STATE OF CALIFORNIA EDMUND G. BROWN JR. *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

VIA ELECTRONIC MAIL

February 9, 2011

Jeanine Townsend, Clerk of the Board
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100
commentletters@waterboards.ca.gov

Re: CEQA Lead Agency for LEAPS and the TE/VS Interconnect

Dear Members of the Board:

This letter updates the State Water Resources Control Board (State Board) on recent developments before the California Public Utilities Commission relating to the LEAPS Project and the TE/VS Interconnect.

On July 6, 2010, the Commission accepted TNHC's application for a certificate of public convenience and necessity (CPCN) for the construction and operation of the TE/VS Interconnect, and on August 5, 2010, Commission staff determined that the TNHC's CPCN application and environmental assessment are complete for CEQA purposes. On October 12, 2010, the California Office of Planning and Research (OPR) designated the Commission as lead agency for the LEAPS Project for CEQA purposes.[1] Commission staff and its consultants will prepare an Environmental Impact Report (EIR) addressing both the LEAPS Project and the TE/VS Interconnect.

Commission staff looks forward to working with the State Board to make certain that the State Board's issues and needs are met in order for the State Board to issue its 401 Certification for the project. Please also see the attached "Status of TE/VS (LEAPS) project" email sent to Mr. Russ Kanz on February 3, 2011. If you have any questions or would like to discuss further, please do not hesitate to contact me.

Sincerely,

Nicholas Sher
Attorney for the
California Public Utilities Commission
415-703-4232

NMS:jmc

[1] *See* Letter from Cathleen Cox to Ronald Young (October 12, 2010).

444001

Lake Elsinore Advanced Pump Storage (LEAPS) and Talega-Escondido / Valley-Serrano 500 kW Interconnect

FERC PN-11858 – ER06-278 – ER08-654

July, 2010

THE NEVADA HYDRO COMPANY, INC.

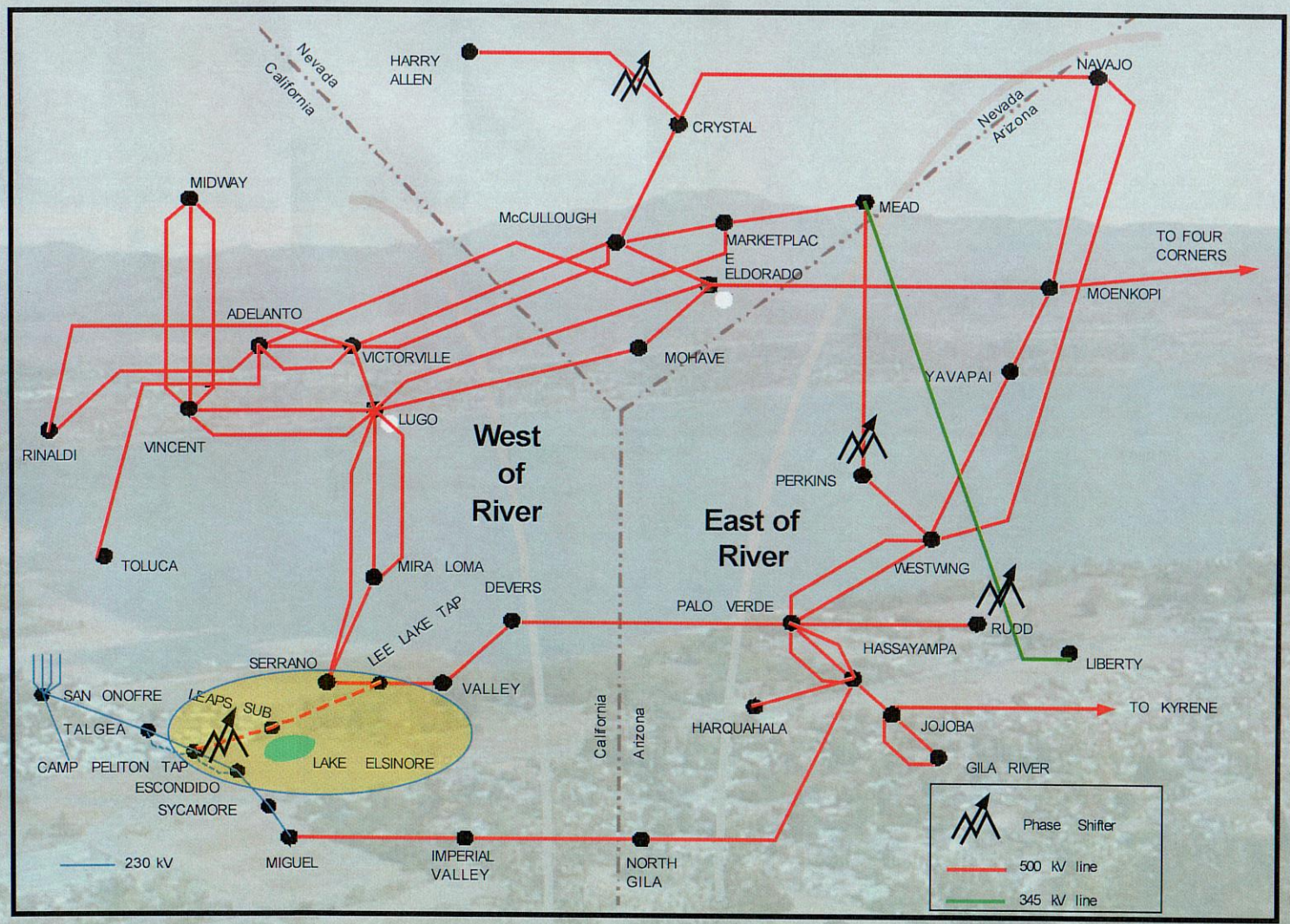
2 Parts to the Project

- 500 MW Lake Elsinore Advanced Pumped Storage (**LEAPS**) Project
- 32 mile Talega-Escondido / Valley-Serrano (**TE/VS Interconnect**) 500 kW Transmission Line

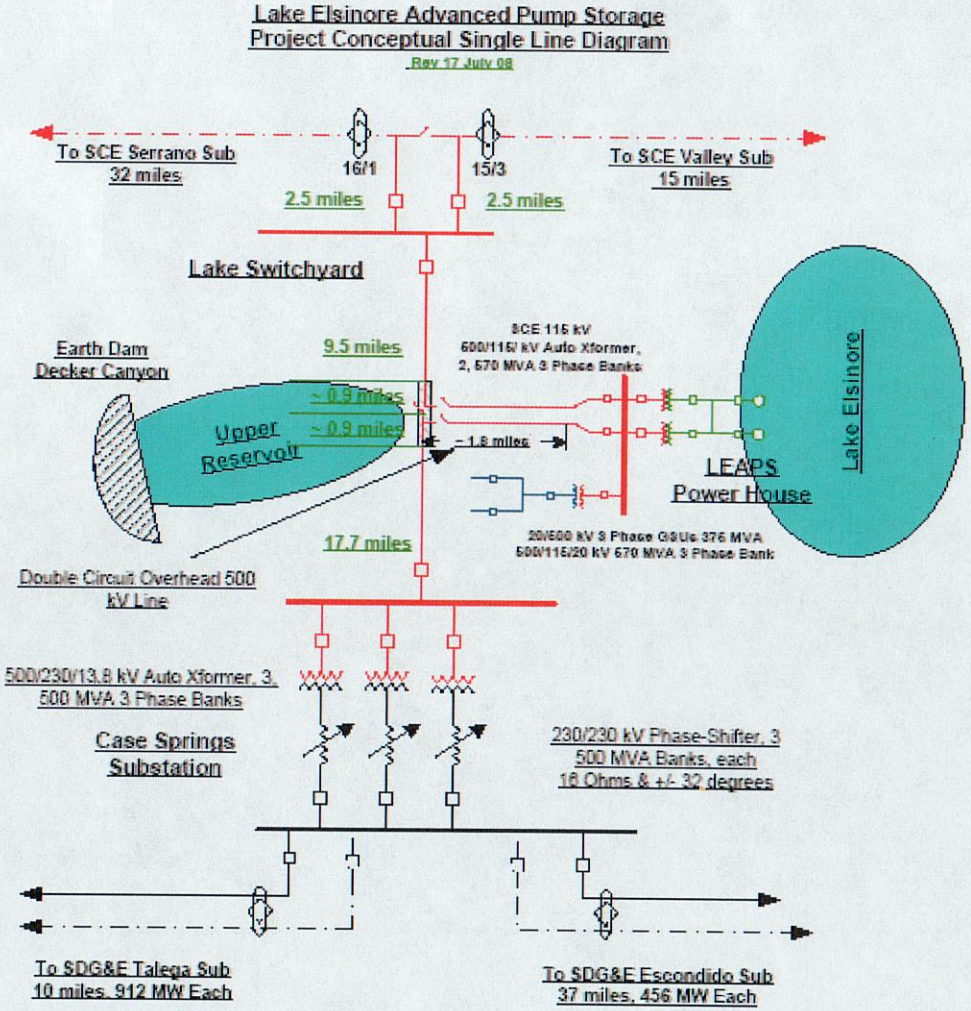
Project Location

THE NEVADA HYDRO COMPANY, INC.

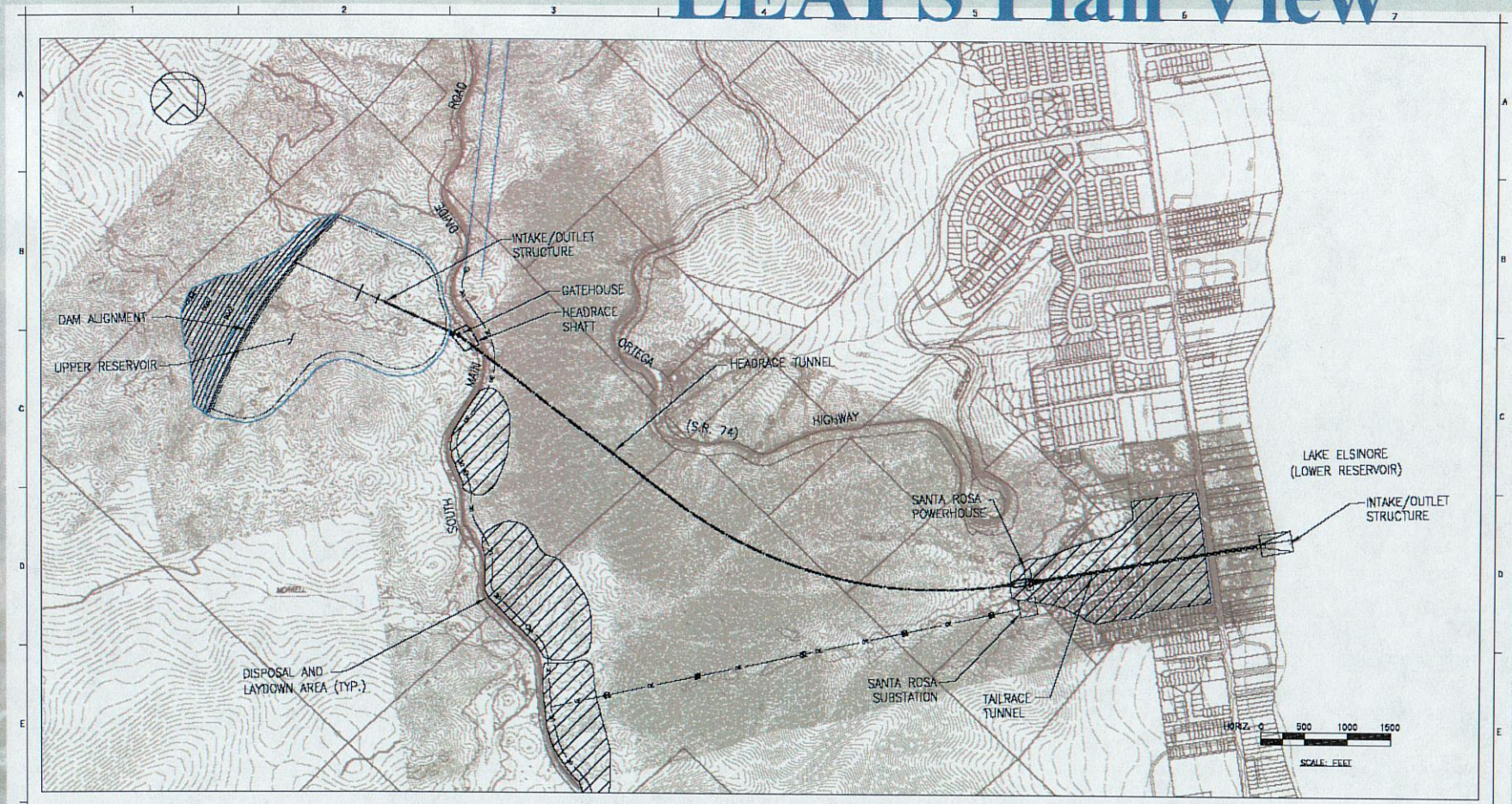
System Map and Connection



Project One-Line



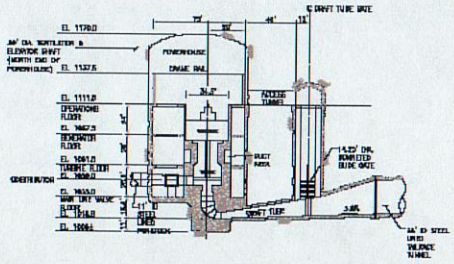
LEAPS Plan View



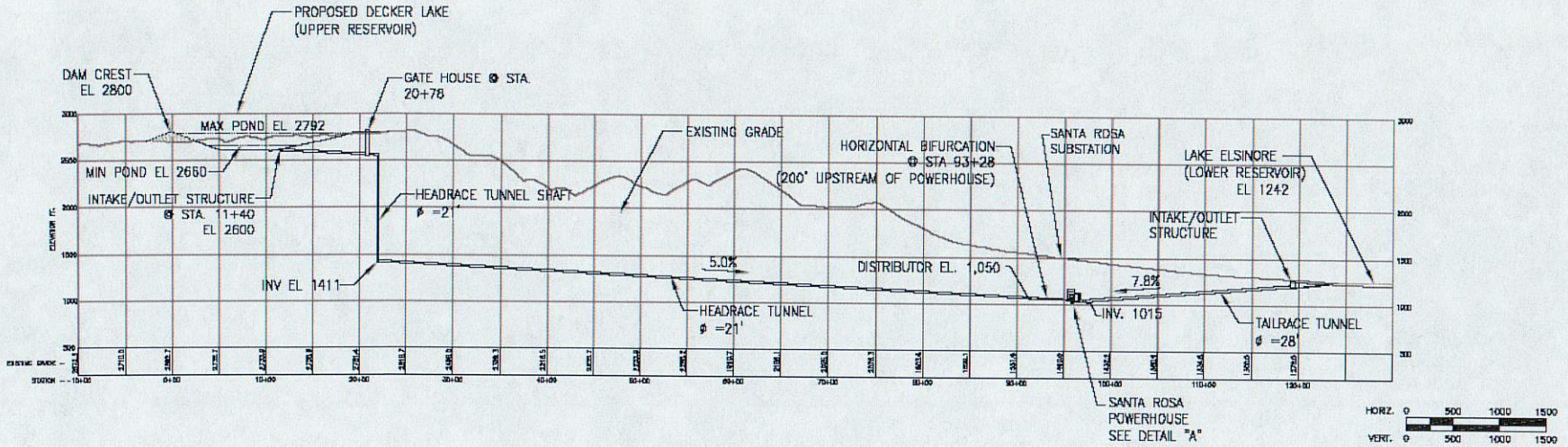
THE HYDRO COMPANY, INC.
DBA THE NEVADA HYDRO COMPANY, INC.

THE NEVADA HYDRO CO., INC.
LAKE ELSINORE ADVANCED PUMP STORAGE (LEAPS) PROJECT
PUMP STORAGE COMPONENTS PLAN
SCALE: AS SHOWN
DRAWING NO. 1
REV. A

LEAPS Conceptual Elevation



POWER HOUSE DETAIL "A"



THE HYDRO COMPANY, INC.
DBA THE NEVADA HYDRO COMPANY, INC.

THE NEVADA HYDRO CO., INC.

LAKE ELSINORE ADVANCED PUMP STORAGE
(LEAPS) PROJECT
PUMP STORAGE COMPONENTS
PROFILE

SCALE: AS SHOWN
DRAWING NO. 2
REV. A

Easy LEAPS Performance Facts

- 82% wire–to–wire efficiency for electricity storage.
- Pump for 1 hour (@ 600 MW) allows generation for 1 hour (@ 500 MW).
- Daily maximums:
  - Generation: 10-11 hours at 500 MW
  - Storage: 113-14 hours at 600 MW
  - Nominal Storage: 6,000 MW Hours
- Fully dispatchable in 15 seconds.
- Can operate for up to 18 continuous hours in emergency.
- Lake will fluctuate ± 6 inches to a maximum 18 inches.

Turbine – LEAPS Comparison

	Peaker	Combined Cycle	LEAPS
Air Quality Issues	NOx, CO, VOC, PM10 Offsets	NOx, CO, VOC, PM10 Offsets	No Offsets required
Dispatchability	10 – 60 minutes	1 – 4 hours	15 Seconds
Black Start	10 – 30 minutes	No	15 Seconds
Dispatchable Capacity	Can produce either energy or capacity	Dispatchable capacity limited between 70-100% full load	Dispatchable capacity from 1-100% of full load
Regulation	No	Yes; limited to 5 MW/min.	Yes; up to 500 MW/min.
Spinning Reserve	No	Yes; limited to 5 MW/min.	Yes; up to 500 MW/min.
Voltage Support	Yes; but typically not used for voltage support	Yes	Yes. When pumping and generating
Comparable Heat Rate	Appx. 10,000 – 12,000	7,000	Appx. 18% more efficient than lowest off–peak rate
Alternative Fuels or Renewables	No	No	Yes; can source pumping energy from renewables
Mitigation of Overgeneration Conditions	No	No	Yes; up to 600 MW of pumping load during off peak periods

Grid Benefits

- Store off peak to sell on peak (renewables management).
- Dispatchable in 15 seconds (with units spinning).
- Black start in 10 minutes.
- Full range of ancillary services.
- Provides regulation, load following and voltage support.
- Increased system reliability.
- Management and conservation of renewable resources
- FERC has identified LEAPS as "advanced transmission technology" under Energy Policy Act of 2005 .

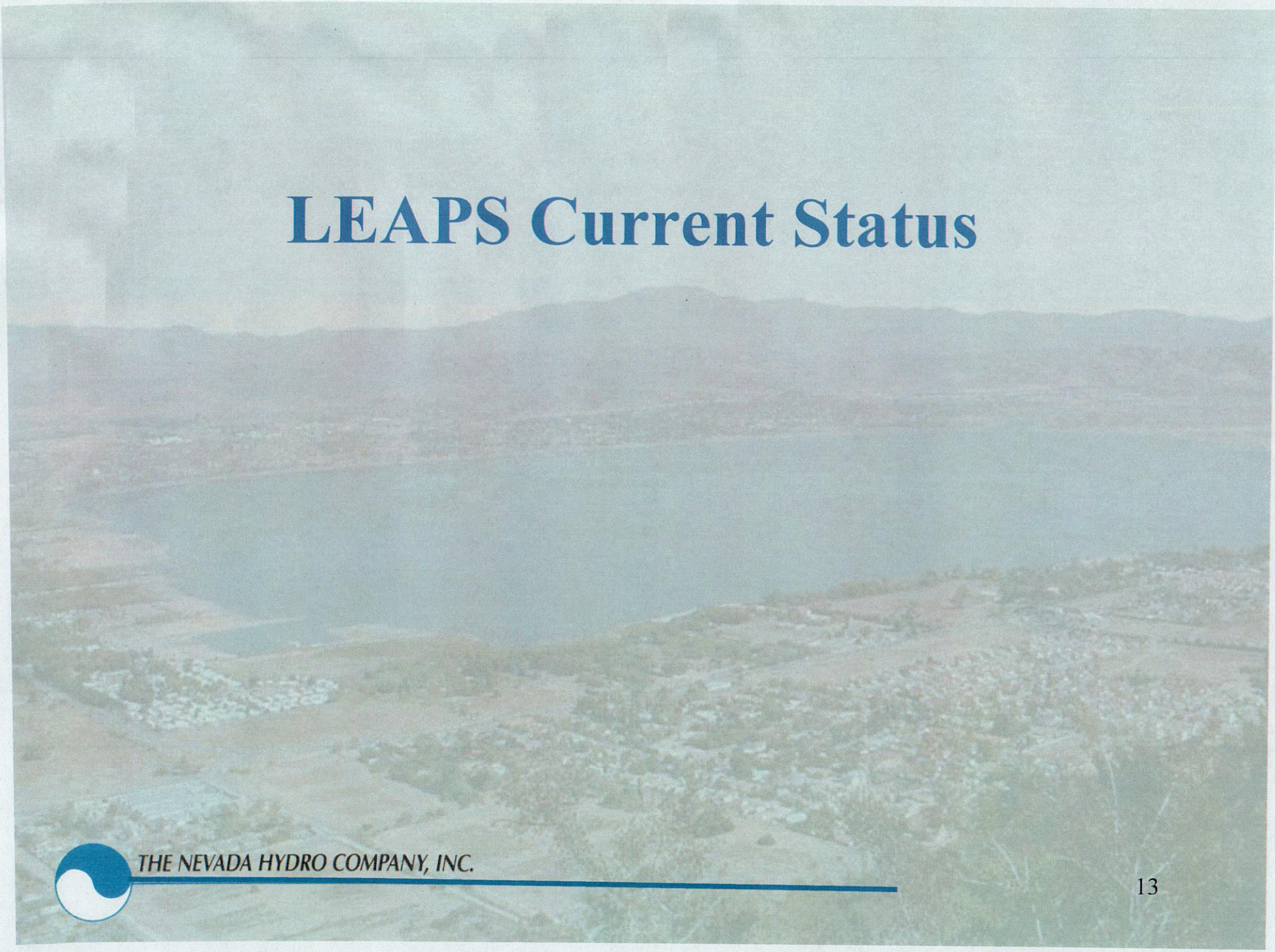
Pumped Storage Benefits

- Fast Start
- Fast ramp rate
- Superior Spinning Reserve
- Reliable Capacity Resource (Hydro)
- Intermediate Resource with peaking Capabilities
  - Cycle Time / Starting Cost
- Voltage Support - multi mode
- Black Start
- Significant Regulation Capability
- Thermal Generation Optimization
- Very reliable / timely starting
- Efficiency 82+%
- Fuel diversity/hedging
- Storage Volume / Weekly / Daily Cycles
- Flexibility !!

Additional Project Benefits

- Energy Benefits from operations based on MCP differences.
- Production Cost Benefits (benefits from reduction in MCP and congestion).
- Capacity Benefits.
- Reliability Must Run (RMR) Benefits (CAISO).
- Ancillary Services (AS) Benefits.
    - AS Market Benefits
    - Over-generation Benefits
    - Renewable resource integration Benefits
- Fuel hedging.

LEAPS Current Status



Single Precondition to Issuance of Hydro License

- All preconditions-but 1-have now been met
  - Remaining precondition remains the CWA §401 issued by State Water Board.
- §401 is only remaining bar to FERC acting on licensing entire project.
- But for the §401, the FERC license is the only remaining approval needed to commence construction.

Realizing Revenue

- Potential revenue sources are diverse
  - PPA from one or more parties for all or a portion of products produced.
  - Contract(s) with ISO for ancillary services, rapid response and wind integration.
  - Market?
- Financial market conditions will determine mix.

Estimated Net Project Benefits

	BENEFIT		
	TE/VS	LEAPS	TE/VS + LEAPS
Energy Benefit	$22	$71	$93
Ancillary Services Benefit	1	$57	$58
Wind Integration and Over-Gen Mitigation Benefit		$33	$33
Local Reliability Compliance Benefit	$126	-	$126
Resource Adequacy Compliance Benefit	-	$14	$14
Total Benefit	$149	$174	$324
Total Levelized Annual Cost	$51	$94	$145
NET ANNUAL BENEFIT	$98	$81	$179

Source: Auclair Consulting

Just the Facts

The Talega-Escondido / Valley-Serrano Transmission Line project (TE/VS) is an important project that will connect with Southern California Edison in the north and San Diego Gas & Electric in the south. The 500kV transmission line will be approximately 30 miles in length and will be able to carry a load of 1,500 MW.

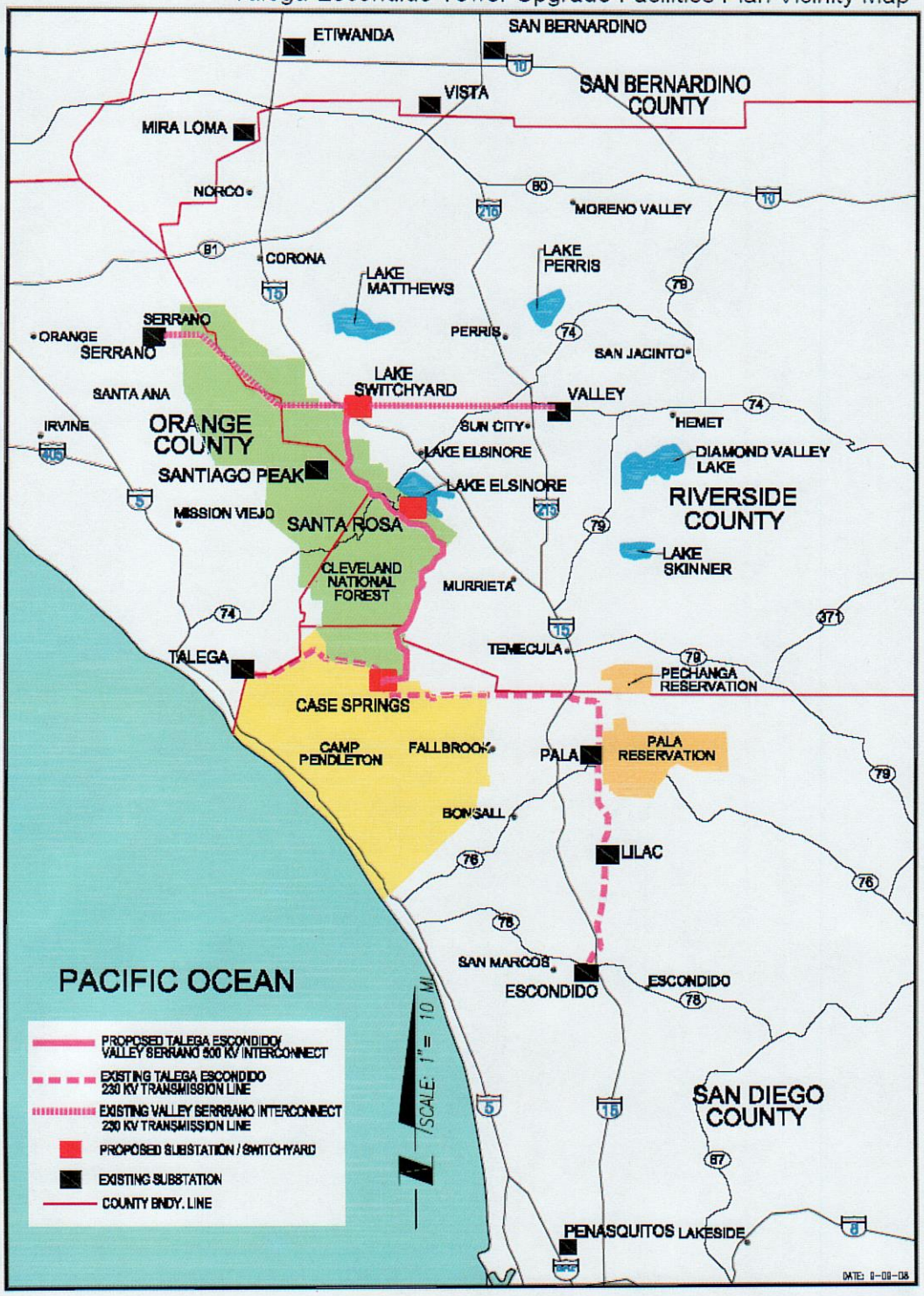
Much discussion has occurred over TE/VS and a proposed transmission line being promoted by San Diego Gas & Electric – also known as the Sunrise Powerlink Project. When even a casual observation is made, however, it is clear that TE/VS is a preferred alternative to Sunrise. Just consider some of the facts:

	TE/VS*	Sunrise
How much will the project **cost**?	$350 Million	$1.4 Billion
How many **miles** of transmission lines will have to be constructed in order to complete the project?	Appx. 30 (2+ miles underground)	Appx. 150
How much energy can be carried over transmission lines?	1,500 MW	1,000 MW
When will operation **start**?	Dec. 2009	2011?
Has extensive **environmental work** already been completed?	Yes	No
Will the **Federal government approve** the project	Yes	Unknown
Does the project provide for lower risks from **fires**?	Yes	No
Is the majority of the project to be constructed on uninhabited land so as to minimize **risks to property and homes**?	Yes	No
Will the project be directly tied to **renewable energy resources in Imperial Valley**?	Yes	No
Does the project connect with an extensive grid to make it likely for the importation of **renewable resources from throughout the West**?	Yes	No
Does the project avoid travelling over **state parks**?	Yes	No
What is the **cost to interconnect** to the SDGE system?	$74-$133 million	?
What is the **annual "net benefit"** to the system in 2015?	$97.67	$52.00 - ?

* This equals "Faster, Better, and Cheaper."

Talega-Escondido/Valley-Serrano 500-kV Interconnect Project
Lake Elsinore Advanced Pumped Storage Project

Talega-Escondido Tower Upgrade Facilities Plan Vicinity Map



Partial List of Supporters
Representative Darrell Issa
Representative Ken Calvert
Representative Duncan Hunter
Representative Mary Bono
Senator Dennis Hollingsworth
Assemblyman John Benoit
Assemblyman Ray Haynes
City of Canyon Lake
Fallbrook Utility District
North County Economic Council
Temecula Chamber of Commerce
Murrieta Chamber of Commerce
Lake Elsinore Chamber of Commerce
Canyon Lake Chamber of Commerce

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

June 30, 2008

OFFICE OF THE CHAIRMAN

The Honorable Arnold Schwarzenegger
Governor of California
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

By this letter, I am asking for your help in finding a way to prompt action by the California State Water Resources Control Board (Water Board) on pending requests for water quality certification (WQC) for California hydroelectric projects under the Federal Energy Regulatory Commission's (Commission) jurisdiction. Currently, there are 11 California hydroelectric project license applications pending where Commission staff has completed its environmental review and has recommended issuing new and original licenses. Unfortunately, due to the lack of action on the WQC requests, the Commission is unable to act on these applications.

The Clean Water Act allows up to one year for a state agency to act on a request for WQC. These requests have been withdrawn and refiled at the request of the Water Board staff several times and still there is no action on them. One request has been before the Water Board for seven years.

This inaction by the Water Board is extending an already time-intensive and costly licensing process. It is also preventing development of proposed new facilities that could offer the State of California much needed generation and transmission resources. As an example, two of the pending applications propose to build pumped storage projects that would provide California with a total of 900 megawatts of new peaking capacity. For the existing hydroelectric projects seeking reauthorized licenses, the Water Board's inaction delays implementation of a substantial amount of environmental enhancement measures—such as increased flows to bypassed reaches, new whitewater boating opportunities, and new or improved recreational facilities.

One particular example of delay involves the California Department of Water Resources proposal for the Oroville Project No. P-2100, which includes measures to enhance habitats for coldwater fisheries, expand salmon and steelhead habitat, build new and upgrade existing recreation facilities, and manage the Oroville Wildlife Area. The application was filed with the Commission in 2005 and the final Environmental Impact Statement (EIS) was issued in 2007. The Department of Water Resources was the lead agency in preparing a separate 2007 draft environmental document under the California

Environmental Quality Act (CEQA). Despite this considerable amount of analysis on the project issues and measures proposed in the relicense application and the time that has passed, there is still no WQC issued.

The dual environmental review processes in California, under both the federal National Environmental Protection Act (NEPA) and the state CEQA seems to be one of the major causes of delay. While CEQA itself encourages use of a federal NEPA document such as an EIS as its Environmental Impact Report (EIR), the Water Board has not traditionally followed this path, choosing instead to require preparation of a separate EIR by the applicant.

There is one licensing proceeding where this redundancy is particularly troublesome. This proceeding is the proposed Lake Elsinore Advanced Pumped Storage Project (LEAPS). Commission staff, in its January 2007 EIS, found the proposed project could provide 500 megawatts of needed pumped storage capacity to the region and that its new 32-mile-long transmission line could provide a valuable connection between the Southern California Edison and the San Diego Gas & Electric power systems, helping to solve the existing transmission congestion.

A January 2008 draft EIR, prepared by the California Public Utilities Commission (CPUC), includes a detailed analysis of LEAPS, following CEQA guidelines and provides an outline of the proposed mitigation measures. In a recent letter regarding the applicant's fourth WQC application, dated March 7, 2008, the Water Board notes that any EIR must identify impacts with alternatives to these impacts including a mitigation, monitoring, and reporting plan. Our review of the CPUC draft EIR indicates that it includes a mitigation, monitoring, compliance, and reporting table (Table E.7.3-1). This table identifies the effectiveness of mitigation measures for LEAPS including the specific measures recommended by both Commission staff and the U.S. Forest Service in our joint January 2007 NEPA final EIS. Despite this, the Water Board rejects the CPUC's EIR analysis and gives the LEAPS applicants 30 days to find a new lead CEQA agency for the project.

It is unclear why the CPUC's EIR and the Commission's final EIS cannot satisfy the state's CEQA requirements for LEAPS. Together, the Commission's FEIS and the CPUC's draft EIR represent a substantial record of several hundred pages, and so it appears that the Water Board has the needed technical information necessary to issue a decision on water quality certification for the project.

To conclude, I am hopeful that, with your efforts, we will see a timelier issuance of water quality certifications in California, so we can conclude the licensing process, and the public can begin to realize the generation, transmission, and environmental benefits that issued hydroelectric licenses can provide. One idea that would help in future proceedings would be to encourage the Water Board to develop and sign a Memorandum

of Agreement with the Commission that would outline how our respective agencies could cooperate on environmental documents so that one document could be used by both agencies to satisfy the requirements of both NEPA and CEQA. Commission staff is ready to begin this endeavor.

Please let me know if you wish to discuss this issue further. If I can be of help on this or any other Commission matter, I hope you will not hesitate to contact me.

Sincerely,

Joseph T. Kelliher
Chairman

Rex Wait

From: Fritts Golden [mailto:FGolden@aspeneg.com]
Sent: Thursday, February 03, 2011 4:15 PM
To: Russ J. Kanz
Cc: Tom Murphy; Barnsdale, Andrew; Sher, Nicholas; Marisa Mitchell
Subject: Status of TE/VS (LEAPS) project

Hi Russ
Tom asked that I provide you a brief overview of where things stand with the LEAPS application. The application before CPUC is for what is identified as the "Talega-Escondido/Valley-Serrano 500 kV Interconnect Project" (TE/VS). It is for the transmission aspects of LEAPS. However, because of the need to examine the 'whole of the action' with regard to impacts, CPUC is including at the rest of the LEAPS project as well (pumped storage/hydro generation, tunneling, dam/upper reservoir, Lake Elsinore impacts, reclaimed make up water, etc).

In a nutshell:

1. The Nevada Hydro Company submitted a new Proponent's Environmental Assessment (PEA) to CPUC in July for the TE/VS project. (A.10.07.001) In August, CPUC deemed the application complete for CEQA review. A brief history of the project, and the new PEA are on the project website. Other documents will be posted as they are completed (NOP, DEIR, FEIR). The to the project page is http://www.cpuc.ca.gov/Environment/info/aspen/nevadahydro/talega_escondido_valley_serrano.htn
2. A delay occurred in the overall process when CPUC needed to clear up a disagreement with the Elsinore Valley MWD over who was Lead Agency. The State Clearinghouse confirmed that CPUC is lead.
3. Subsequently, there were some questions about a substation location, a switchyard, and a gen-tie line, which TNHC is answering at this time. We (Aspen, CPUC, and TNHC) are meeting again the week of Feb 7. The CPUC's intention is to publish an NOP and hold public scoping meetings as soon as possible after getting the questions answered.
4. An NOP is written, just awaiting final date and location for scoping meetings so it can be published.
5. Aspen has prepared a draft Project Description for use in the EIR, pending additional information that needs to be added. A data request has been made via CPUC to the applicant.
6. SWRCB will be considering a 401 Certification for the project, therefore is a Responsible Agency. CPUC/Aspen will be coordinating with SWRCB to be sure we cover all information and analysis needs in the CPUC EIR.

Regards
Fritts

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