviate impediments to electric supply reaching load.

Waiving the blanket certificate regulations to increase the dollar limitations for natural gas facilities under automatic authorization to \$10 million and for prior notice authorizations to \$30 million.

Offering blanket certificates for construction or acquisition and operation of portable compressor stations to enhance pipeline capacity to California.

Offering rate incentives to expedite construction of projects that will make additional capacity available this summer on constrained pipeline systems.

Allowing for greater operating flexibility at licensed hydroelectric projects to increase generation while protecting environmental resources.

## I. Electric Generation and Transmission

The problems that California and the West have been experiencing with regard to electricity supply/demand imbalances and high market prices result from transmission constraints, generation inadequacy, and inadequate demand-side response. The actions described in this section address those factors.

### A. Electric Transmission Infrastructure

Our December 15 Order on California electricity issues<sup>3</sup> implemented several immediate measures designed to stabilize the California markets. The elimination of the requirement that the investor-owned utilities (IOUs) sell all of their resources into and buy all of their requirements from the California Power Exchange (Cal PX) allowed the IOU's to use their 25,000 MW of generation to serve their load without buying it at spot

prices. This, in conjunction with the elimination of the Cal PX's single price auction at bids above \$150, terminating the Cal PX's rate schedule entirely as of May 1, 2001, and

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<sup>3</sup>San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,294 (2000), reh'g pending.

implementing a 5% bandwidth for scheduling error in the Cal ISO's real time market was intended to provide immediate help.<sup>4</sup> Nevertheless, the crisis in California's electricity power supply system continues.<sup>5</sup> Stage 3 System Emergencies (declared when operating reserves are below 1.5 percent) have become the order of the day and the threat of rolling blackouts is fast becoming routine. While our December 15 Order eliminated the chronic over-reliance on spot markets to meet the electric needs of 32 million Californians, we are now faced with the hard work of building up the infrastructure of the Western grid.

Our November 1 Order on California electricity matters<sup>6</sup> discussed at considerable length many long term measures which need to be implemented with speed and deliberation in order to restore safe, reliable and economical power to the consumers in the West. As a complement to the vital initiative of increasing generation supply, we focus today on where we believe this Commission can have the greatest impact -- fostering the installation of critical transmission investment.<sup>7</sup> There is little doubt that the supply shortage is real and that we must take bold action. Interconnecting new supply to the bulk power system, upgrading that system to ensure that the new supply can reach load reliably, and eliminating bottlenecks which prevent maximum utilization of existing supply must be accomplished efficiently and expeditiously. With this in mind, we propose herein a package of economic incentives aimed at ensuring the timely completion of upgrades to the Western grid needed to better use existing supply and to accommodate new supply. We also propose that these incentives be implemented by way of a limited Section 205 filing which would not open up existing rates to review.

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<sup>4</sup>See San Diego Gas & Electric Company, et al., 94 FERC ¶ 61,085 (2001) (Commission found that Cal PX was violating the December 15 Order, and if unremedied, would cost consumers substantial amounts of money and exacerbate the dysfunctions in the market).

<sup>5</sup>Moreover, other Western states, particularly those in the Pacific Northwest, are also projected to have supply problems this summer, depending on rainfall and summer temperatures.

<sup>6</sup>San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,121 (2000), reh'g pending.

<sup>7</sup>Of course, we expect transmission providers to make maximum use of existing facilities. We remind transmission providers of their obligation to keep their Available Transmission Capacity (ATC) figures current, including updating Capacity Benefit Margin and Transmission Reliability Margin. Accurate ATC is crucial to facilitating power sale transactions that can relieve stresses on electric systems.

First, some grid enhancements may be underway or may not require initial siting and acquisition of rights of way, such as reconfiguring or reconductoring existing lines or using existing towers for additional circuits. These types of projects offer the greatest potential for improving grid capacity at present constraints in the shortest period of time. We direct the Cal ISO and the transmission owners in the WSCC to prepare and file, for informational purposes, a list of such projects within 30 days of the date of this order. The filing should clearly describe each project, its impact on grid capability at present constraints, the status of state certification if necessary, its cost and a definite completion date.

In order to provide incentives for the construction of such projects at the earliest date possible, we propose to give transmission owners of projects that increase transmission capacity at present constraints and can be in service by July 1, 2001, a cost-based rate reflecting a 300 basis point premium on equity and a 10-year depreciable life. Those that can be in service by November 1, 2001 will receive a cost-based rate reflecting a 200 basis point premium and a 10-year depreciable life. In order for our incentives to have their desired effect as quickly as possible, transmission owners must be given certainty at the outset. Therefore, we propose that, in implementing the equity premium, we would use a uniform baseline cost of equity for all jurisdictional transmission providers in the WSCC of 11.5%. This figure is in line with the most recent allowance we have approved for a western utility.<sup>8</sup> Accordingly, we propose that projects which qualify for a 300 basis point premium would be afforded a return on equity of 14.5%.

Second, for system upgrades that involve new rights of way, add significant transfer capability and can be in service by November 1, 2002, we propose to permit transmission owners a cost-based rate reflecting a return on equity of 12.5% (a 100 basis point premium) and a 15-year depreciable life.

Third, we propose that facilities needed to interconnect new supply to the grid which go in service as required to accommodate the in-service date of the new entrant will also be afforded a cost-based rate which reflects a return on equity of 13.5% (a 200 basis point premium) if in service by November 1, 2001 and 12.5% (a 100 basis point premium) if in service by November 1, 2002.

Fourth, to the extent that transmission owners can increase transmission capacity on constrained interfaces without capital intensive expenditures by, for example, installing new technology on existing facilities to better control voltage and power flow

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<sup>8</sup>See Southern California Edison Company, Opinion No. 445, 92 FERC ¶ 61,070 (2000).

or by implementing new operating procedures, we propose to allow them to increase the revenue requirement of their network service rates to ensure that each additional MW of capacity will generate revenues equal to the provider's current firm point-to-point rate.

In an effort to provide the incentives to promote needed infrastructure without economically disadvantaging new supply, we request comment on whether to assign the cost of any interconnection or system upgrade to a particular load or supply or, alternatively, to roll these costs into the average system rate. We recognize that it has been our policy to allow the cost of interconnection and the cost of certain incremental system upgrades to be borne by those loads or supplies on the margin. However, the entire Western Interconnection is in a state of stress and there may soon be no power available at any price. In these circumstances, it is imperative that our pricing policies minimize the cost of entry upon individual entrants.

#### B. Extension of Waivers for Qualifying Facilities

In an order issued December 8, 2000,<sup>9</sup> the Commission granted certain temporary waivers of operating and efficiency standards for Qualifying Facilities (QFs) to allow increased generation. The temporary waivers were to expire January 1, 2001, but were subsequently extended through April 30, 2001.<sup>10</sup> Because of the capacity shortages in California and other areas in the West now and in the foreseeable future, we find good cause to extend those temporary waivers through December 31, 2001 and apply them to the entire WSCC.<sup>11</sup>

In the December 8 Order, we stated that section 292.205(c) of the Commission's regulations allows the Commission to waive any of its operating and efficiency standards for qualifying cogeneration facilities "upon a showing that the facility will produce significant energy savings."<sup>12</sup> We find that the same factors of serious supply and demand

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<sup>9</sup>San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,238 (2000)(December 8 Order).

<sup>10</sup>San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,294 (2000).

<sup>11</sup>In a letter to the Chairman of the Commission dated February 8, 2001, Governor Gray Davis of California requested that these waivers be extended until October 15, 2001, and the Secretary of Energy endorsed this request in a letter to the Chairman dated March 5, 2001.

<sup>12</sup>18 C.F.R. §292.205(c) (2000); see also 16 U.S.C. §825h (1994) (general