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Expansion of the Path 15 transmission line in California will bring substantial benefits to the State according to a new independent study by London Economics

30 May 2003

A new independent study released today by London Economics shows that the Path 15 transmission upgrade in California, which is scheduled to start construction in a matter of weeks, will deliver \$330 million of benefits, or \$30 for every household in the State. The California Public Utilities Commission's recent decision to waive further review of Path 15 is, from an economic perspective, sound! London Economics' study also shows that a second proposed project, an upgrade to Path 26, doesn't deliver benefits.

The study used London Economics' innovative and powerful evaluation framework, ViTAL. ViTAL shows that Path 15 expansion reduces market power, reduces the likelihood of power outages, and makes better use of generation in the southern portion of California. ViTAL, using real options theory, also shows that there are no gains from further delay: waiting to see how the market will 'pan out' does not increase the value of the upgrade. In contrast, ViTAL shows that Path 26 expansion has little impact on the California power market.

ViTAL builds upon the transmission valuation methodology published by the California ISO in February 2003.¹ In fact, this study is the first-time it has been used to produce definitive results. "ViTAL brings together several leading edge economic techniques into an easy to use package" notes Sam Lovick, Managing Director of London Economics, "yielding a comprehensive picture of the benefits of transmission investment that accounts for the realities of the deregulated market."

Deregulation of wholesale power markets has changed how transmission investments should be appraised. Markets are now prone to strategic behavior by generators, they are inherently uncertain, and transmission owners can no longer decide the timing and location of new generation. All these factors need to be addressed in a transmission appraisal. ViTAL is unique in doing so.

The London Economics summary report *Economic evaluation of the Path 15 and Path 26 transmission expansion projects in California* provides an overview of the results and a description of ViTAL. It is available on the London Economics web site. A detailed report is also available which provides a comprehensive picture of the proposed transmission projects, the ViTAL building blocks, the results, and the sensitivity studies. London Economics is also making available all of the input assumptions and results of the study in a user friendly Windows compatible database. The database contains 156 separate 13-year scenarios describing regional price dynamics in the California market, and is capable of providing unit level data on generation performance and half-hourly data on demand, prices, transmission flows and congestion, under competitive and strategic behavior – an invaluable resource for anyone involved in forecasting future market outcomes in California.

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¹ <http://www.cao.com/docs/2003/03/25/2003032514285219307.pdf>

