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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development.	Rulemaking 01-10-024

ASSIGNED COMMISSIONER'S RULING ESTABLISHING CATEGORY AND PROVIDING SCOPING MEMO

Pursuant to Rules 6(c)(2) and 6.3 of the Commission's Rules of Practice and Procedure, this ruling designates the category of this proceeding, the need for hearing, and the principal hearing officer and also provides a scoping memo confirming and clarifying the issues and schedule discussed at the prehearing conference (PHC) held on January 8, 2002. This ruling is appealable only as to category of this proceeding under the procedures in Rule 6.4.

1. Summary

This ruling sets forth a process and schedule for utilities to submit forecasts of the costs they will incur when they resume procurement of energy and reserves to serve their electric customers. Under this schedule, the Commission will adopt a forecast of procurement costs and a cost recovery mechanism no later than October of this year. In addition, I request submittals from utilities and other parties on acquiring renewable resources in the near term, and direct the utilities and Staff to prepare long-term resource plans which consider generation, demand-side and transmission resources.

2. Background

Prior to late 1970s, virtually all the power needed to meet the electric demand in California was generated by the large investor-owned utilities. With the OPEC oil embargoes and delays and cost overruns experienced with nuclear plants in the late 1970s, this practice changed dramatically. As part of a national plan to address the increasing costs and environmental consequences of electricity production, the federal Public Utilities Regulatory Policy Act of 1978 (PURPA) created a class of privately-owned generation called Qualifying Facilities (QF) with the legal right to sell power to the utility at the utility's own avoided cost. To promote the development of these new generation resources, California implemented a series of Standard Offer Contracts to provide QFs with a simple process for obtaining a contract to sell their generation, and to clarify for utilities what was considered reasonable by the Commission. Importantly, these avoided-cost energy prices were fixed for a period of up to ten years to provide price stability to consumers and a stable source of revenues for the QFs, allowing them an opportunity to obtain financing. As a result, the QF industry in California boomed, as many previously stalled generation projects became instantly financible.

As it became clear that QFs would provide the majority of new generation serving utility customers, the Commission established a biennial resource planning process centered on allowing QFs to compete against proposed utility projects. The Commission's Biennial Resource Plan Update (BRPU), replaced the Commission's prior process of reviewing utility resource plans in triennial general rate cases. Under the BRPU, the Commission required utilities to submit resource plans using CEC demand and supply projections as well as other scenarios at the utilities discretion. The Commission would then determine

which proposed new utility plants could be supplanted by QF generation - so-called Identified Deferrable Resources (IDRs). QFs were then allowed to bid against the costs of the IDRs.

Similar processes were simultaneously underway at more than 30 state PUCs across the country, integrating cost-effective procurement strategies with objectives such as contingency planning and environmental sensitivity. The approach came to be known as Integrated Resource Planning, defined by the Edison Electric Institute as:

> "A utility planning process which evaluates the costs and benefits of alternative projects and resources available to satisfy anticipated customer demand for electricity…(which) integrates and supply-side and demand-side resources…deals with uncertainty… (by testing) against a variety of worst-case scenarios… (and) is sensitive to environmental issues."

The BRPU included consideration of demand-side management options, transmission limitations and costs, and environmental costs of air emissions. As the process began to gather momentum, however, two events conspired to halt it in its tracks:

- Southern California Edison successfully complained to FERC that the Commission's process was inconsistent with Federal law due to the inclusion of air pollution costs and limiting the competition to QFs.

- The Commission's policy on the acquisition of resources changed as the Commission pursued deregulation. Both the Commission staff report "California's Electric Service Industry: Perspectives on the Past, Strategies for the Future" (the "Yellow Book") and the federal Energy Policy Act of 1992 (EPAct), in their emphasis on market-directed investment decisions, forced reconsideration of the basic approach of the BRPU.

Ultimately the Commission ruled in D.93-06-098 to forestall resource planning. Although no determination was made to eliminate the BRPU process,

the passage of AB 1890 in 1996 - under which investment decisions were left to competition, the approach to integrated resource planning contained in the BRPU process was effectively abandoned by the Commission. As proven in early 2000, reliance on market forces and the lack of a policy perspective in this area contributed to the energy crisis of 2000-01.

Much has changed since the Commission first embarked on an integrated resource planning process. But the Commission's role in ensuring that there is a comprehensive and effective approach in planning both the immediate and longer-range resource acquisition of California's electric utilities remains the same. The Commission retains its responsibility to conduct resource planning as follows:

1) **Under § 451 the Commission is required to insure that all utility charges are just and reasonable:**

   - Ch.3 Art. 1 §451: "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable."

2) **Under § 701.1 the Commission has the responsibility to pursue resource planning for fuel diversity and renewable generation development:**

   - Ch. 4 Art. 1 §701.1 (A) "The Legislature finds and declares that, in addition to other ratepayer protection objectives, a principal goal of electric and natural gas utilities' resource planning and investment shall be to minimize the cost to society of the reliable energy services that are provided by natural gas and electricity, and to improve the environment and to encourage the diversity of energy sources through improvements in energy efficiency and development of renewable energy resources, such as wind, solar biomass, and geothermal energy." (B) "The Legislature first finds and declares that, in addition to any appropriate investments in energy

production, electrical and natural gas utilities should seek to exploit all practicable and cost-effective conservation and improvements in the efficiency of energy use and distribution that offer equivalent or better system reliability, and which are not being exploited by any other entity."

3) The Legislature is considering AB 57, which would require the utilities to submit a procurement proposal and the Commission to adopt a procurement plan prior to the date on which the utilities would resume purchasing power for their retail customers.

Since January 2001, Edison, SDG&E and PG&E have not purchased power for their customers' net short needs. The Legislature enacted ABX1 1 (Keely) on January 31, authorizing the California Department of Water Resources (DWR) to make electricity purchases for the purpose of selling electricity to utility retail customers. This was necessary for at that time the utilities were not financially able to meet their short term purchase obligations[1] -- the utilities' "net short" needs. *Under the law DWR's authority to contract for such purchases will expire on January 1, 2003.* For the utilities to resume the responsibility to procure power for their customers, the Commission should evaluate their procurement practices, incorporating: 1) the actions of DWR in contracting for power; 2) Power Authority efforts to develop reserve generating capacity;[2] and 3) the cumulative

[1] Although unable to contract for short term power procurement, the utilities continued to produce power from the generating assets they own and to purchase power that was under long term contract. DWR stepped in to purchase that relatively small amount of power not already under contract to the utilities or generated from a utility-owned asset.

[2] The California Consumer Power and Conservation Financing Authority (Power Authority) was established by SBX1 6 (Burton, Bowen), which was signed into law May 16, 2001. On February 15, 2002, the Power Authority issued its first Energy Resource

Footnote continued on next page

effects of the various DSM programs underway in the state. A comprehensive assessment of the state's immediate and long-term energy requirement, incorporating the many recent changes to the electricity landscape as well as the priorities retained under the P.U. Code, must be developed and implemented to ensure that utilities' procurement activities will best serve California's electric retail customers.

On October 29, 2001, the Commission issued an Order Instituting Rulemaking (OIR), designated as Rulemaking (R.) 01-10-024, to

(1) establish ratemaking mechanisms to enable California's three major investor-owned electric utilities, Southern California Edison Company (Edison), San Diego Gas & Electric Company (SDG&E), and Pacific Gas and Electric Company (PG&E) to resume purchasing electric energy, capacity, ancillary services and related hedging instruments to fulfill their obligation to serve and meet the needs of their customers, and

(2) consider proposals on how the Commission should comply with Public Utilities Code Section 701.3 (Section 701.3) which requires that renewable resources be included in the mix of new generation facilities serving the state.

A preliminary scoping memo contained in the OIR set a schedule for respondent utilities to file procurement proposals and for interested parties to comment on the proposals, and scheduled a PHC for January 8, 2002. SDG&E and PG&E filed their proposals on November 21, 2001 and Edison late-filed its proposal on November 27, 2001.[3] Interested parties requested and were granted a one-week extension until December 21, 2001 to file comments. In their

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Investment Plan. In that document, the Power Authority describes its role in ensuring an adequate future reserve of electricity.

[3] I grant here Edison's motion to accept its late-filed proposal.

comments, many parties urged the Commission to develop a fully integrated resource planning process but to only decide quickly those issues that need to be in place for the utilities to resume full procurement responsibilities no later than January 1, 2003, as anticipated by Assembly Bill ABX1 1 (Keely).

At the January 8 PHC, assigned administrative law judge (ALJ) Christine M. Walwyn stated that after review of parties' comments, the Commission would narrow the scope of its initial hearings. She then outlined the scope of issues and proposed schedule to be initially addressed here and invited parties' comments. The assigned ALJ also stated that disputes identified by parties in their comments regarding the treatment of confidential information would be handled under the Commission's Law and Motion procedures by ALJ Kirk McKenzie, who at the PHC held an initial discussion with parties.

3. Categorization, Need for Hearings, Ex Parte Rules, and Designation of Principal Hearing Officer

In the OIR, the Commission preliminarily categorized this proceeding as ratesetting and stated that any evidentiary hearings that may be required will be limited in scope. We directed that any respondent who objected to the categorization or need for hearing should raise its objections in its November 21, 2001 filing and any other person who objects should raise an objection in December 2001 comments. No party addressed the categorization issue. On the need for hearings, several parties objected, stating they thought written comment would be sufficient for the Commission to address the issues.

I affirm the preliminary categorization of ratesetting, as that term is defined in Rule 5(c). I do not agree that written comment is sufficient. I prefer a fuller evidentiary record here that will allow the Commission to resolve any factual disputes, better coordinate with related proceedings, and afford the

Commission and interested parties the opportunity to question sponsoring parties' witnesses. We will limit the scope of issues to be addressed in evidentiary hearing.

In a ratesetting proceeding, Rule 5(k)(2) defines the "presiding officer" as the principal hearing officer designated as such by the assigned Commissioner prior to the first hearing in the proceeding. I designate ALJ Christine M. Walwyn as the principal hearing officer.

The Commission's ex parte rules applicable to this proceeding are set forth in Rules 7(c) and 7.1. These ex parte rules apply to all parties of record and, more broadly, to all persons with an interest in any substantive matter; the broad category of individuals subject to our ex parte rules is defined in Section 1701.1(c)(4).

4. Scoping Memo

In our OIR, the Commission lays out the comprehensive framework of issues that we need to address in establishing policies and cost recovery mechanisms for generation procurement and renewable resource development. I intend to take a two-pronged approach in addressing these complex issues. First, this proceeding will focus on what the Commission needs to decide in order to ensure the utilities successfully resume their obligation to serve and meet the needs of their customers no later than January 1, 2003 and to develop an interim rather than permanent cost recovery mechanism. In addition, I will pursue our mandate under Section 701.3 to promote the development of renewable electrical generation in California to the fullest extent possible within the confines of this proceeding schedule, explicitly emphasizing decisions that must be taken to meet the state's near-term needs. Second, I direct the utilities and the Commission staff to begin to assess long-term resource needs on an

integrated basis; parties will be separately noticed of additional efforts for this endeavor. As in the BRPU, these resource plans should focus on identifying new resources that should be added to the system within the next five years for reliability or cost-savings.

4.1 Cost Recovery Mechanism Is the Near-Term Priority

My objectives in developing an interim cost recovery procurement mechanism are to:

- improve the ability of the respondent utilities to meet their obligation to serve their customers' electric loads;
- assure just and reasonable electricity rates;
- enhance the financial stability and creditworthiness of respondent utilities;
- diminish the need for after-the-fact reasonableness reviews of procurement purchases;
- ensure the timely recovery in rates of procurement costs in order to support the credit of the utilities that function as load serving entities; and
- pursue our mandate to promote the development of renewable generation in California.

The written comments of Edison and other parties state that the existing contracts entered into by DWR greatly reduce the procurement needs of the utilities through 2003. Therefore, my expectation is that the size and range of discretionary procurement choices the respondent utilities will need to make in order to serve their customers in the near term are quite limited. With possible exceptions for renewable power that will be discussed below, the interim cost recovery procurement mechanism the Commission develops here will be limited to short-term power products similar to those recommended by the Office of Ratepayer Advocates: spot market purchases, forward and options contracts of

up to one year in duration, and ancillary services.[4] I expect that these power products include the range of products that the utilities may need to firm up any capacity obligations the Commission may place on them as load serving entities in the ISO Control Area.[5]

The utilities state that a quick review and timely cost recovery process are critical to them. As other parties discuss, incentive mechanisms and affiliate transactions are two matters that do not lend themselves to these objectives. Therefore, in developing an interim procurement mechanism for 2003, parties should not propose to allow transactions with any affiliates of the respondent utilities, not just their own affiliates. Any incentive mechanisms proposed must be transparent and simple to implement to be given any consideration.

I have reviewed each of the utilities' accounting proposals for procurement cost recovery. I find that Edison's proposal is generally consistent with prior Commission cost recovery mechanisms for power purchases and it is therefore a familiar and understood approach to industry, consumer advocates, and the

[4] The Commission is currently addressing cost recovery mechanisms for other procurement products in related proceedings. For interruptible programs, the Commission has authorized the utilities to track program costs in excess of those already recovered through existing rates in a memorandum account that is reviewed for reasonableness under a standard of review that "absent incompetence, malfeasance, or other unreasonableness, we would expect to authorize full recovery of all dollars spent by utilities for these programs" (D.01-04-006, mimeo. At page 78); the memorandum accounts are reviewed and recovered in each utility's Annual Earnings Assessment Proceeding (D.01-07-029, Ordering Paragraph 2(b), mimeo. at page 11). A commission decision on the cost recovery mechanism for demand-side management programs is pending in R.01-08-028.

[5] The Commission has been participating in discussions on the ISO Market Redesign. The record the Commission develops here would benefit from the participation of the ISO, and I strongly encourage the ISO to become an active party to this proceeding.

financial community. Edison proposes a procurement cost recovery mechanism that is conceptually similar to the long used and now defunct Energy Cost Adjustment Clause (ECAC) which was established to track fuel and fuel-related costs. Under Edison's proposal, fuel and power procurement costs, including residual net short procurement cost obligations, would be tracked in a balancing account and matched against billed revenues derived from a to-be-established Fuel and Purchased Power rate component.

To ensure timely cost recovery, Edison proposes to file an annual application at the end of the first quarter whereby entries made to the balancing account during the previous year (January 1 through December 31) would be verified by the Commission. Differences between recorded revenues and costs would be trued-up or down based on that review. The annual application would also specify a prospective Fuel and Purchased Power revenue requirement and associated rate during the following calendar year.

In addition to this annual review process, Edison proposes a trigger mechanism, similar to the trigger proposed in Assembly Bill 57, to dispose of balances in the balancing account. If at the end of a month, the balancing account is over- or under-collected by an amount that exceeds 5 percent of recorded generation revenues from the prior year, Edison would file an Advice Letter seeking a rate adjustment. The Advice Letter filing would become effective 60 days from the date it is filed. Lastly, Edison proposes to file an informational Advice Letter on September 1 of each year reporting the recorded operation of the balancing account from January 1 through June 30 of the same year. While this ruling neither approves of nor rejects Edison's proposal, I do want the utilities and parties to know that I am not comfortable with an interim cost recovery proposal that incorporates Advice Letter filings seeking balancing

account rate adjustments without conditioning such rate adjustments as subject to refund in a subsequent annual review process. Additionally, as a general rule, I do not favor that call for Advice Letter filings to automatically take effect 60 days from the date the Advice Letter is filed. I note that any potential risks to the utilities has been reduced since most of their resource needs are covered by long-term, fixed price contracts entered into by DWR. In addition, if there were an unanticipated rise in procurement costs, utilities have a right to submit applications for changes in authorized levels between annual proceedings.

I direct the respondent utilities to serve testimony detailing an interim procurement cost recovery mechanism and addressing attendant implementation issues in testimony. I am especially interested in the utilities including in their testimony details on how the Commission should evaluate whether specific purchases of a particular product type are reasonable. PG&E and SDG&E shall propose ECAC-type cost recovery mechanisms similar to that proposed by Edison. Any deviations from the Edison proposal must be thoroughly explained and justified including any benefit or detriment to the ratepayers compared to the Edison proposal. Such proposals should be designed to be consistent with previous Commission decisions regarding cost recovery accounting. I expect parties will respond to the utility cost recovery proposals in rebuttal testimony.

At the PHC, PG&E, Edison, the Independent Energy Producers Association, and Dynergy Marketing and Trade ask that the Commission consider adopting here policy framework statements on timely recovery of costs and limiting the risk associated with after-the-fact reasonableness review that would apply beyond 2003 in order for the financial markets to be comfortable with the way this Commission will allow procurement costs to be recovered in

the future. Parties may propose specific language that addresses this concern in their testimony provided they address the implications this will have on a permanent cost recovery mechanism that is not limited in its size and range of procurement choices and that may consider issues removed from the scope here.

The Natural Resources Defense Council requests that I expand the list of procurement products to include demand-side options among the short-term power options and Consumers Union specifically cites demand side options such as the Commission's interruptible rate program and the demand-side bidding program. While we are not designing cost recovery mechanisms for demand-side options here, the Commission does expect the respondent utilities to consider all their procurement options in their procurement planning. Demand-side options should be considered side-by-side with other short-term power options.

The fact that the cost recovery mechanisms for demand-side procurement options are not being addressed in this proceeding does not mean that the utilities should not include demand-side options in their procurement plans. I expect the utilities to include demand-side options in their procurement plans, and if they are not included, I expect the utilities to justify their exclusion in the testimony supporting their procurement plans. Any demand-side option included in the utilities procurement plans should be fully described and any deviations from authorized demand-side programs should be justified.

The Commission is addressing demand side options in related current proceedings, not here. In Phase II of our rulemaking on interruptible programs, R.00-10-002, the Commission is specifically addressing what will happen to our interruptible program after December 31, 2002 and is also the forum for considering requests to fund other demand response programs, such as the

demand-side bidding program which has been funded by ratepayers through the Department of Water Resources (DWR). In our energy efficiency rulemaking, R.01-08-028, the Commission is currently considering which specific demand-side management programs to fund for 2002 and will open a separate docket to consider 2003 energy efficiency program proposals. I agree that these are important programs and that it is critical to address both demand- and supply-side options. These are programs and approaches our staff will address in proposing an integrated approach to addressing resource needs.

PG&E requests that I expand our list of short-term products to include: sales, exchanges, tolling agreements, and physical gas purchases, and that the adopted options would be applied to both gas and electric purchases. It is reasonable to address a short list of products in this proceeding in order to simplify the mechanism and because I expect the size and range of discretionary procurement choices to be limited in the near term. However, PG&E may sponsor a proposal to include these products in its testimony if it addresses how its proposal meets our stated objectives. The California Energy Commission (CEC) asked if the Commission would consider new market products that meet our definition, such as a day-ahead market operated by the ISO. Parties may address criteria for new products in their testimony, but are cautioned to provide thoroughly detailed recommendations. For example, if the CEC proposes products like a day-ahead market operated by the ISO, it should specifically address whether the Commission should presume the ISO market price reasonable, and how the Commission should judge the utility decision to purchase in the ISO market rather than through other options as may be approved. Parties should detail how the Commission should evaluate whether any specific purchase of any product type – new or old – is reasonable.

Additionally, in testimony regarding short-term physical power products, I would like parties to comment on whether all authorized transactions should be required to have a link to a specific generation facility.

4.2 Transition Issues Need to be Understood and Resolved

DWR was directed to step in to ensure Californian's continued to receive reliable electric service at a time when generators refused to sell energy to the utilities owing to the rapid depletion of their cash and credit. Now, SDG&E's cash and credit situation makes it able to procure the full power needs of its customers. SCE is working to soon be in a restored cash and credit situation, enabling it to also resume procuring its customer's full power needs. All three investor-owned utilities must resume procuring their net short by no later than January 1, 2003, when the DWR authority expires.

I am inclined to propose to my colleagues a decision that directs SDG&E and SCE to resume procuring their full net short in advance of the January 1, 2003 outside date set in statute. Toward that end, I direct the respondent utilities and invite interested parties to file legal briefs that address the required actions, if any, that *must* be undertaken by the Commission for the individual utilities to resume procuring the net short. I also direct the filing of comments on any actions parties believe the Commission *should* take to ensure a successful transition of this responsibility from DWR to the utilities at the earliest possible date. In any comments, I ask parties to discuss what sequence of DWR / respondent utilities actions need to take place to allow for an early transition, and how to best manage this transition process in a setting where specific contracts are being renegotiated. I understand that the utilities request a 60 to 90 day lead time between the date the Commission orders them to resume full procurement and the date they implement full procurement. I am not

convinced it is, on balance, in the ratepayers' interest to delay the transition further. Parties should address the advantages and disadvantages of building in such a lead time.

I agree with those parties who note in their comments the critical need for the PUC to resolve two outstanding issues before the utilities may submit meaningful resource procurement plans or resume procuring the net short: 1) allocation among the respondent utilities of the load contracted for by DWR, and; 2) the parameters of Direct Access. Both of these issues have a strong impact on the quantity of energy services that must be procured by the utilities. The parameters for projecting the amount of load to be met under the Direct Access program have been resolved in D.02-03-055. I will pursue resolution of the allocation of load contracted for by DWR in proceedings where a record has already begun to be developed.

In the meantime, for utilities to prepare a procurement plan, I provide the assumptions each should use with respect to allocating the load contracted for by DWR:

> For those contracts with specific delivery points/locations identified, the contract volumes are allocated to the utility in whose service territory the delivery point is located.
>
> Unless delivery points/locations are specified in the contracts, all NP15 contract volumes should be allocated to PG&E and all SP15 volumes to SCE and SDG&E.

SP15 contract volumes, without specific delivery points/locations identified, are allocated among SCE and SDG&E using the following factors:

	SCE	SDG&E
Summer On-Peak	66%	34%
Summer Off-Peak	67%	33%
Winter On-Peak	58%	42%
Winter Off-peak	42%	58%

These factors are derived from the utilities' net short positions provided to the Commission.

SP15 contracts with specific delivery points/locations identified within the utility service area should be allocated to the appropriate utility. For example, the Calpeak El Cajon contract volumes should be allocated solely to SDG&E.

In addition to using the above assumptions, the utilities should propose their preferred method for allocating the load contracted for by DWR in their testimony. The utilities should each include their procurement plans for the period beginning with their resumption of their responsibility for procuring the full power needs of their customers to January 1, 2004, in their testimony. These procurement plans should integrate the projected load levels and load characteristics of each respondent utility with their specific procurement strategies for meeting their projected load with both demand and supply-side procurement options.

Each utility's procurement plan should include, at a minimum:

1) A comprehensive and clearly articulated policy and strategy which would justify a selection of any particular energy product or contract at a specific point in time;

2) A definition of the electricity products and related financial products including a justification for the product type and amount to be procured under the plan;
3) The duration, timing, and range of quantities of each product to be procured;
4) An assessment of the price risk associated with each utility's total resource portfolio, including its URG, the products to be procured, demand-side options, and spot market exposure. Each utility should explain what level of price volatility / stability will result from the its procurement plan. The utilities shall also discuss why that level of volatility / stability is appropriate for providing reliable service at reasonable cost;
5) A description of the utility's risk management policy, strategy, and practices including specific measures of price stability;
6) An open and competitive process by which the utility would solicit bids for procurement services;
7) Proposals detailing how the Commission should evaluate whether specific purchases of a particular product type are reasonable;
8) A process for updating the plan in order to respond to changing market conditions; and
9) A description of demand-side options.

The DWR contract allocation issue discussed by parties is before us in our Rate Stabilization Proceeding (RSP), Application (A.) 00-11-038, A.00-11-056, and A.00-10-028. On February 21, 2002, we adopted a decision in the RSP docket, D.02-02-052, that implements cost recovery of the revenue requirements of DWR of amounts to be collected from the customers of the respondent utilities for the period January 17, 2001 through December 31, 2002. That decision establishes a schedule and procedure for an annual DWR update proceeding, with the next update of the DWR revenue requirement to be submitted to the Commission on June 1, 2002, and revised DWR charges to take effect on January 1, 2003.

4.3 Renewables Should be Part of California's Resource Mix

I now turn to how the Commission will address our mandate under Section 701.3 to promote the development of renewable electrical generation in California. As stated earlier, it is my intention to address these issues to the fullest extent possible within the confines of this proceeding and the accelerated timeframe under which we must work, explicitly emphasizing decisions that must be taken to meet the state's needs for 2003.

I have discussed above the Commission's expectation regarding the procurement methods and mechanisms that will be authorized in the interim procurement process. The challenge is to stimulate the purchase of renewable generation utilizing these limited and short-term options, respecting the need for both system reliability and appropriate procedures for reasonableness review. To that end I invite testimony on the following issues:

- Should the Commission adopt a mandatory set-aside for renewable purchases by the investor-owned utilities in short-term transactions and if so, how large should it be? If not, what should be the method whereby the Commission promotes renewable purchases in the interim procurement process?
- How can these purchases be integrated into the generation portfolio of the utilities to ensure system reliability?
- In light of parties' concerns with reasonableness review procedures, how can the Commission establish a mechanism that will facilitate the orderly and expeditious review of short-term renewables purchases?

While I do not anticipate that the Commission would authorize purchases of non-renewable energy or capacity under long-term contract in the interim procurement process, the record in this proceeding should allow the Commission to consider whether or not to authorize such contracts for renewable generation as another method of support pursuant to Section 701.3. I

note that ten years ago in the BRPU, the Commission ordered the utilities to acquire over 300 MWs of new renewable resources. In the intervening years, neither those resources nor any appreciable amount of other renewable resources have been added to California's resource supply. I invite testimony on this approach in general and on the following issues in particular:

- How can the Commission establish appropriate reasonableness review procedures in evaluating long-term contracts for renewable generation products of the type and quantity needed for 2003? Are there particular price or contract structure benchmarks the Commission should favor?
- As above, how can system reliability be promoted in this process?
- How can parties best leverage other programs that support renewable generation in California, such as the CEC Renewable Energy Program and the programs under consideration by the Power Authority?

I remind parties that this proceeding explicitly emphasizes interim procurement methods for the immediate issue of restoring the utilities' obligation to serve and meet the needs of their customers no later than January 1, 2003, and that consideration of procurement practices post-2003 will likely involve larger quantities of purchased power and hence greater opportunity for support of renewable generation. Policy proposals should not foreclose options that may be available in later proceedings nor prejudge the outcome of any action underway at the Commission, in the legislature, or elsewhere. My principal objective is to stimulate development of a viable market for the output of renewable generation located within the state of California, and I invite testimony that would aid the Commission in pursuit of that goal in the very near term.

5. Procedural Schedule

The following schedule will be adhered to as closely as possible:

Required Steps for Transition Briefs	April 12, 2002
Comments on Additional Steps for Transition	April 15, 2002
Testimony of respondent utilities served	April 22, 2002
Testimony of interested parties served	May 13, 2002
Rebuttal testimony of all parties served	May 22, 2002
Cross-examination estimates served	May 23, 2002
Proposals for witness order / dates certain served	May 24, 2002
Evidentiary hearings	May 28 - June 4, 2002
	Commission Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco, California
Opening briefs filed	June 21, 2002
Reply briefs filed	July 3, 2002
Proposed decision mailed	September 3, 2002
Final Commission decision	October 2002

Pursuant to Rule 8(d), parties requesting final oral argument before the Commission should include that request in their opening brief.

6. Parties, Service, and Service List

The service list for this proceeding is attached to this ruling and any updates will be reflected in the service list on the Commission's website (www.cpuc.ca.gov). Additional parties wishing to participate as a full party to the proceeding must make their request by written motion or on the hearing record; additions to information only or state service can be handled by an e-mail to ALJ Walwyn (cmw@cpuc.ca.gov).

Parties at the PHC discussed the specific details of how testimony and exhibits would be treated under the Electronic Service Protocol attached to the OIR. If specific portions of testimony are not available electronically, the party sponsoring the testimony should inform parties of this and promptly provide written copies of this information upon request. All parties should bring sufficient extra copies of exhibits being offered into evidence to the hearing room so that there is no confusion regarding page numbers. With these clarifications, all parties shall abide by the Electronic Service Protocols set forth in Appendix A.

7. Protective Orders and Treatment of Confidential Information

In its November 27, 2001 proposal, Edison attaches a protective order it requests be used in this proceeding. Several parties objected to this order in their comments.

At the PHC, ALJ McKenzie gave specific guidance on what should be contained in a protective order. Edison's protective order is far-reaching. It proposes, among other things, to provide access to certain confidential information in future filings only to Commission staff. ALJ McKenzie spent considerable time discussing his concerns with this proposal.

Edison agreed to consider the issues raised by ALJ McKenzie and additional issues raised by parties, make changes it found appropriate to its proposed order, submit the revised order to all parties for review, and then arrange for all interested parties to confer with ALJ McKenzie. PG&E and SDG&E agreed to participate in this process and use the protective order ultimately approved by ALJ McKenzie.

IT IS RULED that:

1. This ruling confirms the Commission's preliminary finding in its OIR, issued on October 29, 2001, that the category for this proceeding is ratesetting and that evidentiary hearings are necessary.

2. The ex-parte rules as set forth in Rule 7(c) apply to this proceeding.

3. ALJ Christine M. Walwyn is the principal hearing officer.

4. The scope of this proceeding is described in Section 3 and the schedule is set forth in Section 4.

5. The official service list is attached to this ruling and the Electronic Service Protocols for service are attached at Appendix A. Additional parties wishing to participate as full parties must make their request by written motion or on the hearing record; requests to appear as information only or state service requests should be made by electronic mail to ALJ Walwyn.

6. ALJ Kirk McKenzie will separately handle the issue of the form of protective order to be used for confidential information in this proceeding.

Dated April 2, 2002, at San Francisco, California.

/s/ LORETTA LYNCH
Loretta Lynch
Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail, to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Assigned Commissioner's Ruling Establishing Category and Providing Scoping Memo on all parties of record in this proceeding or their attorneys of record.

Dated April 2, 2002, at San Francisco, California.

/s/ TERESITA C. GALLARDO
Teresita C. Gallardo

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* *

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.

APPENDIX A

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ELECTRONIC SERVICE PROTOCOLS

Party Status in Commission Proceedings

These electronic service protocols are applicable to all "appearances." In accordance with Commission practice, by entering an appearance at a prehearing conference or by other appropriate means, an interested party or protestant gains "party" status. A party to a Commission proceeding has certain rights that non-parties (those in "state service" and "information only" service categories) do not have. For example, a party has the right to participate in evidentiary hearings, file comments on a proposed decision, and appeal a final decision. A party also has the ability to consent to waive or reduce a comment period, and to challenge the assignment of an Administrative Law Judge (ALJ). Non-parties do not have these rights, even though they are included on the service list for the proceeding and receive copies of some or all documents.

Service of Documents by Electronic Mail

For the purposes of this proceeding, all appearances shall serve documents by electronic mail, and in turn, shall accept service by electronic mail.

Usual Commission practice requires appearances to serve documents not only on all other appearances but also on all non-parties in the state service category of the service list. For the purposes of this proceeding, appearances shall serve the information only category as well since electronic service minimizes the financial burden that broader service might otherwise entail.

Notice of Availability

If a document, including attachments, exceeds 75 pages, parties may serve a Notice of Availability in lieu of all or part of the document, in accordance with Rule 2.3(c) of the Commission's Rules of Practice and Procedure.

Filing of Documents

These electronic service protocols govern service of documents only, and do not change the rules regarding the tendering of documents for filing. Documents for filing must be tendered in paper form, as described in Rule 2, *et seq.*, of the Commission's Rules of Practice and Procedure. Moreover, all filings shall be served in hard copy (as well as e-mail) on the assigned ALJ.

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Electronic Service Standards

As an aid to review of documents served electronically, appearances should follow these procedures:

Merge into a single electronic file the entire document to be served (*e.g.*, title page, table of contents, text, attachments, service list).

Attach the document file to an electronic note.

In the subject line of the note, identify the proceeding number; the party sending the document; and the abbreviated title of the document.

Within the body of the note, identify the word processing program used to create the document. (Commission experience indicates that most recipients can open readily documents sent in Microsoft Word or PDF formats.)

If the electronic mail is returned to the sender, or the recipient informs the sender of an inability to open the document, the sender shall immediately arrange for alternative service (paper mail shall be the default, unless another means is mutually agreed upon).

Obtaining Up-to-Date Electronic Mail Addresses

The current service lists for active proceedings are available on the Commission's web page, www.cpuc.ca.gov. To obtain an up-to-date service list of e-mail addresses:

Choose "Proceedings" then "Service Lists."

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- Scroll through the "Index of Service Lists" to the number for this proceeding.

- To view and copy the electronic addresses for a service list, download the comma-delimited file, and copy the column containing the electronic addresses.

The Commission's Process Office periodically updates service lists to correct errors or to make changes at the request of parties and non-parties on the list. Appearances should copy the current service list from the web page (or obtain paper copy from the Process Office) before serving a document.

Pagination Discrepancies in Documents Served Electronically
Differences among word-processing software can cause pagination differences between documents served electronically and print outs of the original. (If documents are served electronically in PDF format, these differences do not occur.) For the purposes of reference and / or citation in cross-examination and briefing, all parties should use the pagination found in the original document.

(END OF APPENDIX A)

APPENDIX B

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

********** **APPEARANCES** **********

Kate Poole
Attorney At Law
ADAMS BROADWELL JOSEPH & CARDOZO
651 GATEWAY BOULEVARD, SUITE 900
SOUTH SAN FRANCISCO CA 94080
(650) 589-1660
kpoole@adamsbroadwell.com
For: Coalition of California Utility Employees

James Weil
AGLET CONSUMER ALLIANCE
PO BOX 1599
FORESTHILL CA 95631
(530) 367-3300
jweil@aglet.org
For: Aglet Consumer Alliance

Chris King
Executive Director
AMERICAN ENERGY INSTITUTE
842 OXFORD ST.
BERKELEY CA 94707
(510) 435-5189
ckingaei@yahoo.com
For: American Energy Institute

Reed V. Schmidt
BARTLE WELLS ASSOCIATES
1889 ALCATRAZ AVENUE
BERKELEY CA 94109
(510) 653-3399
rschmidt@bartlewells.com
For: California City-County Street Light Association

Roger A. Berliner
BERLINER, CANDON & JIMISON
1225 NINETEENTH ST. N.W. SUITE 800
WASHINGTON DC 20036
(202) 955-6067
rogerberliner@bcjlaw.com
For: County of Los Angeles

Emilio E. Varanini
CA CONSUMER POWER & CONSERVATION AUTH.
901 P STREET, SUITE 142 A
SACRAMENTO CA 95814
(916) 651-9752
emilio.varanini@dgs.ca.gov
For: California Consumer Power & Conserv. Authority

Ronald Liebert
Attorney At Law
CALIFORNIA FARM BUREAU FEDERATION
2300 RIVER PLAZA DRIVE
SACRAMENTO CA 95833
(916) 561-5657
rliebert@cfbf.com
For: California Farm Bureau Federation

Frederick M. Ortlieb
CITY OF SAN DIEGO
1200 THIRD AVENUE, 11TH FLOOR
SAN DIEGO CA 92101-4100
(619) 236-6318
fmo@sdcity.gov
For: City of San Diego

William Ahern
CONSUMERS UNION
1535 MISSION STREET
SAN FRANCISCO CA 94103
(415) 431-6747
aherbi@consumer.org
For: Consumers Union

Patrick G. Mcguire
CROSSBORDER ENERGY
2560 NINTH STREET, SUITE 316
BERKELEY CA 94710
(510) 649-9790
patrickm@crossborderenergy.com
For: Watson Cogeneration Company

Edward W. O'Neill
Attorney At Law
DAVIS WRIGHT TREMAINE, LLP
ONE EMBARCADERO CENTER, SUITE 600
SAN FRANCISCO CA 94111-3834
(415) 276-6500
edwardoneill@dwt.com
For: El Paso Merchant Energy

Steven F. Greenwald
Attorney At Law
DAVIS WRIGHT TREMAINE, LLP
ONE EMBARCADERO CENTER, SUITE 600
SAN FRANCISCO CA 94111
(415) 276-6500
stevegreenwald@dwt.com
For: Calpine Corporation

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

Dan L. Carroll
Attorney At Law
DOWNEY BRAND SEYMOUR & ROHWER, LLP
555 CAPITOL MALL, 10TH FLOOR
SACRAMENTO CA 95814
(916) 441-0131
dcarroll@dbsr.com
For: California Industrial Users

Andrew B. Brown
Attorney At Law
ELLISON, SCHNEIDER & HARRIS
2015 H STREET
SACRAMENTO CA 95814
(916) 447-2166
abb@eslawfirm.com
For: Independent Energy Producers Assoc.

Lynn M. Haug
Attorney At Law
ELLISON, SCHNEIDER & HARRIS, LLP
2015 H STREET
SACRAMENTO CA 95814-3109
(916) 447-2166
lmh@eslawfirm.com
For: Department of General Services

Andrew J. Skaff
Attorney At Law
ENERGY LAW GROUP, LLP
1999 HARRISON ST., SUITE 2700
OAKLAND CA 94612
(510) 874-4370
askaff@energy-law-group.com
For: Dynegy Marketing & Trade

Daniel Kirshner
ENVIRONMENTAL DEFENSE FUND
5655 COLLEGE AVENUE, SUITE 304
OAKLAND CA 94618
(510) 658-8008
dkirshner@environmentaldefense.org
For: Environmental Defense

Steve Ponder
FPL ENERGY, INC., LLC
980 NINTH STREET, 16TH FLOOR
SACRAMENTO CA 95814-2736
(916) 449-9596
steve_ponder@fpl.com
For: FPL Energy, Inc.LLC.

Brian T. Cragg
Attorney At Law
GOODIN, MACBRIDE, SQUERI, RITCHIE & DAY
505 SANSOME STREET, NINTH FLOOR
SAN FRANCISCO CA 94111
(415) 392-7900
bcragg@gmssr.com
For: Caithness Energy, LLC

Anne Selting
GRUENEICH RESOURCE ADVOCATES
582 MARKET STREET, SUITE 1020
SAN FRANCISCO CA 94104
(415) 834-2300
aselting@gralegal.com
For: California / California State University

Norman A. Pedersen
Attorney At Law
HANNA & MORTON
444 FLOWER STREET, SUITE 2050
LOS ANGELES CA 90071
(213) 430-2510
npedersen@hanmor.com

William H. Booth
Attorney At Law
LAW OFFICES OF WILLIAM H. BOOTH
1500 NEWELL AVENUE, 5TH FLOOR
WALNUT CREEK CA 94596
(925) 296-2460
wbooth@booth-law.com
For: California Large Energy Consumers Assoc.

Sheryl Carter
NATURAL RESOURCES DEFENSE COUNCIL
71 STEVENSON STREET, STE 1825
SAN FRANCISCO CA 94105
(415) 777-0220
scarter@nrdc.org
For: NRDC

Jack F. Fallin
Chief Counsel
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 7442, B30A
SAN FRANCISCO CA 94120
(415) 973-2883
jff1@pge.com

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

John J. Prevost
PACIFIC LUMBER COMPANY
125 MAIN STREET
SCOTIA CA 95565
(707) 764-4280
plenv01@northcoast.com
For: The Pacific Lumber Company

Glen Sullivan
Attorney At Law
SEMPRA ENERGY
101 ASH STREET
SAN DIEGO CA 92101-3017
(619) 699-5162
gsullivan@sempra.com
For: San Diego Gas & Electric Co.

Beth A. Fox
Attorney At Law
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE, RM. 535
ROSEMEAD CA 91770
(626) 302-6897
beth.fox@sce.com
For: SCE

James Paine
Attorney At Law
STOEL RIVES, LLP
900 SW 5TH AVE STE. 2600
PORTLAND OR 97204-1268
(503) 294-9246
jcpaine@stoel.com
For: PacifiCorp

Keith R. Mccrea
SUTHERLAND, ASBILL & BRENNAN LLP
SUITE 800
1275 PENNSYLVANIA AVE., N.W.
WASHINGTON DC 20004-2415
(202) 383-0100
kmccrea@sablaw.com
For: California Manufacturers andTechnology Association

James E. Scarff
Legal Division
RM. 5121
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-1440
jes@cpuc.ca.gov
For: ORA

Matthew Freedman
MICHEL PETER FLORIO
Attorney At Law
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO CA 94102
(415) 929-8876 EX314
freedman@turn.org
For: TURN

Julia Levin
UNION OF CONCERNED SCIENTISTS
2397 SHATTUCK AVENUE, SUITE 203
BERKELEY CA 94704
(510) 843-1872
jlevin@ucsusa.org
For: Union of Concerned Scientists

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

Dan Adler
Division of Strategic Planning
RM. 5119
505 VAN NESS AVE
San Francisco CA 94102
(415) 355-5586
dpa@cpuc.ca.gov

Gene Varanini
Counsel
CALIFORNIA CONSUMER POWER AND CONSERV
901 P STREET, SUITE 142A
SACRAMENTO CA 95814
(916) 651-9799
gene.varanini@dgs.ca.gov

Jonathan M. Teague
CALIFORNIA DEPARTMENT OF GENERAL SERVICE
707 K STREET, SUITE 409
SACRAMENTO CA 95814-3406
(916) 322-8808
jonathan.teague@dgs.ca.gov

David Hungerford
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-22
SACRAMENTO CA 95814
(916) 654-4906
dhungerf@energy.state.ca.us

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

Fernando De Leon
Attorney At Law
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET, MS-14
SACRAMENTO CA 95814-5512
(916) 654-4873
fdeleon@energy.state.ca.us

Heather Raitt
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET, MS 45
SACRAMENTO CA 95814
(916) 654-4735
hraitt@energy.state.ca.us

Jennifer Tachera
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-14
SACRAMENTO CA 95814-5504
(916) 654-3870
jtachera@energy.state.ca.us

Karen Griffin
Manager, Electricity Analysis
CALIFORNIA ENERGY COMMISSION
MS-20
1516 9TH STREET
SACRAMENTO CA 95184
(916) 654-4833
kgriffin@energy.state.ca.us

Mike Jaske
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-22
SACRAMENTO CA 95814
(916) 654-4777
mjaske@energy.state.ca.us

Ruben Tavares
Electricity Analysis Office
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET, MS 20
SACRAMENTO CA 95814
(916) 654-5171
rtavares@energy.state.ca.us
For: California Energy Commission

Maryam Ebke
Division of Strategic Planning
RM. 5119
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-1112
meb@cpuc.ca.gov

Faline Fua
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-2481
fua@cpuc.ca.gov

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

James Loewen
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-1866
loe@cpuc.ca.gov

A. Kirk McKenzie
Administrative Law Judge Division
RM. 5115
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-4622
mck@cpuc.ca.gov

Richard A. Myers
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-1228
ram@cpuc.ca.gov

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

Shirley Liu
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET, MS-20
SACRAMENTO CA 95814-5504
(916) 651-9856
sliu@energy.state.ca.us

Wade Mccartney
Regulatory Analyst Iv
PUBLIC UTILITIES COMMISSION
ENERGY DIVISION
770 L STREET, SUITE 1050
SACRAMENTO CA 95814
(916) 324-9010
wsm@cpuc.ca.gov

Edwin Quan
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-2494
eyq@cpuc.ca.gov

James H. Caldwell Jr.
Policy Director
AMERICAN WIND ENERGY ASSOCIATION
122 C STREET NW. STE. 300
WASHINGTON DC 20001
(202) 383-2517
jcaldwell@awea.org.

Maria E. Stevens
Executive Division
RM. 500
320 WEST 4TH STREET SUITE 500
Los Angeles CA 90013
(213) 576-7012
mer@cpuc.ca.gov

Robert E. Anderson
APS ENERGY SERVICES
1500 FIRST AVENUE
ROCHESTER MN 55906
(507) 289-0800
bob_anderson@apses.com

Christine M. Walwyn
Administrative Law Judge Division
RM. 5005
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-2301
cmw@cpuc.ca.gov

Richard D. Ely
ASSOCIATES, INC.
3239 RAMOS CIRCLE
SACRAMENTO CA 95827-2501
(916) 363-8383
dick@adm-energy.com

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

Catherine E. Yap
BARKOVICH & YAP, INC.
PO BOX 11031
OAKLAND CA 94611
(510) 450-1270
ceyap@earthlink.net

Marc D. Joseph
Attorney At Law
ADAMS BROADWELL JOSEPH & CARDOZO
651 GATEWAY BOULEVARD, SUITE 900
SOUTH SAN FRANCISCO CA 94080
(650) 589-1660
mdjoseph@adamsbroadwell.com

Barbara R. Barkovich
BARKOVICH AND YAP, INC.
31 EUCALYPTUS LANE
SAN RAFAEL CA 94901
(415) 457-5537
brbarkovich@earthlink.net
For: Barkovich and Yap, Inc.

Michael Alcantar
Attorney At Law
ALCANTAR & KAHL LLP
1300 SW FIFTH AVENUE, SUITE 1750
PORTLAND OR 97201
(503) 402-9900
mpa@a-klaw.com
For: Cogeneration Association of CA

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

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

Scott Blaising
Attorney At Law
BRAUN & ASSOCIATES, P.C.
8980 MOONEY ROAD
ELK GROVE CA 95624
(916) 682-9702
blaising@braunlegal.com

Maurice Brubaker
BRUBAKER & ASSOCIATES, INC.
1215 FERN RIDGE PARKWAY, SUITE 208
ST. LOUIS MO 63141
(314) 275-7007
mbrubaker@consultbai.com

Lulu Weinzimer
CALIFORNIA ENERGY MARKETS
9 ROSCOE STREET
SAN FRANCISCO CA 94110
(415) 824-3222
luluw@newsdata.com

Karen Norene Mills
Attorney At Law
CALIFORNIA FARM BUREAU FEDERATION
2300 RIVER PLAZA DRIVE
SACRAMENTO CA 95833
(916) 561-5655
kmills@cfbf.com

S. Douglas Levitt
CALWIND RESOURCES, INC.
2659 TOWNSGATE ROAD, SUITE 122
WESTLAKE VILLAGE CA 91361
(805) 496-4337

Karen Cann
3100 ZINFANDEL DRIVE, SUITE 600
RANCHO CORDOVA CA 95670-6026
(916) 631-4055
kcann@navigantconsulting.com

Rachel Mcmahon
Policy Analyst
CEERT
682A CHURCH
SAN FRANCISCO CA 94102
(415) 861-8140
rachel@ceert.org

Janis Lehman
Principal Integrated Resource Planner
CITY OF ANAHEIM
201 S. ANAHEIM BLVD., SUITE 1101
ANAHEIM CA 92805
(714) 777-9006

Bruno Jeider
Senior Electrical Enginerr
CITY OF BURBANK
PULIC SERVICE DEPARTMENT
164 WEST MAGNOLIA BLVD.
BURBANK CA 91502
(818) 238-3651
bjeider@ci.burbank.ca.us

Steven G. Lins
CITY OF GLENDALE
613 EAST BROADWAY, SUITE 220
GLENDALE CA 91206-4394
(818) 548-2080
slins@ci.glendale.ca.us

Eric Klinkner
CITY OF PASADENA
150 LOS ROBLES AVENUE, SUITE 200
PASADENA CA 91101-2437
(626) 744-4478
eklinkner@ci.pasadena.ca.us

Jack Wood
Trustee, Managing Company, Llc
CLEARWOOD ELECTRIC COMPANY, LLC
21859 ANGELI PLACE
GRASS VALLEY CA 95949
(530) 269-0828
jackwood@gv.net

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

Joseph P. Como
Deputy City Attorney
CITY AND COUNTY OF SAN FRANCISCO
CITY HALL
1 DR. CARLTON B. GOODLETT PLACE
SAN FRANCISCO CA 94102-4682
(415) 554-4637
joe_como@ci.sf.ca.us

Pamela M. Durgin
CITY AND COUNTY OF SAN FRANCISCO
PUC
1155 MARKET STREET, 4TH FLOOR
SAN FRANCISCO CA 94102
(415) 554-2469
pdurgin@puc.sf.ca.us

Jeffrey P. Gray
DAVIS WRIGHT TREMAINE LLP
ONE EMBARCADERO STREET, SUITE 600
SAN FRANCISCO CA 94111
(415) 276-6599
jeffgray@dwt.com

Norman J. Furuta
Attorney At Law
DEPARTMENT OF THE NAVY
2001 JUNIPERO SERRA BLVD., SUITE 600
DALY CITY CA 94014-1976
(650) 746-7312
FurutaNJ@efawest.navfac.navy.mil
For: The Federal Executive Agencies

Melanie Gillette
DUKE ENERGY NORTH AMERICA
980 NINTH STREET, SUITE 1540
SACRAMENTO CA 95814
(916) 319-4620
mlgillette@duke-energy.com

Joseph M. Paul
DYNEGY MARKETING & TRADE
5976 WEST LAS POSITAS BLVD., STE. 200
PLEASANTON CA 94588
(925) 469-2355
joe.paul@dynegy.com

Gregory T. Blue
Regulatory Affairs Manager
DYNEGY MARKETING AND TRADE
5976 W. LAS POSITAS BOULEVARD
PLEASANTON CA 94588
gtbl@dynegy.com

Virginia Jarrow
HARVEY LARSEN
CONSUMERS COALITION OF CALIFORNIA
PO BOX 5276
TORRANCE CA 90510
(310) 316-3346

V. John White
CTR FOR ENERGY EFFNCY & RENEWABLE TECH
1100 - 11TH STREET, SUITE 311
SACRAMENTO CA 95184
(916) 442-7785
vjw@cleanpower.org

Regina M. Deangelis
ENERGY LAW GROUP LLP
1999 HARRISON STREET, SUITE 2700
OAKLAND CA 94612
(415) 874-4354
rdeangelis@energy-law-group.com

Gary Calvert
ENRON CORP.
101 CALIFORNIA ST., SUITE 1950
SAN FRANCISCO CA 94111
(415) 782-7826
gray.calvert@enron.com

Robert T. Boyd
ENRON WIND CORP.
444 SOUTH FLOWER STREET, SUITE 4545
LOS ANGELES CA 94105
(213) 452-5103
hap.boyd@enron.com

Jeffrey S. Ghilardi
ENRON WIND CORPORATION
13000 JAMESON ROAD
TEHACHAPI CA 93561
(661) 823-6813
jeff.ghilardi@enron.com

Nancy Ryan
ENVIRONMENTAL DEFENSE
5655 COLLEGE AVENUE
OAKLAND CA 94618
(510) 658-8008
nryan@environmentaldefense.org

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

Douglas K. Kerner
Attorney At Law
ELLISON, SCHNEIDER & HARRIS
2015 H STREET
SACRAMENTO CA 95814
(916) 447-2166
dkk@eslawfirm.com
For: Independent Energy Producers Association

Diane I. Fellman
Attorney At Law
ENERGY LAW GROUP LLP
1999 HARRISON STREET, 27TH FLOOR
OAKLAND CA 94612
(415) 703-6000
difellman@energy-law-group.com

Robin J. Walther
INDEPENDENT CONSULTANT
160 FOREST LANE
MENLO PARK CA 94025
(650) 330-0717
rwalther@pacbell.net

Steven Kelly
INDEPENDENT ENERGY PRODUCERS ASSN
1112 I STREET, SUITE 380
SACRAMENTO CA 95814-2823
(916) 448-9499

Gayatri Schilberg
JBS ENERGY
311 D STREET, SUITE A
WEST SACRAMENTO CA 95605
(916) 372-0534
gayatri@jbsenergy.com

Daniel W. Douglass
Attorney At Law
LAW OFFICES OF DANIEL W. DOUGLASS
5959 TOPANGA CANYON BLVD., SUITE 244
WOODLAND HILLS CA 91367
(818) 596-2201
douglass@energyattorney.com
For: Alliance for Retail Energy Markets and Western Power Trading Forum

Orlando Foote, Esq.
HORTON, KNOX, CARTER & FOOTE
895 BROADWAY
EL CENTRO CA 92243-2341

Lon W. House
4901 FLYING C ROAD
CAMERON PARK CA 95682-9615
(530) 676-8956
lwhouse@el-dorado.ca.us

John Steffen
IMPERIAL IRRIGATION DISTRICT
333 EAST BARIONI BLVD.
IMPERIAL CA 92251
(760) 339-9224
jsteffen@iid.com

John W. Leslie
Attorney At Law
LUCE FORWARD HAMILTON & SCRIPPS, LLP
600 WEST BROADWAY, SUITE 2600
SAN DIEGO CA 92101-3391
(619) 699-2536
jleslie@luce.com

Richard Mccann
M.CUBED
2655 PORTAGE BAY ROAD, SUITE 3
DAVIS CA 95616
(530) 757-6363
rmccann@cal.net

Andrew Ulmer
Attorney At Law
MBV LAW, LLP
855 FRONT STREET
SAN FRANCISCO CA 94111
(415) 781-4400
andrew@mbvlaw.com

Terry J. Houlihan
Attorney At Law
MCCUTCHEN DOYLE BROWN & ENERSEN LLP
3 EMBARCADERO CENTER, 18TH FLOOR
SAN FRANCISCO CA 94111
(415) 393-2000
thoulihan@mdbe.com

********** SERVICE LIST **********
Last Update on 28-MAR-2002 by: CPL
R0110024 LIST

Mark Bolinger
LAWRENCE BERKELEY NATIONAL LABORATORY
MS 90-4000
ONCE CYCLOTRON ROAD
BERKELEY CA 94720
(510) 495-2881
MABolinger@lbl.gov

Karen Lindh
LINDH & ASSOCIATES
7909 WALERGA ROAD, ROOM 112, PMB 119
ANTELOPE CA 95843
(916) 729-1562
karen@klindh.com
For: California Manufactures & Technology Association

Robert Pettinato
LOS ANGELES DEPARTMENT OF POWER & WATER
ENERGY CONTROL CENTER
PO BOX 51111, ROOM 1148
LOS ANGELES CA 90051-0100
(818) 771-6715
rpetti@ladwp.com

Jeanne M. Sole
NATURAL RESOURCES DEFENSE COUNCIL
71 STEVENSON ST., SUITE 1825
SAN FRANCISCO CA 94105
(415) 777-0220
jsole@nrdc.org

Stephen St. Marie
NAVIGANT CONSULTING, INC.
3100 ZINFANDEL DRIVE, SUITE 600
RANCHO CORDOVA CA 95670-6026
(916) 631-3200
sstmarie@navigantconsulting.com

Kay Davoodi
NAVY RATE INTERVENTION OFFICE
WASHINGTON NAVY YARD
1314 HARWOOD STREET SE
WASHINGTON DC 20374-5018
(202) 685-0130
DavoodiKR@efaches.navfac.navy.mil

Carl K. Oshiro
Attorney At Law
100 FIRST STREET, SUITE 2540
SAN FRANCISCO CA 94105
(415) 927-0158
oshirock@pacbell.net

Thomas S. Hixson
MCCUTCHEN, DOYLE, BROWN & ENERSEN, LLP
THREE EMBARCADERO CENTER
SAN FRANCISCO CA 94111
(415) 393-2000
thixson@mdbe.com

Kevin R. Mcspadden
Attorney At Law
MILBANK TWEED HADLEY & MCCLOY
601 SOUTH FIGUEROA, 30TH FLOOR
LOS ANGELES CA 90017
(213) 892-4563
kmcspadden@milbank.com

Robert B. Weisenmiller
Phd
MRW & ASSOCIATES, INC.
1999 HARRISON STREET, STE 1440
OAKLAND CA 94612-3517
(510) 834-1999
rbw@mrwassoc.com

Eric Eisenman
PG&E NATIONAL ENERGY GROUP
345 CALIFORNIA STREET.
SAN FRANCISCO CA 94104
(415) 288-5630
eric.eisenman@neg.pge.com

Stanley I. Anderson
POWER VALUE INCORPORATED
964 MOJAVE CT
WALNUT CREEK CA 94598
(925) 938-8735
sia2@pwrval.com

Jean Pierre Batmale
REALENERGY, INC.
5957 VARIEL AVE.
WOODLAND HIILS CA 91367
(818) 610-2300
jpbatmale@realenergy.com

Kirby Bosley
RELIANT ENERGY
1050 17TH STREET, SUITE 1450
DENVER CO 80265-1450
(303) 620-9999
kbosley@reliantenergy.com

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R0110024 LIST

Jonathan M. Jacobs
PA CONSULTING SERVICES INC
75 NOVA DRIVE
PIEDMONT CA 94610
jon.jacobs@paconsulting.com

Valerie Winn
PACIFIC GAS & ELECTRIC COMPANY
PO BOX 770000, B9A
SAN FRANCISCO CA 94177-0001
(415) 973-3839
vjw3@pge.com

Cecilia Montana
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET
SAN FRANCISCO CA 94105
(415) 973-1595
cfm3@pge.com

Bruce H. Hellebuyck
PACIFICORP
LLOYD CENTER TOWER
825 NE MULTNOMAH, SUITE 800
PORTLAND OR 97232
(503) 813-6041

Leon Bass
Attorney At Law
SOUHTERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE, SUITE 353
ROSEMEAD CA 91770
(626) 302-6897
leon.bass@sce.com

Bruce Foster
Regulatory Affairs
SOUTHERN CALIFORNIA EDISON COMPANY
601 VAN NESS AVENUE, SUITE 2040
SAN FRANCISCO CA 94102
(415) 775-1856
fosterbc@sce.com
For: SOUTHERN CALIFORNIA EDISON

Michael Rochman
Managing Director
SPURR
1430 WILLOW PASS ROAD, SUITE 240
CONCORD CA 94520
(925) 743-1292
rochmanm@spurr.org

Kurt W. Bilas
Senior Counsel
RELIANT ENERGY POWER GENERATIONS, INC.
801 PENNSYLVANIA AVE., N.W. SUITE 620
WASHINGTON DC 20004
kbilas@reliant.com

Rob Roth
SACRAMENTO MUNICIPAL UTILITY DISTRICT
6201 S STREET MS 75
SACRAMENTO CA 95817
(916) 732-6131
rroth@smud.org

Bruce J. Williams
Manager, Regulatory Affairs Case Mgmt
SEMPRA ENERGY
101 ASH STREET, HQ14A
SAN DIEGO CA 92101
(619) 696-4488
bwilliams@sempra.com

Mark Albert
VULCAN POWER COMPANY
1183 NW WALL STREET, STE. G
BEND OR 97701
(541) 317-1984
malbert@vulcanpower.com

Jerry R. Bloom
Attorney At Law
WHITE & CASE LLP
TWO EMBARCADERO CENTER, SUITE 650
SAN FRANCISCO CA 94111
(415) 544-1100
bloomje@la.whitecase.com

Roger T. Pelote
WILLIAMS ENERGY SERVICES
12736 CALIFA STREET
VALLEY VILLAGE CA 91607
(818) 761-5954
Roger.Pelote@williams.com

********** SERVICE LIST **********
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R0110024 LIST

Bob Finklestein
Staff Attorney
THE UTILITY REFORM NETWORK
711 VAN NESS AVE., STE. 350
SAN FRANCISCO CA 94101
(415) 929-8876
bfinkelstein@turn.org

Alex A. Goldberg, Esq.
THE WILLIAMS COMPANIES, INC.
ONE WILLIAMS CENTER
SUITE 4100, MS41-3
TUSLA OK 74172
Alex.Goldberg@williams.com

Michael Shames
Attorney At Law
UTILITY CONSUMERS' ACTION NETWORK
3100 FIFTH AVENUE, SUITE B
SAN DIEGO CA 92103
(619) 696-6966
mshames@ucan.org

Patricia Vanmidde
Consultant
22006 N 55TH ST.
PHOENIX AZ 85054
(480) 515-2849
pvanmidde@earthlink.net

Bradford Wetstone
Energy Division
AREA 4-A
505 VAN NESS AVE
San Francisco CA 94102
(415) 703-2826
bxw@cpuc.ca.gov

Julie Blunden
Vice President
XENERGY
492 9TH ST., STE. 220
OAKLAND CA 94607
(510) 891-0446
jblunden@xenergy.com

(END OF APPENDIX B)