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TO PARTIES OF RECORD IN RULEMAKING 08-01-025

This is the proposed decision of Administrative Law Judge (ALJ) Wetzell. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed either electronically pursuant to Resolution ALJ-188 or with the Commission's Docket Office. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Wetzell at maw@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

ANG:avs

Attachment

Decision PROPOSED DECISION OF ALJ WETZELL (Mailed 5/27/2008)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Consider
Annual Revisions to Local Procurement
Obligations and Refinements to the Resource
Adequacy Program.

Rulemaking 08-01-025
(Filed January 31, 2008)

**DECISION ADOPTING LOCAL PROCUREMENT OBLIGATIONS FOR 2009
AND REFINEMENTS TO THE RESOURCE ADEQUACY PROGRAM**

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DECISION ADOPTING LOCAL PROCUREMENT OBLIGATIONS FOR 2009 AND REFINEMENTS TO THE RESOURCE ADEQUACY PROGRAM

1. Summary

This decision adopts local procurement obligations for 2009 applicable to Commission-jurisdictional electric load-serving entities (LSEs). These procurement obligations are based on a study of local capacity requirements (LCRs) for 2009 performed by the California Independent System Operator (CAISO). Even though peak loads are expected to increase in all but one of the defined local areas, the total LCR for all such areas combined has declined slightly, from 28,106 megawatts (MW) in 2008 to 27,915 MW in 2009.

In addition, we approve and adopt certain proposed resource adequacy (RA) program refinements. We simplify the rule for counting the capacity of a new resource by focusing on the resource's commercial operation date, and we approve proposed clarifications and modifications to the rules for counting the capacity of Qualifying Facility (QF) resources. We also approve and adopt modifications to the RA compliance reporting procedure that include a provision for electronic compliance reporting.

2. Procedural Background

The Order Instituting Rulemaking (OIR) established two phases for this proceeding, designating the first phase as the forum to review the CAISO's LCR study and to establish local procurement obligations for 2009. Noting that it was adopting a shortened procedural schedule, the Commission restricted the addition of other issues in Phase 1 to those which "the assigned Commissioner determines may be processed under this expedited schedule without unduly burdening participants or delaying the Phase 1 decision." (OIR, p. 7.)

The *Assigned Commissioner's Phase 1 Ruling and Scoping Memo* (Phase 1 Scoping Memo) was issued on February 22, 2008, following initial comments and replies on procedural matters. In addition to the local RA issues as ordered by the OIR, the following RA program refinement topics were identified for possible consideration in Phase 1: (1) review of the rules for counting the net qualifying capacity (NQC) of intermittent resources, (2) review of outage counting rules to ensure coordination of the RA program with CAISO tariff provisions, (3) monthly true-ups of local procurement obligations for load migration impacts, (4) review of the counting rules for new resources, (5) review of whether and how QF resources whose contracts are extended pursuant to Decision (D.) 07-09-040 count for RA compliance, and (6) modification of the RA compliance filing procedure to reduce paperwork and the need for corrections. While these topics were deemed "reasonable candidates for exploration in the Phase 1 workshops and comments," the Energy Division was authorized to suspend discussions on them in the event of controversy or delay associated with any need for data or analysis. (Phase 1 Scoping Memo, p. 4.)

The Phase 1 Scoping Memo provided for a possible seventh topic based on a then-pending motion by the Alliance for Retail Energy Markets (AReM) to address timing issues associated with capacity credits from energy auctions. AReM's motion for inclusion of this issue in Phase 1 was granted by ruling of the Administrative Law Judge (ALJ) on March 7, 2008 with the caveat that, like the other Phase 1 topics, the issue may be deferred to a later phase as necessary.

Pursuant to the schedule and procedure established by the Phase 1 Scoping Memo, the Commission's Energy Division facilitated workshops on March 24 and 25, 2008. In conjunction with the workshop process, the Energy Division coordinated the exchange of informal proposals by and among

workshop participants. On April 15, 2008 the Energy Division served a report reviewing the RA program's experience in 2007. On April 18, 2008 the Energy Division served summaries of the Phase 1 workshops and related documents. Following a stakeholder process that began in 2007, on May 1, 2008 the CAISO posted its "2009 Local Capacity Technical Analysis, Final Report and Study Results" (2009 LCR Study) on its website and served notice of the report's availability. These workshop discussions, informal proposals, and reports served to inform the formal comments and replies, filed May 12 and 19, 2008, respectively, that constitute the Phase 1 record.

AReM; CAISO; California Wind Energy Association (CalWEA); Division of Ratepayer Advocates (DRA); Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, Dynegy Oakland, LLC, and Dynegy South Bay, LLC (Dynegy); Independent Energy Producers Association (IEP); Pacific Gas and Electric Company (PG&E); Southern California Edison Company (SCE); San Diego Gas & Electric Company (SDG&E); Sempra Energy Solutions, LLC (SES); and The Utility Reform Network (TURN) filed comments. Replies were filed by AReM, Cogeneration Association of California (CAC), CAISO, CalWEA and American Wind Energy Association, California Large Energy Consumers Association and California Manufacturers and Technology Association, DRA, Dynegy, IEP, PG&E and TURN, SCE, SDG&E, and SES.

Today's decision concludes Phase 1 of this proceeding. Phase 2 will commence upon issuance of the assigned Commissioner's scoping memo for Phase 2.

3. Local RA for 2009

3.1 2009 LCR Study

Decision 06-06-064 determined that a study of local capacity requirements performed by the CAISO would form the basis for this Commission's Local RA program. The CAISO conducts its LCR study annually, and this Commission resets local procurement obligations each year based on the CAISO's LCR determinations. As noted above, on May 1, 2008 the CAISO issued its final LCR report and study results for 2009.

The CAISO states that the assumptions, processes, and criteria used for the 2009 LCR study were discussed and recommended in a stakeholder meeting held on October 11, 2007, and that, on balance, they mirror those used in the 2007 and 2008 LCR studies. The CAISO identified and studied capacity needs for the same ten local areas as in the previous study: Humboldt, North Coast/North Bay, Sierra, Greater Bay, Greater Fresno, Big Creek/Ventura, LA Basin, Stockton, Kern, and San Diego.

The 2008 and 2009 summary tables in the 2009 LCR report, copied below, show that for all ten areas combined, the total LCR associated with reliability category C declined slightly, from 28,106 MW in 2008 to 27,915 MW in 2009. This reduction occurred even though the peak load is expected to increase in nine of the ten areas. The LCRs for four areas (Big Creek/Ventura, LA Basin, Stockton, and Kern) declined, while the LCRs for the other six areas increased. The CAISO notes that projects such as the installation of the new Antelope Transmission Project Sections 1, 2, and 3 and various substation projects led to the LCR reductions. It attributes the LCR reduction for the Kern local area to a downward load trend.

2009 Local Capacity Requirements

Local Area Name	Qualifying Capacity			2009 LCR Need Based on Category B			2009 LCR Need Based on Category C with operating procedure		
	QF/ Muni (MW)	Market (MW)	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)
Humboldt	48	135	183	177	0	177	177	0	177
North Coast / North Bay	217	728	945	766	0	766	766	0	766
Sierra	1012	768	1780	1453	226	1679	1617	703	2320
Stockton	276	265	541	491	34	525	541	185	726
Greater Bay	1111	5662	6773	4791	0	4791	4791	0	4791
Greater Fresno	510	2319	2829	2414	0	2414	2680	0	2680
Kern	646	31	677	208	0	208	417	5	422
LA Basin	3942	8222	12164	9728	0	9728	9728	0	9728
Big Creek/ Ventura	931	4201	5132	3178	0	3178	3178	0	3178
San Diego	201	3442	3663	3113	0	3113	3113	14	3127
Total	8894	25773	34687	26319	260	26579	27008	907	27915

2008 Local Capacity Requirements

Local Area Name	Qualifying Capacity			2008 LCR Need Based on Category B			2008 LCR Need Based on Category C with operating procedure		
	QF/ Muni (MW)	Market (MW)	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)
Humboldt	45	135	180	175	0	175	175	0	175
North Coast / North Bay	262	621	883	676	0	676	676	0	676
Sierra	1014	766	1780	1780	89	1869	1780	312	2092
Stockton	272	264	536	460	15	475	536	250	786
Greater Bay	1116	5098	6214	4688	0	4688	4688	0	4688
Greater Fresno	496	2495	2991	2212	0	2212	2274	108	2382
Kern	615	31	646	259	0	259	463	23	486
LA Basin	3545	8545	12093	10130	0	10130	10130	0	10130
Big Creek/ Ventura	1463	3933	5396	3562	0	3562	3658	0	3658
San Diego	201	2718	2919	2919	114	3033	2919	114	3033
Total	9029	24606	33638	26861	218	27079	27299	807	28106

The comments reveal no disagreement with CAISO's LCR determinations for 2009. We are pleased to note that the past efforts towards greater transparency and opportunity for participation in the LCR study process appear to have paid off in significant part, as reflected in the comments. We determine that the CAISO's final 2009 LCR study should be approved as the basis for establishing local procurement obligations for 2009 applicable to Commission-jurisdictional LSEs.

SCE notes that the 2009 LCR study identified and analyzed new sub-areas within the Big Creek/Ventura and LA Basin local areas. SCE recommends that these sub-area determinations be used only for planning purposes, and that the local areas for which LSEs have local procurement obligations remain the same for 2009 as they were in 2008. It is our understanding that the CAISO does not propose that we use its sub-area determinations to establish local procurement obligations. We concur with SCE's recommendation.

SCE recommends that two operating solutions approved by the CAISO should be incorporated in the local procurement obligations that we establish: Santiago N-2 Special Protections System and La Cienega/El Nido N-2 Special Protection System. The first of these operating solutions would mitigate the LA Basin LCR by about 500 MW. We have approved the use of CAISO-approved operating solutions to mitigate LCRs in previous decisions, and we do so here.

PG&E and SCE offered and discussed recommendations for improving future LCR studies. As noted in the Phase 1 Scoping Memo, Phase 2 will address LCR study improvements. We encourage all parties to bring forward such ideas in Phase 2.

3.2. Local Procurement Obligations for 2009

3.2.1. Continuation of the Local RA Program

D.06-06-064 adopted a framework for Local RA and established local procurement obligations for 2007 only. Decision 07-06-029 established local procurement obligations for 2008 only. We intend that Local RA program and associated regulatory requirements adopted in D.06-06-064 and D.07-06-029 shall be continued in effect for 2009, subject to the 2009 LCRs and procurement obligations adopted by this decision.

In previous decisions we have delegated ministerial aspects of RA program administration to the Commission's Energy Division. The Energy Division should implement the local RA program for 2009 in accordance with the adopted policies and principles.

3.2.2. Reliability Options

The 2009 LCR report sets forth two sets of LCRs associated with reliability options based on North American Electricity Reliability Council (NERC) Performance Level B and Performance Level C criteria. As the CAISO's report explains:

1. Option 1 - Meet Performance Criteria Category B.

Option 1 is a service reliability level that reflects generation capacity that must be available to comply with reliability standards immediately after a NERC Category B given that load cannot be removed to meet this performance standard under Reliability Criteria. However, this capacity amount implicitly relies on load interruption as the **only means** of meeting any Reliability Criteria that is beyond the loss of a single transmission element (N-1). These situations will likely require substantial load interruptions in order to maintain system continuity and alleviate equipment overloads prior to the actual occurrence of the second contingency.

2. Option 2 – Meet Performance Criteria Category C and Incorporate Suitable Operational Solutions.

Option 2 is a service reliability level that reflects generation capacity that is needed to readjust the system to prepare for the loss of a second transmission element (N-1-1) using generation capacity after considering all reasonable and feasible operating solutions (including those involving customer load interruption) developed and approved by the CAISO, in consultation with the [Participating Transmission Owners (PTOs)]. Under this option, there is no expected load interruption to end-use customers under normal or single contingency conditions as the CAISO operators prepare for the second contingency. However, the customer load may be interrupted in the event the second contingency occurs.

As noted, Option 2 is the local capacity level that the CAISO requires to reliably operate the grid per NERC, [Western Electric Coordinating Council (WECC)], and CAISO standards. As such, the CAISO recommends adoption of this Option to guide resource adequacy procurement. (2009 LCR Report, p. 15; emphasis in original.)

D.06-06-064 determined that the reliability level associated with Option 2 as defined in the 2007 LCR study should be applied as the basis for local procurement obligations for that year. The Commission stated that “[w]hile we expect to apply Option 2 in future years in the absence of compelling information demonstrating that the risks of a lesser reliability level can reasonably be assumed, we nevertheless leave for further consideration in this proceeding the appropriate reliability level for Local RAR for 2008 and beyond.” (D.06-06-064, p. 21.) D.07-06-029 adopted Option 2 as recommended by the CAISO for 2008 local procurement obligations. There is no evidence or

recommendation before us suggesting that assumption of the reduced reliability associated with Option 1 is reasonable for 2009. We therefore affirm the continued application of Option 2 to establish local procurement obligations for 2009.

3.2.3. Aggregation of Local Areas

To address supplier market power concerns, D.06-06-064 established an approach for aggregation of certain local areas for 2007. After determining each LSE's allocation of Local RAR for each local area based on its share of load in the investor-owned utility (IOU) distribution service area, the Commission determined that six local areas within the PG&E territory (Humboldt, North Coast/North Bay, Sierra, Stockton, Greater Fresno, and Kern) should be aggregated as one for purposes of RA compliance. Decision 07-06-029 found that continuation of the aggregation approach for these six areas was reasonable for 2008, although it repeated the concern expressed in D.06-06-064 that aggregation might lead to over- or under-procurement in some areas.

AReM supports continuation of the local area aggregation approach for the six areas in PG&E's territory, and TURN notes that no reason has been offered to alter it. No party has raised a concern that reliability would be impaired by continuing the approach for 2009. We find it is reasonable to continue the previously adopted aggregation approach for 2009.

3.2.4. Local Area Resource Deficiencies

The LCR study identifies deficiencies in qualifying capacity resources in certain local areas. In the 2009 study the CAISO determined that such deficiencies exist in the Sierra, Stockton, Kern, and San Diego local areas that total to 907 MW.

Because it would not be “reasonable to require LSEs to procure capacity that, according to the LCR study, does not currently exist in an area,” the Commission directed the Energy Division to calculate reduced LCRs for those areas. (D.06-06-064, pp. 21-22.) D.06-06-064 authorized this “blanket waiver” treatment of deficiencies for 2007 only, and D.07-06-029 approved similar treatment of local area deficiencies for 2008. We will again approve blanket waiver of the local procurement requirement in the resource-deficient areas identified by the CAISO.

3.2.5. Coordination With CAISO Backstop Procurement

In the previous local RA decisions we have established local RA compliance filing procedures in coordination with the CAISO’s Reliability Must Run (RMR) mechanism. To minimize unnecessary procurement, we established an iterative process whereby LSEs submitted preliminary showings in September that the CAISO would consider before making RMR commitments. The final compliance showings were made due on October 31, and the System RA compliance filing date was reset to October 31 as well. We are aware of no recommendation or other basis for changing this procedure for 2009. Accordingly, for the 2009 compliance cycle, preliminary local procurement showings shall be made on September 19, 2008 and final compliance showings for both local RA and System year-ahead RA shall be due on October 31, 2008.¹

Decision 07-06-029 approved a procedure (Proposal 8) for integrating the Commission’s RA and the CAISO’s procurement procedures. In

¹ These dates may be altered as necessary by assigned Commissioner or assigned ALJ Ruling.

anticipation of the CAISO's implementation of the Market Redesign and Technology Update (MRTU) later this year, such an integration procedure may not be necessary. In the event that MRTU implementation does not occur until 2009, however, it would be reasonable and appropriate to implement Proposal 8 in 2009.

4. RA Program Refinements

As previously noted, the Phase 1 Scoping Memo identified seven RA program refinement topics for possible consideration in this decision provided that such consideration does not interfere with timely issuance of the decision on local procurement obligations for 2009. Upon reviewing the comments, we determine that more time is needed before two of these topics can be decided, that is the topics of revised NQC counting rules for intermittent resources and monthly true-ups of local procurement obligations for load migration impacts. We therefore defer these topics to Phase 2. We also decline to resolve herein issues that do not fall within the scope of Phase 1.

4.1. Outage Counting Rules

Decision 06-07-031 adopted a protocol for determining how the NQC of resources with scheduled outages should be counted. PG&E is concerned that the protocol results in scheduled outages being counted twice in assessing the RA value of certain resources, such as QFs, that utilize historic performance as the basis for setting their NQC. PG&E explains that the initial NQC calculation for these resources reflects their reduced generation during scheduled outages taken in the three-year historic averaging period. The scheduled outages of these units are applied a second time to reduce their RA counting value under the protocol.

To resolve this issue, PG&E asks that we clarify that the counting protocol for scheduled outages adopted in D.06-07-031 applies only to resources with the scheduled outage (or “SO”) designation in the NQC counting rule, as specified in sections 5 and 5.3 of the 2004 Workshop Report. SCE, SDG&E and TURN support adoption of this clarification, while the CAISO urges its rejection.

The CAISO agrees that there is a double counting problem under the current rules, but it believes that PG&E’s proposed solution is inappropriate. According to the CAISO, under PG&E’s approach resources known in advance to be unavailable to meet system needs would nevertheless count in full towards an LSE’s RA obligation. The CAISO believes that the double counting problem should be resolved by adjusting the calculation of historic output.

While the double counting of outages for these resources should be corrected to avoid unnecessary procurement, we are not ready to accept PG&E’s proposed exemption from the scheduled outage counting protocol as the preferred solution. Before changing the protocol or granting an exemption for a particular class of resource, we need a more comprehensive analysis of the extent of the double counting problem and whether it is better resolved by modifying NQC counting methodologies as recommended by the CAISO.

If it is confirmed that the scope of the problem is not of major significance, it may be more appropriate to adopt PG&E’s approach since it appears to be more efficient administratively. Because any double counting of outages should be mitigated or eliminated, this topic should be resolved in Phase 2.

4.2. New Resources

Two sets of proposals for clarifying or revising existing rules that govern how new resources are counted were offered. First, the CAISO proposes

that the rule for determining a resource's eligibility should focus only on the term "commercial operation." Second, SDG&E proposes a waiver from local procurement obligations equivalent to a new resource's capacity in the early months of the year, before the resource is commercially operational. Several parties offer clarifications or minor modifications to the current rules and/or the SDG&E approach.

4.2.1. CAISO's Proposal

The current rule for counting new resources, adopted by D.05-10-042, relies on the concepts of "commercial operation date" and "operational status." The CAISO proposes a simplification that focuses on the former term. Specifically, any generating resource that achieves commercial operation by the date of the relevant RA compliance showing should be eligible to count.² The result of this proposal is that resources known to the CAISO and the Commission to have achieved commercial operation can be counted.

Since resources that have not achieved commercial operation status may be subject to delays in testing or other necessary steps before being fully available to the CAISO for reliability purposes, it is reasonable that only those resources which have achieved commercial operation status on or before the date of the LSE's compliance showing can be counted for an RA compliance period. For example, if the month-ahead system RA showing for June, 2011 is due on April 30, 2011, a unit that achieved commercial operation on or before April 30, 2011 would be eligible to count for June.

² Under the CAISO Tariff, commercial operation, is "[t]he status of a Generating Unit at a Generating Facility that has commenced generating electricity for sale, excluding electricity generated during a Trial Operation."

In the case of year-ahead showings for local RA, the same logic applies: only resources that achieve commercial operation status on or before the date of the compliance showing would be eligible for NQC. For example, if the 2012 year-ahead showing is due on October 31, 2011, only resources that have achieved commercial operation status by October 31, 2011 should be counted. Resources that come online after that date could be counted in month-ahead filings during 2012 for all filings due on or after the date of commercial operation.

In the case of year-ahead system filings, the month-ahead filings serve as the true-up mechanism. Therefore resources that have not reached commercial operation status by the date of the year-ahead filing can continue to be counted for system RA under the same procedure as used for compliance year 2008 (*i.e.* by listing on the “under construction” page of the template).

We find the CAISO proposal to focus on a resource’s commercial operation status to be a reasonable simplification of the current rule and therefore adopt it. Other alternatives, such as IEP’s proposal to evaluate when a unit achieves a percentage of its output, could be administratively burdensome.

4.2.2. SDG&E’s Proposal

SDG&E proposed that resources expected to achieve commercial operation by April 1 should be eligible for year-ahead local RA filing. As noted above, resources that have not reached commercial operation may not achieve that status by a projected future date. For this reason, a mechanism would be needed to true up the local capacity as possible delays become known. Unlike the system RA approach, at present no such mechanism exists. Moreover, there is not an adequate record in this proceeding to support creating a true-up for

local RA after the year-ahead filing. Therefore, this proposal should not be implemented at this time.

4.3. QF Resources

Prior to the workshops, SCE raised the issue of whether and how QF resources whose contracts are extended pursuant to D.07-09-040 should count for RA compliance showings. TURN notes that consensus was reached during the workshops that deliveries from these contract extensions should count for RA. There is no opposition to this proposal, and we affirm that such contracts should count.

SCE also proposed that the NQC for dispatchable QF resources should be calculated as it is for non-QF thermal units rather than by using a historical average. No party opposes this proposal on its merits, although AREM proposes that consideration be deferred to Phase 2, when the Commission would also address whether to allocate QF RA credits to all LSEs.

A dispatchable QF resource has the ability to provide greater grid reliability benefits than would be reflected by an NQC determination that is based solely on the unit's historical performance. We concur with SCE that we should not delay realization of this benefit until the issue of which LSEs can claim RA credits associated with the QF unit is resolved. Accordingly, SCE's proposal for counting these resources in the same manner as non-QF thermal resources is approved.

4.4. RA Compliance Reporting

Decision 05-10-042 adopted a compliance reporting procedure based on the Commission's advice letter process. The Energy Division has developed a proposed replacement system that relies on a new reporting template and

electronic submission of compliance showings to the Energy Division using the Commission's File Transfer Protocol (FTP) computer application.³

The Energy Division reports that staff and LSEs have encountered two types of complexities and difficulties with the current RA process. First, the Energy Division sends allocations of Demand Response (DR), CAM,⁴ and RMR capacity credits to the LSEs by computer files. LSEs are required to manually input these allocations into the compliance template. LSEs are also required to manually check other information against an NQC database published by the CAISO. This creates the possibility for incorrect copying. Second, Energy Division finds that the current procedure of filing by Advice Letter does not accommodate electronic filing well, nor does it provide an easy means for tracking arrival and inputting values from the filings or submission of revisions. Although review of the filings by Energy Division has become significantly more streamlined, there is still some inefficiency that can be eliminated.

To address these concerns, the Energy Division redesigned the template and proposed a reevaluation of the filing procedures to ease the administrative obligation on LSEs and staff. The broad outline of Energy Division's proposed revisions is summarized below:

Addition of the NQC list to the template, which enables creation of a dropdown list for Scheduling Resource IDs.

³ While reference is commonly made to electronic "filing" of RA compliance showings, we emphasize that these submissions are made to the Energy Division. They are not formal documents filed with the Commission's Docket Office.

⁴ This is capacity that is allocated to LSEs in accordance with the cost allocation methodology (CAM) adopted in D.06-07-029.

With this dropdown list, the LSE is no longer required to fill in the Local/Zonal Designation in Column D, as that is filled in automatically.

LSE specific allocations of DR, RMR, and CAM are inserted into the template, and each LSE receives a spreadsheet individually password protected and sent via Secure FTP. This enables the allocations as issued by Energy Division to automatically populate the formulas in the spreadsheet. As CAM capacity is currently allocated quarterly, the templates will arrive to each LSE quarterly.

Each LSE will receive on a quarterly basis a template pre-populated with their allocations, and will select only the month of the filing on the summary page. The rest of the summary page is now automated.

Unit-Specific Department of Water Resources (DWR) contracts are to be entered into the Physical Resource page and Import DWR contracts are to be entered into the Import page, both to facilitate agency review.

The template now includes both the Year-Ahead and Month-Ahead Summary pages, and they are linked and automated so that the LSE submits both each month. This alleviates confusion related to which template the LSE ought to be using. Staff will use whichever one is appropriate for compliance.

The template includes the Local RA Template that will enable monthly adjustments made to Local RA obligations. This is for demonstration, to ensure that should a mechanism like this be adopted, there has been beta testing on the template to ensure that it works. There is also a column for Local RA procured in the Physical Resource Worksheet to represent that for any given month the RA capacity procured might be different from the August NQC value that is to be used for Local RA compliance.

The LSE no longer will submit the filing via Advice Letter, but instead simply create a Secure FTP account with the Commission as detailed in the attached document and submit the files directly to a secured mailbox to be created

for this purpose. This enables the Commission to better track submission and arrival of the Filings, and hopefully cut costs and administrative obligations on the part of the LSEs.

The templates sent to the LSEs quarterly will be based on the most recent RA Filings filed by LSEs to the Energy Division, and Energy Division will insert a revised allocations page and new NQC spreadsheet should that be revised as well. The LSE will ideally not have to reenter the resources listed in the resource worksheets, as Energy Division will make no changes to those sheets.

Energy Division staff demonstrated the proposed template in the Phase 1 workshops, and it subsequently provided parties with a tutorial regarding the FTP as well as the draft compliance template for parties to begin beta testing. Energy Division also plans to hold an informational workshop on this process this summer.

The comments indicate broad support for the Energy Division's initiative. We join the parties in expressing appreciation to the Energy Division for developing a more efficient and effective compliance filing process that should benefit the LSEs and reviewing staff alike. We approve the adoption of the new procedure, and the cessation of RA compliance showings by the current advice letter process, upon confirmation by the Energy Division that the new system has been tested and is fully operational.⁵

⁵ Pursuant to the delegation of authority for ministerial matters that was approved by D.06-07-031, Energy Division may determine when the new compliance filing system is ready for implementation. Similarly, Energy Division is authorized to implement the rounding convention described in the Energy Division's "Staff Implementation Proposal #1," served on April 18, 2008.

4.5. Allocation of CAM-Related RA Credits

Decision 06-07-029 provided that IOU procurement of new generation would generally be done through long-term power purchase agreements (PPAs), and that the advantages and costs of the new generation are to be shared by all benefiting customers in the IOU's service territory. The capacity and energy from the PPA are unbundled, and rights to the capacity are allocated among all the LSEs in the IOU's service territory according to each LSE's share of the coincident peak. LSEs can apply this allocated CAM-related capacity towards their RA procurement obligations. A subsequent implementation decision (D.07-09-044) addressed concerns about the timing of reallocations of capacity subject to the CAM, and provided that:

The Commission is mindful of Settling Parties concerns [that reallocations accurately reflect capacity changes] and will see that a means for ensuring fair and equitable implementation of the CAM for RA purposes is discussed in a workshop in the RA proceeding, R.05-12-013 or its successor proceeding. (D.07-09-044, p. 6.)

AReM seeks to change the quarterly allocation of CAM-related RA credits that was ordered by D.07-09-044 to a monthly allocation. During the Phase 1 workshops, most parties agreed that the existence of just one CAM contract in force today did not justify the administrative costs of a move to monthly allocations. The workshop discussions then centered on defining the threshold for determining when the change from quarterly to monthly allocations would be justified. In its post-workshop comments, AReM proposed that the trigger for changing to monthly allocations of RA credits be defined as the date that one additional CAM contract becomes operational.

Although AReM has offered a straightforward proposal that is not contested, Energy Division advises that there may be unresolved workload

issues associated with the proposed shift to monthly allocations. Since no new CAM contracts are anticipated for 2009, the matter is not urgent. We will defer resolution of AReM's proposal to Phase 2. Energy Division should present a proposal in Phase 2 that addresses the workload issues and any related concerns.

5. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Mark S. Wetzell is the assigned ALJ in this proceeding.

Findings of Fact

1. The assumptions, processes, and criteria used for the 2009 LCR study were discussed and recommended in a CAISO stakeholder meeting, and they generally mirror those used in the 2007 and 2008 LCR studies.
2. The Option 1 reliability level presented in the 2009 LCR study report implicitly relies on load interruption as the only means of meeting any Applicable Reliability Criteria beyond the loss of a single transmission element, whereas Option 2 is the local capacity level that the CAISO needs to reliably operate the grid per NERC, WECC, and CAISO standards.
3. Resources that have not achieved commercial operation status may be subject to delays in testing or other necessary steps before being fully available to the CAISO for reliability purposes.

4. A dispatchable QF resource has the ability to provide greater grid reliability benefits than would be reflected by an NQC determination that is based solely on the unit's historical performance.

5. The current RA compliance filing process requires manual data processing, which can be costly and lead to data errors.

6. The current procedure of submitting compliance showings by advice letter does not accommodate electronic filing, and it does not provide an easy means for tracking arrival and inputting values from the submission and revisions to them.

Conclusions of Law

1. The CAISO's 2009 LCR study should be approved as the basis for establishing local procurement obligations for 2009 applicable to Commission-jurisdictional LSEs.

2. Application of the Option 2/Category C local area reliability standard approved for 2007 and 2008 should be continued for setting local procurement obligations for 2009.

3. The total local procurement obligation for the LA Basin local area should reflect the approximate 500 MW mitigation that results from the approved Santiago N-2 Special Protections System operating solution.

4. Because the current Local RA program establishes procurement obligations for the following year, LSEs should only be responsible for procurement in a local area to the level of resources that exist in the area.

5. Focusing on a new resource's commercial operation status is a reasonable and straightforward simplification of the current rule for counting new resources and should therefore be adopted.

6. QF resources whose contracts are extended pursuant to D.07-09-040 should count for RA compliance showings, and the NQC for dispatchable QF resources should be calculated as it is for non-QF thermal units.

7. The Energy Division should be authorized and directed to implement the local RA program for 2009 and its proposed compliance reporting procedure in accordance with the adopted policies and principles.

O R D E R

IT IS ORDERED that:

1. The local resource adequacy (RA) program and associated requirements adopted in Decision (D.) 06-06-064, and continued in effect by D.07-06-029, are continued in effect for 2009, subject to the modifications, refinements, and Local Capacity Requirements (LCRs) adopted by this decision.

2. The "Option 2/Category C" LCRs set forth in the California Independent System Operator's (CAISO) *2009 Local Capacity Technical Analysis, Final Report and Study Results*, dated May 1, 2008, are adopted as the basis for establishing Local RA procurement obligations for load-serving entities (LSEs) subject to this Commission's RA program requirements.

3. The modifications for counting the Net Qualifying Capacity (NQC) of new resources and Qualifying Facilities resources are approved as set forth in the foregoing discussion, findings, and conclusions.

4. The Energy Division's proposed compliance reporting procedure shall replace the current advice letter process for compliance showings upon confirmation by the Energy Division that the new system has been tested and is fully operational.

5. Phase 1 is concluded, and this proceeding remains open for consideration of Phase 2 issues.

6. The assigned Commissioner or assigned Administrative Law Judge may extend any compliance dates set forth in this decision.

This order is effective today.

Dated _____, at San Francisco, California.

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated May 27, 2008, at San Francisco, California.

/s/ ANTONINA V. SWANSEN
Antonina V. Swansen

***** PARTIES *****
***** SERVICE LIST *****

**Last Updated on 23-MAY-2008 by: CPL
R0801025 LIST**

Michael Mazur
3PHASES RENEWABLES LLC
2100 SEPULVEDA BLVD, STE. 37
MANHATTAN BEACH CA 90266
For: 3PHASES RENEWABLES LLC

Seema Srinivasan
Attorney At Law
ALCANTAR & KAHL, LLP
120 MONTGOMERY STREET, SUITE 2200
SAN FRANCISCO CA 94104
(415) 421-4143
sls@a-klaw.com
For: Energy Producers & Users Coalition/ Cogeneration
Association of California

Diana Annunziato
AMERICAN UTILITY NETWORK
10705 DEER CANYON DRIVE
ALTA LOMA CA 91737
For: AMERICAN UTILITY NETWORK

David J. Coyle
General Manager
ANZA ELECTRIC CO-OPERATIVE, INC
58470 HIGHWAY 371
ANZA CA 92539-1909
(909) 763-4333
For: Anza Electric Cooperative Inc.

Paul Oshideri
President
AOL UTILITY CORP.
12752 BARRETT LANE
SANTA ANA CA 92705
For: AOL UTILITY CORP.

Bob Anderson
APS ENERGY SERVICES CO. INC.
5255 COUNTY RD 139 SE
STEWARTVILLE MN 55976-8085
Bob_Anderson@apses.com
For: APS ENERGY SERVICES CO. INC.

C. Anthony Braun
BRAUN & BLAISING P.C.
915 L STREET, SUITE 1270
SACRAMENTO CA 95814
(916) 326-4449
braun@braunlegal.com

Beth Vaughan
CALIFORNIA COGENERATION COUNCIL
4391 N. MARSH ELDER COURT
CONCORD CA 94521
(925) 408-5142
beth@beth411.com
For: California Cogeneration Council

Grant A. Rosenblum
Senior Counsel
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
151 BLUE RAVINE ROAD
FOLSOM CA 95630
(916) 351-4400
grosenblum@caiso.com
For: CALIFORNIA INDEPENDENT SYSTEM OPERATOR
(CAISO)

Linda Y. Sherif
Attorney At Law
CALPINE CORPORATION
3875 HOPYARD ROAD, SUITE 345
PLEASANTON CA 94588
(925) 479-6696
linda.sherif@calpine.com
For: CALPINE CORPORATION

Kerry Eden
Asst. General Mgr.
CITY OF CORONA DEPT. OF WATER & POWER
730 CORPORATION YARD WAY
CORONA CA 92880
(951) 817-5740
kerry.eden@ci.corona.ca.us
For: CITY OF CORONA DEPT. OF WATER & POWER

Ann Hedrickson
Dir. Regulatory Affairs
COMMERCE ENERGY, INC
222 W. LAS COLINAS BLVD., STE. 950-E
IRVING TX 75039
(214) 296-5407
ahendrickson@commerceenergy.com
For: COMMERCE ENERGY, INC

Mary Lynch
Vp - Regulatory And Legislative Affairs
CONSTELLATION ENERGY COMMODITIES GROUP
2377 GOLD MEDAL WAY, SUITE 100
GOLD RIVER CA 95670
(916) 526-2860
mary.lynch@constellation.com
For: Constellation Energy Commodities Group, Inc.

For: California Municipal Utilities Association

Cynthia A. Fonner
Senior Counsel
CONSTELLATION ENERGY GROUP INC
500 WEST WASHINGTON ST, STE 300
CHICAGO IL 60661
(312) 704-8518
Cynthia.A.Fonner@constellation.com
For: Constellation Energy Commodities Group, Inc.,
Constellation Generation Group, LLC, Constellatio

Derik Viner
CONSTELLATION NEWENERGY, INC
TWO CALIFORNIA PLAZA
SOUTH GRAND AVENUE, STE. 3800
LOS ANGELES CA 90071
derik.viner@constellation.com
For: CONSTELLATION NEWENERGY, INC

Sara O'Neill
CONSTELLATION NEWENERGY, INC.
ONE MARKET STREET, SPEAR TOWER, 36TH FR.
SAN FRANCISCO CA 94105
(415) 293-8003
sara.oneill@constellation.com
For: Constellation NewEnergy, Inc.

Marcie A. Milner
General Mgr., Regulatory Affairs
CORAL POWER, LLC
4445 EASTGATE MALL, SUITE 100
SAN DIEGO CA 92121
(858) 526-2106
marcie.milner@shell.com
For: CORAL POWER, LLC

R. Thomas Beach
CROSSBORDER ENERGY
2560 NINTH STREET, SUITE 213A
BERKELEY CA 94710-2557
(510) 549-6922
tomb@crossborderenergy.com
For: California Wind Energy Association

Edward W. O'Neill
Attorney At Law
DAVIS WRIGHT TREMAINE, LLP
505 MONTGOMERY STREET, SUITE 800
SAN FRANCISCO CA 94111-6533
(415) 276-6582
edwardoneill@dwt.com
For: California Large Energy Consumers Association

Ronald M Cerniglia
Dir. Nat. Advocacy, Gov. & Reg.
DIRECT ENERGY SERVICES, LLC
40 COLUMBINE DRIVE
GLENMONT NY 12077-2966
(518) 439-2195
ron.cerniglia@directenergy.com
For: DIRECT ENERGY SVS. LLC

Daniel W. Douglass
Attorney At Law
DOUGLASS & LIDDELL
21700 OXNARD STREET, SUITE 1030
WOODLAND HILLS CA 91367
(818) 961-3001
douglass@energyattorney.com
For: Western Power Trading Forum

Donald C. Liddell
DOUGLASS & LIDDELL
2928 2ND AVENUE
SAN DIEGO CA 92103
(619) 993-9096
liddell@energyattorney.com
For: Ice Energy Inc.

Gregory Klatt
Attorney At Law
DOUGLASS & LIDDELL
21700 OXNARD STREET, SUITE 1030
WOODLAND HILLS CA 91367-8102
(818) 961-3002
klatt@energyattorney.com
For: Alliance for Retail Energy Markets

Andrew B. Brown
Attorney At Law
ELLISON SCHNEIDER & HARRIS, LLP
2015 H STREET
SACRAMENTO CA 95811
(916) 447-2166
abb@eslawfirm.com
For: Constellation Energy Commodities Group, Inc.,
Constellation NewEnergy, Inc., and Constellation

Melanie Gillette
Sr Mgr Western Reg. Affairs
ENERNOC, INC.
115 HAZELMERE DRIVE
FOLSOM CA 95630
(916) 501-9573
mgillette@enernoc.com
For: ENERNOC, INC.

Ronald Moore
GOLDEN STATE WATER/BEAR VALLEY ELECTRIC
630 EAST FOOTHILL BOULEVARD
SAN DIMAS CA 91773
(909) 394-3600 X 682
rkmoore@gswater.com
For: GOLDEN STATE WATER/BEAR VALLEY ELECTRIC

Jeanne Armstrong
Attorney At Law
GOODIN MACBRIDE SQUERI DAY & RITCHIE
505 SANSOME STREET, SUITE 900
SAN FRANCISCO CA 94111
(415) 392-7900
jarmstrong@goodinmacbride.com
For: Reliant Energy

Brian Cragg
Attorney At Law
GOODIN, MAC BRIDE, SQUERI, DAY & LAMPREY
505 SANSOME STREET, SUITE 900
SAN FRANCISCO CA 94111
(415) 392-7900
bcragg@goodinmacbride.com
For: Independent Energy Producers Association

Charlyn A. Hook
Legal Division
RM. 4107
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-3050
chh@cpuc.ca.gov
For: DRA

Sara Steck Myers
LAW OFFICES OF SARA STECK MYERS
122 28TH AVE.
SAN FRANCISCO CA 94121
(415) 387-1904
ssmyers@att.net
For: Center for Energy Efficiency and Renewable Technologies
(CEERT)

Corporate Creations Network Inc.
LIBERTY POWER HOLDINGS LLC (1371)
131-A STONEY CIRCLE 500
SANTA ROSA CA 95401
For: LIBERTY POWER HOLDINGS LLC (1371)& Liberty Power
Deleaware LLC (1372)

Chief Operating Officer
MOUNTAIN UTILITIES
PO BOX 205
KIRKWOOD CA 95646
(209) 258-7444

Brian K. Cherry
Vp, Regulatory Relations
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 770000, MAIL CODE: B10C
SAN FRANCISCO CA 94177
(415) 973-4977
bkc7@pge.com
For: Pacific Gas and Electric Company

Mark Huffman
WILLIAM MANHEIM, CHARLES MIDDLEKAUF
Attorney At Law
PACIFIC GAS AND ELECTRIC COMPANY
MC B30A PO BOX 770000
SAN FRANCISCO CA 94177
mrh2@pge.com
For: PACIFIC GAS AND ELECTRIC COMPANY

Ryan Flynn
PACIFICORP
825 NE MULTNOMAH STREET, STE. 1800
PORTLAND OR 97232
(503) 813-5854
ryan.flynn@pacificorp.com
For: PacifiCorp

Thomas R. Darton
PILOT POWER SERVICES, INC.
8910 UNIVERSITY CENTER LANE, SUITE 520
SAN DIEGO CA 92122
(858) 627-9577
tdarton@pilotpowergroup.com
For: PILOT POWER SERVICES, INC.

Jessica Nelson
PLUMAS SIERRA RURAL ELECTRIC COOP.
73233 STATE ROUTE 70
PORTOLA CA 96122-7069
(530) 832-6004
jnelson@psrec.coop
For: PLUMAS SIERRA RURAL ELECTRIC COOP.

Rick C. Noger
PRAXAIR PLAINFIELD, INC.
2711 CENTERVILLE ROAD, SUITE 400
WILMINGTON DE 19808
(925) 866-6809
rick_noger@praxair.com
For: PRAXAIR PLAINFIELD, INC.

For: Mountain Utilities

Steve Rahon
Director, Tariff & Reg. Accounts
SAN DIEGO GAS & ELECTRIC COMPANY
8330 CENTURY PARK COURT, CP32C
SAN DIEGO CA 92123-1548
(858) 654-1773
srahon@semprautilities.com
For: SAN DIEGO GAS & ELECTRIC COMPANY

Don P. Garber
SAN DIEGO GAS AND ELECTRIC
101 ASH STREET
SAN DIEGO CA 92101-3017
(619) 696-4539
DGarber@sempra.com
For: SAN DIEGO GAS AND ELECTRIC

Theodore Roberts
SEMPRA ENERGY SOLUTIONS
101 ASH STREET, 12TH FLOOR
SAN DIEGO CA 92101-3017
(619) 699-5111
troberts@sempra.com
For: SEMPra GLOBAL

Michael A. Backstrom
MICHAEL D. MONTOYA
Attorney At Law
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMead CA 91770
(626) 302-6944
michael.backstrom@sce.com
For: SOUTHERN CALIFORNIA EDISON COMPANY

National Registered Agents, Inc
STRATEGIC ENERGY LLC
2030 MAIN STREET, SUITE 1030
IRVINE CA 92614
For: STRATEGIC ENERGY LLC

Daniel Silveria
General Manager
SURPRISE VALLEY ELECTRIC CORP.
PO BOX 691
ALTURAS CA 96101
(916) 233-3511
dansvec@hdo.net
For: SURPRISE VALLEY ELECTRIC CORP.

David Vidaver
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-20

Keith R. Mccrea
Attorney At Law
SUTHERLAND, ASBILL & BRENNAN, LLP
1275 PENNSYLVANIA AVE., N.W.
WASHINGTON DC 20004-2415
(202) 383-0705
keith.mccrea@sablaw.com
For: California Manufacturers and Technology Association

Michel P. Florio
Attorney At Law
THE UTILITY REFORM NETWORK (TURN)
711 VAN NESS AVENUE, SUITE.350
SAN FRANCISCO CA 94102
(415) 929-8876
mflorio@turn.org
For: THE UTILITY REFORM NETWORK (TURN)

Cindy Morrow
VALLEY ELECTRIC ASSOCIATION
800 E. HWY 372
PAHRUMP NV 89048
For: VALLEY ELECTRIC ASSOCIATION

Lisa Cottle
Attorney At Law
WINSTON & STRAWN LLP
101 CALIFORNIA STREET, 39TH FLOOR
SAN FRANCISCO CA 94111
(415) 591-1579
lcottle@winston.com
For: Mirant California LLC, Mirant Delta LLC, Mirant Portrero LLC

***** STATE EMPLOYEE *****

Donald J. Brooks
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2626
dbr@cpuc.ca.gov

Daryl Metz
CALIFORNIA ENERGY COMMISSION
1516 9TH ST., MS-20
SACRAMENTO CA 95814
(916) 654-4731
dmetz@energy.state.ca.us

Matthew Deal
Executive Division
RM. 5215

SACRAMENTO CA 95814
(916) 654-4656
dvidaver@energy.state.ca.us

Dennis L. Beck Jr.
Senior Staff Counsel
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS 14
SACRAMENTO CA 95816
(916) 654-3974
dbeck@energy.state.ca.us
For: CALIFORNIA ENERGY COMMISSION

James Woodward
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET MS-20
SACRAMENTO CA 95814
(916) 654-5180
jwoodwar@energy.state.ca.us

Lynn Marshall
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-22
SACRAMENTO CA 95814
(916) 654-4767
lmarshall@energy.state.ca.us

Michael Jaske
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET, MS-39
SACRAMENTO CA 95814
(916) 654-4777
mjaske@energy.state.ca.us

Mike Ringer
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-20
SACRAMENTO CA 95814
(916) 654-4168
mringer@energy.state.ca.us

Laurence Chaset
Legal Division
RM. 5131
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 355-5595
lau@cpuc.ca.gov

Robert L. Strauss
Energy Division

505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2576
mjd@cpuc.ca.gov

Elizabeth Dorman
Legal Division
RM. 4300
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-1415
edd@cpuc.ca.gov

Kevin R. Dudney
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2557
kd1@cpuc.ca.gov

Farzad Ghazzagh
Division of Ratepayer Advocates
RM. 4209
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-1694
fxg@cpuc.ca.gov
For: DRA

Katie Liu
Division of Ratepayer Advocates
RM. 4103
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2673
kql@cpuc.ca.gov

Peter Spencer
Consumer Protection & Safety Division
AREA 2-E
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-5347
phs@cpuc.ca.gov

Elizabeth Stoltzfus
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-5586
eks@cpuc.ca.gov

Rob Gramlich
AMERICAN WIND ENERGY ASSOCIATION

AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-5289
rls@cpuc.ca.gov

Lana Tran
Consumer Protection & Safety Division
AREA 2-D
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-5327
ltt@cpuc.ca.gov

Mark S. Wetzell
Administrative Law Judge Division
RM. 5009
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-1491
msw@cpuc.ca.gov

***** INFORMATION ONLY *****

Karen Terranova
ALCANTAR & KAHL, LLP
120 MONTGOMERY STREET, STE 2200
SAN FRANCISCO CA 94104
(415) 421-4143
filings@a-klaw.com

Evelyn Kahl
ALCANTAR & KAHL, LLP
120 MONTGOMERY STREET, SUITE 2200
SAN FRANCISCO CA 94104
(415) 421-4143
ek@a-klaw.com
For: The Energy Producers and Users Coalition

Michael P. Alcantar
Attorney At Law
ALCANTAR & KAHL, LLP
120 MONTGOMERY STREET, SUITE 2200
SAN FRANCISCO CA 94104
(415) 421-4143
mpa@a-klaw.com
For: Cogeneration Association of California

Shucheng Liu
CALIF. INDEPENDENT SYSTEM OPERATOR
DEPT. OF MRKT & PRODUCT DEVELOPMENT

1101 14TH STREET NW, 12TH FLOOR
WASHINGTON DC 20005
(202) 383-2521

Philippe Auclair
11 RUSSELL COURT
WALNUT CREEK CA 94598
(925) 588-9109
phil@auclairconsulting.com

Barbara R. Barkovich
BARKOVICH & YAP, INC.
44810 ROSEWOOD TERRACE
MENDOCINO CA 95460
(707) 937-6203
brbarkovich@earthlink.net

Reed V. Schmidt
BARTLE WELLS ASSOCIATES
1889 ALCATRAZ AVENUE
BERKELEY CA 94703-2714
(510) 653-3399 X111
rschmidt@bartlewells.com

Tracey L. Drabant
Energy Resource Manager
BEAR VALLEY ELECTRIC SERVICE
PO BOX 1547
BIG BEAR LAKE CA 92315
(909) 866-1666
traceydrabant@bves.com

Ryan Bernardo
BRAUN BLAISING MCLAUGHLIN, P.C.
915 L STREET, SUITE 1270
SACRAMENTO CA 95814
(916) 837-8480
bernardo@braunlegal.com

Scott Blaising
BRAUN & BLAISING, P.C.
915 L STREET, SUITE 1270
SACRAMENTO CA 95814
(916) 682-9702
blaising@braunlegal.com

Vicki Ferguson
BRAUN & BLAISING, PC
915 L STREET, SUITE 1270
SACRAMENTO CA 95814
(916) 326-5812
ferguson@braunlegal.com

Kevin Duggan
Attorney At Law
CALPINE COPORATION

151 BLUE REVINE ROAD
FOLSOM CA 95630
(916) 608-7204
SLiu@caiso.com

David Morse
CALIFORNIA AMERICAN WATER CO.
1411 W. COVELL BLVD., STE. 106-292
DAVIS CA 95616-5934
(530) 756-5033
demorse@omsoft.com
For: CALIFORNIA AMERICAN WATER CO.

CALIFORNIA ENERGY MARKETS
425 DIVISADERO STREET, STE 303
SAN FRANCISCO CA 94117
(415) 963-4439
cem@newsdata.com

Philip D. Pettingill
Legal & Reg. Dept.
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
151 BLUE RAVINE ROAD
FOLSOM CA 95630
(916) 608-7241
ppettingill@caiso.com
For: CALIFORNIA INDEPENDENT SYSTEM OPERATOR

James McClain
CALIFORNIA INDEPENDENT SYSTEM OPERATOR C
151 BLUE RAVINE ROAD
FOLSOM CA 95630
(916) 608-5809
jmclain@caiso.com
For: CALIFORNIA INDEPENDENT SYSTEM OPERATOR C

Legal & Regulatory Dept.
CALIFORNIA ISO
151 BLUE RAVINE ROAD
FOLSOM CA 95630
e-recipient@caiso.com
For: CALIFORNIA INDEPENDENT SYSTEM OPERATOR

Nancy Rader
CALIFORNIA WIND ENERGY ASSOCIATION
2560 NINTH STREET, SUITE 213A
BERKELEY CA 94710
(510) 845-5077
nrader@calwea.org

Mike Evans
CORAL POWER, LLC
4445 EASTGATE MALL, SUITE 100
SAN DIEGO CA 92121
(858) 526-2103
michael.evans@shell.com

3875 HOPYARD ROAD, SUITE 345
PLEASANTON CA 94588
(925) 479-6648
duggank@calpine.com

Rachel McMahon
Dir. Of Reg. Affairs
CEERT
1100 11TH STREET, SUITE 311
SACRAMENTO CA 95814
(916) 442-7785
rachel@ceert.org
For: Center for Energy Efficiency and Renewable Technologies
(CEERT)

Manuel Ramirez
CITY AND COUNTY OF SAN FRANCISCO
1155 MARKET STREET, 4TH FLOOR
SAN FRANCISCO CA 94103
(415) 554-1538
mramirez@sfgov.org
For: CITY AND COUNTY OF SAN FRANCISCO

Theresa Mueller
Deputy City Attorney
CITY AND COUNTY OF SAN FRANCISCO
CITY HALL, ROOM 234
SAN FRANCISCO CA 94102
(415) 554-4640
theresa.mueller@sfgov.org
For: CITY AND COUNTY OF SAN FRANCISCO

Mark Frazee
Principal Integ. Res. Planner
CITY OF ANAHEIM PUBLIC UTILITIES DEPT.
201 S. ANAHEIM BLVD., SUITE 802
ANAHEIM CA 92805
(714) 765-4131
mfrazee@anaheim.net
For: CITY OF ANAHEIM PUBLIC UTILITIES DEPT.

Tracy Martin
CITY OF CORONA, DEPT OF WATER & POWER
755 CORPORATION YARD WAY
CORONA CA 92880
(951) 817-5880
tracy.martin@ci.corona.ca.us

Jedediah J. Gibson
Attorney At Law
ELLISON SCHNEIDER & HARRIS LLP
2015 H STREET
SACRAMENTO CA 95811
(916) 447-2166

For: CORAL POWER, LLC

William F. Dietrich
Attorney At Law
DIETRICH CONSULTING
2977 YGNACIO VALLEY ROAD, NO. 613
WALNUT CREEK CA 94598-3535
(415) 297-2356
dietrichlaw2@earthlink.net

Don Liddell
Attorney At Law
DOUGLASS & LIDDELL
2928 2ND AVENUE
SAN DIEGO CA 92103
(619) 993-9096
liddell@energyattorney.com

Brian Theaker
DYNEGY
980 NINTH STREET, SUITE 2130
SACRAMENTO CA 95814
(530) 295-3305
brian.theaker@dynegy.com
For: DYNEGY

Audra Hartmann
DYNEGY, INC.
980 NINTH STREET, SUITE 2130
SACRAMENTO CA 95814
(916) 441-6242
Audra.Hartmann@Dynegy.com
For: DYNEGY, INC.

Stephen Hess
EDISON MISSION MARKETING & TRADING INC.
18101 VON KARMAN AVE, STE. 1700
IRVINE CA 92612-1046
(949) 798-7833
SHess@edisonmission.com
For: EDISON MISSION MARKETING & TRADING INC.

Fred Mobasheri
ELECTRIC POWER GROUP
201 S. LAKE AVE., SUITE 400
PASADENA CA 91101
(626) 658-2015
fmobasheri@aol.com
For: ELECTRIC POWER GROUP LLC

Joseph F. Wiedman
GOODIN MACBRIDE SQUERI DAY LAMPREY, LLP
505 SANSOME STREET. SUITE 900
SAN FRANCISCO CA 94111
(415) 392-7900
jwiedman@goodinmacbride.com

jjg@eslawfirm.com

Carolyn Kehrein
ENERGY MANAGEMENT SERVICES
2602 CELEBRATION WAY
WOODLAND CA 95776
(530) 668-5600
cmkehrein@ems-ca.com
For: Energy Users Forum (EUF)

Richard H. Counihan
Sr. Director Corporate Development
ENERNOC, INC.
594 HOWARD ST., SUITE 400
SAN FRANCISCO CA 94105
(415) 571-1861
rcounihan@enernoc.com
For: ENERNOC, INC.

Saeed Farrokhpay
FEDERAL ENERGY REGULATORY COMMISSION
110 BLUE RAVINE RD., SUITE 107
FOLSOM CA 95630
(916) 294-0322
saeed.farrokhpay@ferc.gov
For: FEDERAL ENERGY REGULATORY COMMISSION

Barry R. Flynn
FLYNN RESOURCE CONSULTANTS, INC.
5440 EDGEVIEW DRIVE
DISCOVERY BAY CA 94514
(925) 634-7500
brflynn@flynnrci.com

Ed Chang
FLYNN RESOURCE CONSULTANTS, INC.
2165 MOONSTONE CIRCLE
EL DORADO HILLS CA 95762
(888) 634-0222
edchang@flynnrci.com

Diane I. Fellman
Director, Regulatory Affairs
FPL ENERGY PROJECT MANAGEMENT, INC.
234 VAN NESS AVENUE
SAN FRANCISCO CA 94102
(415) 703-6000
Diane_Fellman@fpl.com

Susan M. O'Brien
MCCARTHY & BERLIN, LLP
100 PARK CENTER PLAZA, SUITE 501
SAN JOSE CA 95113
(408) 288-2080
sobrien@mccarthylaw.com

For: North American Power Partners

Steven Kelly
Policy Director
INDEPENDENT ENERGY PRODUCERS ASSOCIATION
1215 K STREET, SUITE 900
SACRAMENTO CA 95814
(916) 448-9499
steven@iepa.com
For: INDEPENDENT ENERGY PRODUCERS ASSOCIATION

Keith G. Johnson
Senior Market And Product Developer
151 BLUE RAVINE ROAD
FOLSOM CA 95682
(916) 608-7100
kjohnson@caiso.com

Karen Lindh
LINDH & ASSOCIATES
7909 WALERGA ROAD, STE 112, PMB 119
ANTELOPE CA 95843
(916) 729-1562
karen@klindh.com

John W. Leslie
Attorney At Law
LUCE, FORWARD, HAMILTON & SCRIPPS, LLP
11988 EL CAMINO REAL, SUITE 200
SAN DIEGO CA 92130
(858) 720-6352
jleslie@luce.com
For: Coral Power LLC

C. Susie Berlin
Attorney At Law
MC CARTHY & BERLIN, LLP
100 PARK CENTER PLAZA, SUITE 501
SAN JOSE CA 95113
(408) 288-2080
sberlin@mccarthyllaw.com

Barry F. Mccarthy, Esq.
Attorney At Law
MCCARTHY & BARRY LLP
100 PARK CENTER PLAZA, SUITE 501
SAN JOSE CA 95113
(408) 288-2080
bmcc@mccarthyllaw.com

James B. Woodruff
Vice President Regulatory And Govt Affai
NEXTLIGHT RENEWABLE POWER, LLC
101 CALIFORNIA STREET, STE 2450
SAN FRANCISCO CA 94111
(626) 404-6860

Blair Jackson
MODESTO IRRIGATION DISTRICT
1231 ELEVENTH STREET
MODESTO CA 95354
(209) 526-7505
blairj@mid.org
For: MODESTO IRRIGATION DISTRICT

Joy A. Warren
Regulatory Administrator
MODESTO IRRIGATION DISTRICT
1231 11TH STREET
MODESTO CA 95354
(209) 526-7389
joyw@mid.org
For: MODESTO IRRIGATION DISTRICT

Roger Van Hoy
MODESTO IRRIGATION DISTRICT
1231 11TH STREET
MODESTO CA 95354
(209) 526-7464
rogerv@mid.org
For: MODESTO IRRIGATION DISTRICT

Irene K. Moosen
Attorney At Law
53 SANTA YNEZ AVENUE
SAN FRANCISCO CA 94112
(415) 587-7343
irene@igc.org
For: CITY AND COUNTY OF SAN FRANCISCO

MRW & ASSOCIATES, INC.
1814 FRANKLIN STREET, SUITE 720
OAKLAND CA 94612
(510) 834-1999
mrw@mrwassoc.com

Paul D. Maxwell
NAVIGANT CONSULTING, INC.
3100 ZINFANDEL DRIVE, SUITE 600
RANCHO CORDOVA CA 95670-6078
(916) 631-2300
pmaxwell@navigantconsulting.com

Grace Livingston-Nunley
Assistant Project Manager
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 770000 MAIL CODE B9A
SAN FRANCISCO CA 94177
(415) 973-4304

jwoodruff@nextlightrp.com

Kerry Hattevik
Director Of Reg. And Market Affairs
NRG ENERGY
829 ARLINGTON BLVD.
EL CERRITO CA 94530
(510) 227-9188
kerry.hattevik@nrgenergy.com

Andrew L. Harris
PACIFIC GAS & ELECTRIC COMPANY
PO BOX 770000 MAIL CODE B9A
SAN FRANCISCO CA 94177
alho@pge.com
For: PACIFIC GAS & ELECTRIC COMPANY

Charles R. Middlekauff
Attorney
PACIFIC GAS & ELECTRIC COMPANY
PO BOX 770000 B30A
SAN FRANCISCO CA 94120
(415) 973-6971
CRMD@pge.com

Joe Lawlor
PACIFIC GAS & ELECTRIC COMPANY
PO BOX 770000 MAIL CODE N12G
SAN FRANCISCO CA 94177
JTL5@pge.com

Bianca Bowman
Case Coordinator
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, MAIL CODE B9A
SAN FRANCISCO CA 94105
(415) 973-4124
brbc@pge.com

Ed Lucha
Case Coordinator
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 770000, MAIL CODE B9A
SAN FRANCISCO CA 94177
(415) 973-3872
ELL5@pge.com
For: PACIFIC GAS AND ELECTRIC COMPANY

Trent Carlson
Vp, Regulatory Affairs
RELIANT ENERGY, INC.
1000 MAIN STREET
HOUSTON TX 77002

GXL2@pge.com
For: PACIFIC GAS AND ELECTRIC COMPANY

Shaun Halverson
PACIFIC GAS AND ELECTRIC COMPANY
PG&E MAIL CODE B9A
PO BOX 770000
SAN FRANCISCO CA 94177
SEHC@pge.com
For: PACIFIC GAS AND ELECTRIC COMPANY

Tom Jarman
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 77000, MAIL CODE B9A
SAN FRANCISCO CA 94105-1814
(415) 973-7157
taj8@pge.com

Cathie Allen
Ca State Mgr.
PACIFICORP
825 NE MULTNOMAH STREET, SUITE 2000
PORTLAND OR 97232
(503) 813-7157
californiadockets@pacificcorp.com

Sebastien Csapo
PG&E PROJECT MGR.
MAIL CODE B9A
PO BOX 770000
SAN FRANCISCO CA 94177
sscb@pge.com
For: Pacific Gas and Electric Co.

James Ross
RCS, INC.
500 CHESTERFIELD CENTER, SUITE 320
CHESTERFIELD MO 63017
(636) 530-9544
jimross@r-c-s-inc.com
For: The Cogeneration Association of California

Gretchen Schott
Senior Counsel
RELIANT ENERGY, INC.
1000 MAIN STREET
HOUSTON TX 77002
(713) 497-6933
gschott@reliant.com
For: RELIANT ENERGY, INC.

Karen Lee
Attorney
SOUTHERN CALIFORNIA EDISON
2244 WALNUT GROVE AVE. PO BOX 800
ROSEMEAD CA 91770

(731) 497-4386
tcarlson@reliant.com
For: RELIANT ENERGY, INC.

Sue Mara
RTO ADVISORS, LLC.
164 SPRINGDALE WAY
REDWOOD CITY CA 94062
(415) 902-4108
sue.mara@rtoadvisors.com

Randy Nicholson
Ferc/Caiso Regulatory Affairs
SAN DIEGO GAS & ELECTRIC
8330 CENTURY PARK COURT, CP32H
SAN DIEGO CA 92123
(858) 654-3567
RNicholson@Semprautilities.com
For: SAN DIEGO GAS & ELECTRIC

James Hendry
Utilities Specialist
SAN FRANCISCO PUBLIC UTILITIES COMM.
1155 MARKET STREET, FOURTH FLOOR
SAN FRANCISCO CA 94103
(415) 554-1526
jhendry@sfgwater.org
For: SAN FRANCISCO PUBLIC UTILITIES COMM.- Power
Enterprises

David Orth
General Manager
SAN JOAQUIN VALLEY POWER AUTHORITY
4886 EAST JENSEN AVENUE
FRESNO CA 93725
(559) 237-5567
dorth@krcd.org
For: SAN JOAQUIN VALLEY POWER AUTHORITY

Phillip J. Muller
SCD ENERGY SOLUTIONS
436 NOVA ALBION WAY
SAN RAFAEL CA 94903
(415) 479-1710
philm@scdenergy.com
For: SCD ENERGY SOLUTIONS

Michael Shames
Attorney At Law
UTILITY CONSUMERS' ACTION NETWORK
3100 FIFTH AVENUE, SUITE B
SAN DIEGO CA 92103

(626) 302-6659
karen.lee@sce.com
For: SOUTHERN CALIFORNIA EDISON

Case Administration
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE, ROOM 370
ROSEMEAD CA 91770
(626) 302-4875
case.admin@sce.com

Andrea Morrison
Dir., Reg. And Gov. Affairs
STRATEGIC ENERGY
415 DIXSON STREET
ARROYO GRANDE CA 93420
(805) 481-2097
amorrison@strategicenergy.com
For: STRATEGIC ENERGY

Jennifer Chamberlin
Manager Of Reg. And Government Affairs
STRATEGIC ENERGY, L.L.C.
2633 WELLINGTON CT.
CLYDE CA 94520
(925) 969-1031
jchamberlin@strategicenergy.com
For: STRATEGIC ENERGY, L.L.C.

Jennifer Chamberlin
Mgr. Of Reg. And Gov. Affairs
STRATEGIC ENERGY, LLC
2633 WELLINGTON CT.
CLYDE CA 94520
(925) 969-1031
jchamberlin@strategicenergy.com
For: STRATEGIC ENERGY, LLC

Regina Costa
Research Director
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO CA 94102
(415) 929-8876 X312
rcosta@turn.org
Kevin Woodruff
WOODRUFF EXPERT SERVICES
1100 K STREET, SUITE 204
SACRAMENTO CA 95814
(916) 442-4877
kdw@woodruff-expert-services.com

(619) 696-6966
mshames@ucan.org

Karleen O'Connor
WINSTON & STRAWN LLP
101 CALIFORNIA STREET 39TH FLR
SAN FRANCISCO CA 94111
(415) 591-1578
koconnor@winston.com
For: Mirant California LLC, Mirant Delta LLC, Mirant Portrero
LLC