

50-275-323

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PACIFIC GAS AND ELECTRIC COMPANY

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

In re

PACIFIC GAS AND ELECTRIC
COMPANY, a California corporation,

Debtor.

Federal I.D. No. 94-0742640

No. 01 30923 DM

Chapter 11 Case

Date: February 8, 2002
Time: 2:30 p.m.
Place: 235 Pine St., 22nd Floor
San Francisco, California
Judge: Hon. Dennis Montali

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DECLARATION OF KEVIN DASSO IN SUPPORT OF DEBTOR'S
MOTION FOR ORDER APPROVING EXPENDITURE OF FUNDS TO UPGRADE
SUBSTATIONS AND, IF NECESSARY, RECONDUCTOR A 230 KV TRANSMISSION
LINE TO SUPPORT THE LOS BANOS-GATES 500 KV TRANSMISSION PROJECT
[PATH 15 PROJECT]

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1 I, Kevin Dasso, declare as follows:

2 1. I am the Director of the Pacific Gas and Electric Company ("PG&E")
3 Electric Transmission and Distribution Engineering Department, a position I have held since
4 November 1999. I make this Declaration based upon my personal knowledge of the Los
5 Banos-Gates 500 kV transmission project, also known as the Path 15 Upgrade Project, and
6 upon my review of PG&E's records concerning the matters stated herein. If called as a
7 witness, I could and would testify competently to the facts stated herein.

8 2. PG&E is seeking an order authorizing PG&E to enter into binding
9 agreements to expend funds to perform work necessary to support the Path 15 Upgrade
10 Project. If approved, PG&E would commit to design and build 500 kV and 230 kV
11 substation equipment, and, if needed, to reconductor 230 kV transmission lines, to
12 accommodate a new 500 kilovolt ("kV") transmission line to be constructed by the Western
13 Area Power Administration ("WAPA") on Path 15. PG&E estimates that the costs of its
14 work to support the Path 15 Upgrade Project, including previously incurred engineering and
15 permitting costs, will not exceed \$75 million.

16 3. Path 15 is a series of high-capacity transmission lines that connect
17 customers in Northern and Southern California and also forms part of the Pacific AC Intertie
18 linking the Pacific Northwest and Oregon to Southern California. The Path 15 Upgrade
19 Project will increase the south-to-north rating of Path 15 by approximately 1500 megawatts
20 ("MW") through the addition of a new 500 kV line between PG&E's Los Banos and Gates
21 substations. WAPA will construct the 500 kV line portion of the Path 15 Upgrade Project
22 with funding from project participants other than PG&E. The purpose of the Path 15
23 Upgrade Project is to decrease congestion on Path 15 and to further integrate generating
24 plants within the ISO-controlled grid. The scheduled operating date of the Path 15 Upgrade
25 Project is October 2004.

26 4. In order to interconnect and otherwise support the Path 15 Upgrade Project,
27 PG&E would design and construct the following facilities: 500 kV terminal equipment at
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1 Los Banos and Gates for the proposed Los Banos-Gates 500 kV transmission line;
2 reconfiguration of the Gates 500 kV bus from a ring-bus to a breaker-and-a-half
3 arrangement; install 250 MVAR of 230 kV shunt capacitors at both Los Banos and Gates
4 substations to provide necessary voltage support; and reconductor the Gates-Midway 230 kV
5 transmission line or provide the necessary capability by re-rating the transmission lines. The
6 construction of the Project is contingent upon the Path 15 Upgrade Project-enabling
7 agreements being developed and executed.

8 5. Following congestion on Path 15 during various periods in 2000 and before
9 PG&E's Chapter 11 filing, the California Public Utilities Commission ("CPUC") ordered
10 PG&E to submit an application for a Certificate of Public Necessity and Convenience (a
11 "CPCN") to construct the Path 15 Upgrade Project. PG&E submitted a Conditional
12 Application to the CPUC on April 13, 2001 pursuant to the CPUC order and applicable
13 provisions of the California Public Utilities Code. While that CPCN application was
14 pending, the United States Department of Energy directed WAPA to solicit expressions of
15 interest in constructing the Path 15 Upgrade Project, and WAPA did so through a Federal
16 Register Notice. On October 16, 2001, PG&E, WAPA and other participants executed a
17 non-binding Memorandum of Understanding ("MOU") regarding construction of the Path 15
18 Upgrade Project. WAPA, PG&E and the other participants are now in the process of
19 negotiating binding agreements regarding construction of the Path 15 Upgrade Project.
20 Attached hereto as Exhibit A is a true and correct copy of the MOU.

21 6. On November 6, 2001, in light of the MOU, PG&E filed a "Notice of
22 Withdrawal" of its Conditional Application. In an order dated November 30, 2001 (the
23 "CPUC Order"), the CPUC treated PG&E's notice as a motion for permission to withdraw
24 the conditional application, denied it, and consolidated the conditional application with the
25 CPUC's investigation, pursuant to California Assembly Bill 970, of electric transmission
26 and distribution constraints, actions to resolve those constraints, and related matters affecting
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1 the reliability of electric supply.¹ The CPUC's Administrative Law Judge has scheduled
2 hearings on the economic benefit of the Path 15 Upgrade Project, required submission of the
3 MOU implementation agreements to be followed by hearings thereon, and briefing on
4 whether a CPCN is required for PG&E's participation in the project.

5 7. Because the WAPA-sponsored Path 15 Upgrade Project will increase the
6 Path 15 electric transmission capacity to the same extent as contemplated in PG&E's
7 Conditional Application, allow PG&E to obtain a share of such capacity commensurate with
8 its costs incurred for the benefit of the Path 15 Upgrade Project, and require PG&E to incur
9 costs estimated at or less than \$75 million, rather than spend the estimated \$325 million it
10 will cost to construct the entire Path 15 Upgrade Project, PG&E intends to participate in the
11 Path 15 Upgrade Project through its contemplated work in support of the WAPA-sponsored
12 project rather than pursuing its Conditional Application to construct the entire project alone.

13 8. Path 15 is a transmission system segment located in the southern portion of
14 the PG&E service area and in the middle of the Independent System Operator ("ISO")
15 controlled grid. Path 15 consists of the following lines: Los Banos-Gates 500 kV; Los
16 Banos-Midway 500 kV; Gates-Panoche #1 230 kV; Gates-Panoche #2 230 kV; Gates-Gregg
17 230 kV; and Gates-McCall 230 kV. These facilities are used to meet transmission capacity
18 requirements of various parties in the Northwest, Northern California and Southern
19 California, and for integrating generating plants within the ISO-controlled grid.

20 9. Path 15 is currently constrained to a lower south-to-north transfer limit than
21 the rest of the 500 kV system in Northern California because there are just two 500 kV lines
22 in this area. Because the two 500 kV lines are located in a common corridor, the Western
23 Systems Coordinating Council ("WSCC") transmission reliability criteria require that the
24 system be operated to withstand their simultaneous loss ("Los Banos South double-line
25 outage"). Under these criteria, the present maximum south-to-north transfer limit is
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27 ¹See CPUC Investigation No. 00-11-001. A true and correct copy of the CPUC Order
28 is attached hereto as Exhibit B.

1 3,950 MW. This limit is based on the availability of special automatic and manual operating
2 procedures that would be initiated immediately after any Los Banos South double line
3 outage.

4 10. The ISO has found in recent years that Path 15 congestion has resulted in
5 higher generating costs to Northern California consumers mainly during off-peak periods.
6 During such periods, the ISO has found that it has been necessary to operate higher-cost
7 generation in Northern California, to import higher-cost power from the Northwest, or to
8 reroute lower-cost power from Southern California onto the Pacific DC Intertie to meet
9 demand in Northern California. The ISO has found that access to additional lower-cost
10 generating resources in the south has been limited due to the Path 15 transfer limits.

11 11. Due to limited generation availability in Northern California during the
12 latter part of 2000, congestion on Path 15 began to occur much more frequently. The
13 problem escalated further in January 2001 as a shortage of generation in Northern California
14 led to rotating outages north of Path 15. While the ISO concluded that there were additional
15 generating reserves in Southern California, the ISO found that constraints on Path 15
16 prevented full access to this generation. The ISO further found that Path 15 constraints,
17 combined with generation shortages, could again contribute to rotating outages in Northern
18 California.

19 12. Even before the rotating outages occurred, PG&E and the ISO began
20 analysis of Path 15, with the objective of identifying alternatives to reduce off-peak
21 generation costs. Subsequent analyses conducted by the ISO and published in January 2001
22 following the outages described in paragraph 11 above indicated that: (a) Path 15
23 congestion resulted in increased market costs ranging from \$7 million to \$220 million over
24 the 16-month period ending December 31, 2000 (depending on how the market would have
25 responded had the Path 15 upgrade been in-service); and (b) Path 15 constraints could
26 contribute to future rotating outages. The ISO analyses were not conclusive on project need
27 but provided sufficient support to begin the work necessary to undertake the permitting
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1 process.

2 13. Subject to PG&E management's approval, PG&E requested ISO approval
3 to conduct preliminary engineering and project siting work necessary to pursue the permits
4 for the construction of a new Los Banos-Gates 500 kV project. The ISO approved PG&E's
5 request to proceed with the permitting process on February 5, 2001. Additionally, before
6 applying for the necessary permits, PG&E and the ISO agreed to perform additional analyses
7 to ascertain project need under future generation build-out scenarios.

8 14. On March 29, 2001, the CPUC ordered PG&E to submit an application for
9 a CPCN to construct the Path 15 Upgrade Project. In accordance with the CPUC order,
10 PG&E filed Conditional Application, No. 01-04-012 (the "Conditional Application") for a
11 CPCN for the Conditional Application Project on April 13, 2001. PG&E's application was
12 conditioned upon the following: (1) a PG&E and ISO determination that the Project is
13 needed and cost effective; (2) PG&E management approval; and (3) this Court's approval of
14 the expenditure of funds to construct the Path 15 Upgrade Project.

15 15. PG&E and the ISO submitted opening testimony in the CPCN proceeding
16 on September 25, 2001 regarding the conditional application. PG&E's testimony presented,
17 among other things, two service alternatives considered for upgrading Path 15, the estimated
18 cost of those alternatives, possible routes for the new line, and the estimated cost of those
19 route alternatives. PG&E estimated that it will cost approximately \$325 million to construct
20 the Path 15 Upgrade Project. The ISO's testimony addressed the economic need for the Path
21 15 Upgrade Project, and concluded that the Project is cost-justified. The Office of Ratepayer
22 Advocates ("ORA") submitted opposing testimony and the ISO submitted rebuttal
23 testimony. No CPUC administrative hearings were or have been held on the Path 15
24 Upgrade Project.

25 16. While PG&E's Conditional Application was pending before the CPUC, the
26 United States Department of Energy and WAPA solicited interest in a public-private
27 partnership to construct the Path 15 Upgrade Project. Following execution of the MOU
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1 regarding the WAPA-sponsored Path 15 Upgrade Project, PG&E withdrew its Conditional
2 Application on November 6, 2001 and its opening testimony on November 13, 2001.
3 Although the CPUC declined to allow PG&E to withdraw its Conditional Application, it
4 dropped scheduled hearings on the PG&E-sponsored Path 15 Upgrade Project and
5 consolidated the Conditional Application proceeding with the CPUC's ongoing investigation
6 pursuant to California Assembly Bill 970 of electric transmission and distribution
7 constraints. Thereafter, the CPUC's Administrative Law Judge set hearings in late February
8 2002 to consider the economic need for the Path 15 Upgrade Project, required PG&E to
9 submit the MOU implementation agreements, and scheduled briefing on the ORA's claim
10 that PG&E needed a CPCN to perform its contemplated portion of the WAPA-sponsored
11 Path 15 Upgrade Project. Although the ORA asserts that PG&E must have a CPCN to
12 participate in the Path 15 Upgrade Project, PG&E believes that, based on unambiguous
13 language in General Order 131-D, it does not need a CPCN to perform the work that it
14 would commit to perform in support of the Path 15 Upgrade Project.

15 17. In May 2001, the United States Secretary of Energy, prompted by a
16 Presidential directive incorporated in the National Energy Policy report, directed WAPA to
17 complete planning for an upgrade to Path 15 and to solicit financing and ownership interest
18 in the project.

19 18. In June 2001, WAPA posted a notice in the Federal Register to solicit
20 financing and ownership interest in a project to upgrade Path 15 based on PG&E's proposed
21 Path 15 Upgrade Project set forth in its Conditional Application. Following its solicitation,
22 WAPA met with a number of public and private entities to discuss the possibility of
23 constructing the Path 15 Upgrade Project.

24 19. On October 16, 2001, PG&E, WAPA and other Path 15 Upgrade Project
25 participants executed the MOU. The MOU outlines, on a preliminary basis, the
26 responsibilities, financial contributions, ownership rights and operational details of the
27 Project and requires the parties to agree on an aggressive schedule to "define the Project and
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1 the work to be done at each facility" by January 16, 2002. The MOU contemplates that the
2 increased transmission capacity arising from the Path 15 Upgrade Project will be shared
3 among the public and private entities commensurate with each entity's contributions to the
4 Path 15 Upgrade Project. PG&E's proposed contributions would include: (1) environmental
5 and engineering studies and design work performed to date; and (2) detailed design and
6 construction work for the 500 kV and 230 kV substation and 230 kV reconductoring work
7 necessary to accommodate the additional 500 kV transmission lines to be constructed by
8 WAPA, which PG&E believes will be consistent with PG&E's Plan of Service Alternative 2
9 outlined in its since-withdrawn opening testimony submitted in the CPUC Conditional
10 Application proceeding. The total cost for this work is estimated not to exceed \$75 million,
11 including the more costly option of reconductoring the Gates-Midway 230 kV transmission
12 line and \$9.5 million previously approved by the Board of Directors on May 8, 2001 for
13 environmental, engineering and permitting work related to a Path 15 upgrade project. Based
14 on the ratio of PG&E's contribution to the anticipated total project cost (\$325 million,
15 although certain aspects of the project may change under WAPA-sponsorship), PG&E
16 would be allocated about 345 MW of the 1500 MW incremental transfer capability.

17 20. If this Court grants PG&E the authority to expend funds to construct the
18 Project, PG&E expects to include the cost of its work to support the Path 15 Upgrade Project
19 in PG&E's base utility revenue requirements and seek authorization by the Federal Energy
20 Regulatory Commission ("FERC") to earn a rate of return on such costs.

21 21. PG&E, along with the other Path 15 Upgrade Project participants, was
22 advised by FERC staff that the Path 15 Upgrade Project may be eligible for pre-construction
23 approval, accelerated depreciation, and a 200 basis points premium on return on equity.
24 PG&E's contribution of \$75 million to the Path 15 Upgrade Project translates to an increase
25 in PG&E's present value of revenue requirement of \$95 million based on standard
26 depreciation and return on equity.

27 22. On November 27, 2001, PG&E's Management Committee proposed that
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1 the Board of Directors authorize a capital expenditure of \$75 million for the work to support
2 the Path 15 Upgrade Project. On December 19, 2001, PG&E's Board of Directors approved
3 an appropriation of \$75 million to fund the Project.

4 23. Based on preliminary design estimates prepared for the Conditional
5 Application Project, Alternative 2, Western Corridor Route, and including previously-
6 incurred engineering and permitting costs, PG&E estimates that its work to support the
7 WAPA-sponsored Path 15 Upgrade Project will cost approximately \$75 million, with \$4
8 million to be included in PG&E's 2002 budget and the balance presently anticipated to be
9 incurred in the next few years consistent with the Path 15 Upgrade Project's current targeted
10 completion date in 2004.

11 24. There is no CPUC order directing PG&E to construct the entire Path 15
12 Upgrade Project, forbidding PG&E from participating in the WAPA-sponsored Path 15
13 Upgrade Project through performance of the contemplated work, or requiring PG&E to
14 obtain a CPCN to perform the work contemplated by the MOU.

15 I declare under penalty of perjury under the laws of the United States of America
16 that the foregoing is true and correct. Executed this 24th day of January 2002, at San
17 Francisco, California.

18
19 
20 Kevin Dasso

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Exhibits are not attached to the service copies of this document. You may obtain copies of the Exhibits in one of the following ways: through the "Pacific Gas & Electric Company Chapter 11 Case" link accessible through the Bankruptcy Court's website (www.canb.uscourts.gov), or by written request to Howard, Rice, Nemerovski, Canady, Falk & Rabkin, Attn: Racquel Lopez, Three Embarcadero Center, 7th Floor, San Francisco, California 94111-4065