FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION ACCEPTS RATE PRINCIPLES PROPOSAL FOR SAN FRANCISCO BAY TRANSMISSION LINE

The Federal Energy Regulatory Commission today gave preliminary approval for the underlying rate principles for a proposed $300 million transmission line that would bring 400 megawatts of additional transmission capacity to congested California markets.

The Operating Memorandum, filed by Trans Bay Cable LLC, lays out the rate principles and operational responsibilities under which Trans Bay, the City of Pittsburg, California and Pittsburg Power Co. will develop, finance and construct a 55-mile high-voltage transmission line underneath San Francisco Bay.

Project participants anticipate that the line will be completed by 2008, and its operational control transferred to the California Independent System Operator.

The rate principles accepted by the Commission include:

- a 13.5 percent return on equity;
- a three-year rate moratorium from the initial transmission revenue requirement;
- a 50/50 debt-equity capital structure; and
- a 30-year depreciation period.

In approving the proposed rate principles, the Commission cited the potential for reduced congestion costs and reliability-must-run requirements in San Francisco, resulting from increased generation needs in the Bay area. The transmission line would also reduce the need for additional generation with the city. “Overall, we find that based on enhanced reliability, more efficient dispatch and possible environmental benefits, the project will be beneficial,” the Commission said.

Noting that Trans Bay is a start-up entity, the Commission determined that a 13.5 percent return on equity is justified. The determination is consistent with enhanced returns of equity, including the June 2002 Trans Elect order, in which the Commission accepted a $306 million expansion proposal for California’s Path 15 transmission line, which included a 200 basis point adder. In both cases the companies lack captive ratepayers and only recover costs when the project is in commercial operation.

Similarly, the Commission previously allowed Nevada Power Co. a 200 basis point adder for transmission facilities that provided congestion relief and connected new supplies to serve Western markets.

The 50/50 capital structure will help Trans Bay obtain financing and the Commission noted that it is only for the first 36 months of operation. After that period, Trans Bay must file its actual capital structure with the Commission. A similar capital structure was also approved for the Path 15 project.

Today's action will allow Trans Bay to move forward with financing and does not constitute final Commission review of rates and other conditions associated with the transmission project.

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