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**Amended Testimony of L. Jan Reid on
Track I and Track III Issues**

R.10-05-006

Served August 65, 2011
on behalf of
L. Jan Reid

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1 Pursuant to Rule 1.12 of the Commission's Rules of Practice and
2 Procedure, I serve this amended testimony on Track I and Track III issues in this
3 proceeding. I will serve both a redlined and a clean version of my amended
4 testimony. I served direct Track I and Track III testimony in this proceeding on
5 August 5, 2011. My amended testimony makes the following changes to my
6 direct testimony:

- 7 1. The first bulleted item in Section II.B was corrected to indicate that
8 The CAISO modeled small solar profiles at an aggregate level.
- 9 2. The first bulleted item on page 5 of my direct testimony states that
10 "The CAISO's model does take into consideration the autocorrela-
11 tion of forecast errors associated with load, wind resources, and
12 solar resources, instead of individually." This bulleted item has
13 been deleted since it is not a deficiency in the CAISO's methodology.
- 14 3. On page 7 of my direct testimony, I incorrectly indicate that the
15 California Coastal Commission was created by Proposition 9. This
16 has been changed to correctly indicate that the California Coastal
17 Commission was created by Proposition 20.
- 18 4. Non-substantitative changes to the text are included.

1 Pursuant to Rule 1.9 of the Commission's Rules of Practice and Procedure,
2 I serve this testimony on Track I and Track III issues of this proceeding.

3 Pursuant to the procedural schedule set forth in the June 13, 2011 ruling
4 (Ruling) of Administrative Law Judge (ALJ) Peter Allen as modified by the
5 August 4, 2011 email from ALJ Allen, I submit this testimony on behalf of myself.
6 I am a customer of Pacific Gas and Electric Company (PG&E) and am a party in
7 this proceeding.

8 In the testimony, I discuss the recommendations of the investor owned
9 utilities (IOUs)¹. I discuss Track I issues in Sections II-III and Track III issues in
10 Section IV. In briefs, I may take positions on issues not addressed herein. The
11 testimony is supported by workpapers that are available on request.

12 Witness qualifications are set forth in Appendix A.

13 **I. Recommendations**

14 I have relied on state law, past Commission decisions, and information
15 furnished by the California Independent System Operator and the investor
16 owned utilities in developing recommendations regarding the issues in this
17 proceeding. Page references are given in parentheses after each recommendation
18 or proposed finding.

19 I recommend the following:

- 20 1. The Commission should adopt a system capacity need of zero
21 megawatts (MW) for renewable integration. (pp. 3-7)
- 22 2. The Commission should adopt the Energy Division Staff (Staff)
23 proposal on Once Through Cooling (OTC) given in Appendix A of
24 ALJ Allen's June 13, 2011 ruling. (pp. 10-11)

¹ The IOUs in this proceeding are Pacific Gas and Electric Company (PG&E), San Diego Electric & Gas Company (SDG&E), and Southern California Edison Company (SCE).

- 1 3. The Commission should not establish a Rulebook as suggested by
2 Staff. (pp. 11-12)
- 3 4. The Commission should prohibit both an IE and the IE's employer
4 from having a financial interest in any potential bidder in a
5 solicitation. (pp. 12)
- 6 5. The Commission should open an Order Instituting Investigation
7 (OII) into the feasibility of shutting down the SONGS and Diablo
8 Canyon facilities. (pp. 7-9)

9 My recommendations are based on the following proposed findings:

- 10 1. No party in this proceeding has recommended that the Commission
11 adopt a specific non-zero system need for renewables integration.
12 (p. 4)
- 13 2. The CAISO's RIM methodology is deficient with respect to the items
14 listed in Section II.B of this testimony. (pp. 4-6)
- 15 3. The Staff's OTC proposal encourages conservation, seeks to improve
16 water quality, and is consistent with the Commission's policy goals.
17 (pp. 10-11)
- 18 4. The Commission does not need to establish a Rulebook in order to
19 adopt changes to procurement rules. (pp. 11-12)
- 20 5. The IE has a conflict of interest if his or her firm has a financial
21 interest in a potential bidder in a solicitation. (pp. 12-12)

22 **II. Renewable Integration Models**

23 **A. Background**

24 Two separate renewable integration models have been the subject of
25 workshops and comments in this proceeding. Workshops were held on
26 August 24-25, 2010, October 22, 2010, November 30, 2010, and May 10, 2011.
27 Parties filed workshop comments on September 21, 2010, November 22, 2010,
28 and January 14, 2011. Parties filed workshop reply comments on September 28,
29 2010, December 3, 2010, and January 26, 2011.

1 At the workshops, model results were presented by both PG&E and the
2 California Independent System Operator (CAISO).² It is my understanding that
3 PG&E is continuing development of its model, but is not presenting it for con-
4 sideration at this time. Therefore, my testimony only addresses the CAISO's
5 Renewable Integration Model (RIM).

6 The CAISO and the IOUs served testimony on July 1, 2011. The parties
7 conducted submitted discovery to the CAISO and the IOUs. The CAISO's
8 response to Reid's first set of discovery questions is provided in Attachment A to
9 this testimony.

10 | In its opening testimony, ~~t~~The CAISO has stated that "In addition to the
11 five CPUC scenarios, the ISO also studied an "All Gas" scenario in support of
12 development of metrics by the IOUs, and conducted a sensitivity analysis
13 assuming all three Helms pumps are available year round.identified." (CAISO
14 | Testimony, p. 7) The CAISO's has also stated that "the study results show the
15 flexibility requirements to support a 33% RPS result in a range of possibilities,
16 from no additional capacity needs to the need for substantial capacity additions
17 depending on the scenario assumptions." (CAISO Testimony, p. 4)

18 I note that no party in this proceeding has recommended that the Commis-
19 sion adopt a specific non-zero system need for renewables integration.

20 **B. Deficiencies in the CAISO Methodology**

21 Reid and other parties have identified a number of deficiencies in the
22 CAISO's methodology. These deficiencies include:

- 23 | • The CAISO modeled small solar ~~smaller~~ profiles at an aggregate level,
24 | instead of individually. (CAISO Testimony, p. 23)

² PG&E did not present its model results at every workshop.

- 1 • The CAISO states that “The CAISO used three standard deviations for
2 the seasonal load forecast errors. The forecast errors for wind and solar
3 were also truncated at \pm three standard deviations.” (Attachment A,
4 CAISO Response to Reid Question 11) I discuss the number of
5 standard deviations in Section II.C.
- 6 • The CAISO has also stated that “Holding all other variables constant,
7 an increase in forecast error would increase the load following and
8 regulation needs determined in Step 1.” (Attachment A, CAISO
9 Response to Reid Question 3b)
- 10 | • The CAISO did not conduct sensitivity runs ~~to which~~ account for the
11 potential substitution between wind and solar. (Attachment A, CAISO
12 Response to Reid Question 3c)
- 13 • The CAISO did not calculate the elasticity³ of capacity need with
14 respect to the vast majority of variables. (Attachment A, CAISO
15 Response to Reid Question 5)
- 16 • The CAISO states that an increase in the price of electricity “does not
17 change the need for additional capacity, even though high electricity
18 price may provide incentives for investments in new capacity.”
19 (Attachment A, CAISO Response to Reid Question 5)
- 20 • The CAISO did not calculate a correlation matrix between several
21 important variables. (Attachment A, CAISO Response to Reid
22 Question 6)
- 23 | • -The CAISO states that “The ISO did not perform studies for every year
24 between 2012 and 2020 and the study results vary greatly based on the
25 scenarios assumptions.” (Attachment A, CAISO Response to Reid
26 Question 7)
- 27 • The CAISO did not employ a historical trend to estimate the forecast
28 error for the period 2011-2020. (Attachment A, CAISO Response to
29 Reid Question 8)

³ Elasticity is the ratio of the percent change in one variable to the percent change in another variable. For example, if a one percent change in Variable A causes a 1.5 percent change in Variable B, the elasticity of Variable B with respect to Variable A is 1.5

1 ~~• The CAISO's model does take into consideration the autocorrelation of~~
2 ~~forecast errors associated with load, wind resources, and solar~~
3 ~~resources. (Attachment A, CAISO Response to Reid Question 16)~~

4 • The CAISO did not account for technological changes that may occur to
5 reduce the intermittency level of renewable resources. (Attachment A,
6 CAISO Response to Reid Question 17)

7 • The CAISO did not test for the existence of serial correlation. Instead,
8 the CAISO states that "There is no serial correlation assumed."
9 (Attachment A, CAISO Response to Reid Question 25h)

10 • The ISO did not backtest the simulation results against historical
11 results. Attachment A, CAISO Response to Reid Question 29) I discuss
12 backtesting in Section II.D.

13 • The CAISO did not conduct external robustness tests relative to its
14 RIM. I discuss robustness tests in Section II.E.

15 **C. Number of Standard Deviations**

16 A confidence level of 95% is a standard confidence level in many types of
17 statistical applications. For example, the CPUC has ordered the investor owned
18 utilities (IOUs) to use a 95% confidence level when calculating Time To Expira-
19 tion Value at Risk (TEVaR) results. (Decision (D.) 07-12-052, Ordering Paragraph
20 21, slip op. at 303)

21 Therefore, I recommend that a 95% confidence level (1.96 standard devia-
22 tions) be used in the CAISO's model. A confidence level of 95% is consistent
23 with 1.96 standard deviations. I note that PG&E has provided a graphical expla-
24 nation of the relationship between confidence intervals and the number of
25 standard deviations. (PG&E October, 2010 Presentation, Slide 38)

26 **D. Backtesting**

27 Backtesting (or back-testing) is the process of evaluating a strategy, theory,
28 or model by applying it to historical data. A key element of backtesting that
29 differentiates it from other forms of historical testing is that backtesting

1 calculates how a strategy would have performed if it had actually been applied
2 in the past. For example, backtesting can be used in studying how a trading
3 method would have performed in past markets.

4 **E. Robustness**

5 In computer science, “robustness” is the ability of a computer system to
6 cope with errors during execution; or the ability of an algorithm to continue to
7 operate despite abnormalities in input, calculations, etc. Formal techniques, such
8 as fuzz testing,⁴ are essential to proving robustness, since this type of testing
9 involves invalid or unexpected inputs.

10 The size and resource intensiveness of a particular model does not prove
11 that the model is robust.

12 **F. Renewable Integration Need**

13 For all of the above reasons, I recommend that the Commission adopt a
14 system capacity need of zero MW for renewables integration in this proceeding.

15 **III. Nuclear Power Plants**

16 SCE has pointed out that “Women’s Energy Matters (WEM) has filed
17 intervenor testimony in Track II of this proceeding recommending the
18 immediate shutdown of San Onofre Nuclear Generating Station Units (SONGS 2
19 & 3).” (SCE Testimony, p. 36)

20 WEM’s recommendation was not limited to the SONGS facility. WEM
21 argued that “It is incumbent on the Commission to begin preparing for a shut-
22 | down of Diablo Canyon and San Onofre nuclear reactors in either case. Both

⁴ “Fuzz testing” or “fuzzing” is a software-testing technique that provides invalid, unexpected, or random data to the inputs of a program. A description of fuzz testing and references is available at <http://pages.cs.wisc.edu/~bart/fuzz/>.

1 reactors sit on and near multiple faults capable of major earthquakes; both sit on
2 oceanfront real estate where tsunamis are a possibility. The earth's tectonic
3 plates can heave at any moment, without warning." (WEM Track II Testimony,
4 May 4, 2011, p. 8)

5 SCE argues that WEM's recommendation should not be adopted because:

- 6 • The premature shutdown of SONGS would have immediate and
7 adverse impacts on electric system reliability.
8 (SCE Testimony, pp. 38-39)
- 9 • There is not enough time for mitigation to avoid the negative impacts of
10 an immediate shutdown of SONGS (SCE Testimony, pp. 39-40)
- 11 • A premature shutdown of SONGS would impact state environmental
12 goals. (SCE Testimony, p. 40)
- 13 • A shutdown of SONGS would have a negative economic impact on
14 Southern California. (SCE Testimony, pp. 40-41)

15 Both WEM and SCE have provided compelling arguments concerning the
16 nuclear power plant shutdown issue. WEM is certainly correct concerning the
17 risks associated with the continued operation of California's nuclear power
18 plants. SCE makes a compelling case that it may not be in the public interest for
19 the Commission to order an immediate shutdown of the SONGS facility.

20 The existence of nuclear power plants has been a major public issue in
21 California since at least the 1972 debate over Proposition 209, which established
22 the California Coastal Commission.

23 A recent poll conducted by the Public Policy Institute of California (PPIC)
24 found that Californians are opposed to building more nuclear power plants. ~~The~~
25 Josh Richmond of the Oakland Tribune has reported that "The poll found 65
26 percent of Californians now oppose building more plants while 30 percent are in

1 favor, the lowest level of support since PPIC began asking the question in 2001
2 and a 14-point drop since one year ago.”⁵

3 | Although the poll did not ask respondents whether Californians should
4 | shut down its nuclear power plants, the results indicate that there is significant
5 | public opposition to nuclear power in California.

6 | Since both WEM and SCE make compelling arguments concerning this
7 | issue and there is a growing public concern about nuclear power plants, I seek
8 | to resolve this issue by recommending that the Commission open an OII into the
9 | feasibility of shutting down the SONGS and Diablo Canyon facilities. In this OII,
10 | I recommend that the Commission consider the following factors:

- 11 | 1. The risks associated with the continued operation of these facilities.
- 12 | 2. Electric system reliability.
- 13 | 3. Ratepayer costs associated with de-commissioning.
- 14 | 4. The disposition of utility costs associated with un-depreciated
15 | ratebase.
- 16 | 5. The financial effect on the IOUs if the nuclear plants are shut down.
- 17 | 6. The cost of replacement power.
- 18 | 7. The effect on renewable integration.
- 19 | 8. Existing regulations of the U.S. Department of Energy and the
20 | Nuclear Regulatory Commission.
- 21 | 9. The transmission licensing process.
- 22 | 10. The cost effectiveness of shutting down the nuclear power plants.
- 23 | 11. The economic impact of a shutdown on California residents.

⁵ Source: “State poll: Support for offshore oil drilling grows”, Josh Richman, Oakland Tribune, July 28, 2011.

1 **IV. Track III Issues**

2 ALJ Allen’s Ruling refers to four Track III issues which have been
3 identified in a previous ruling issued on March 13, 2011. (Ruling, p. 6) These
4 four issues are

- 5 1) procurement rules relating to once-through cooling issues;
- 6 2) refinements to the bid evaluation process, particular weighing
- 7 competing bids between utility-owned generation and power
- 8 purchase agreements; 3) refinements to the existing timelines
- 9 associated with the utilities’ RFOs for resource adequacy products;
- 10 and 4) utility procurement of greenhouse gas related products.

11 The Ruling states that “This Ruling confirms that we are addressing those
12 four issues, plus one other issue, consisting of procurement oversight rules,
13 including the oversight responsibilities and authority of various entities (includ-
14 ing Independent Evaluators and the Procurement Review Group) and standards
15 of conduct applicable to the utilities and their employees.” (Ruling, p. 6)

16 The Ruling contains two appendices, Appendix A and Appendix B.
17 –ALJ Allen has requested that parties’ testimony address the proposals
18 contained in these appendices. (Ruling, p. 7)

19 I discuss Track III issues below.

20 **A. Once Through Cooling (OTC)**

21 The CPUC Energy Division Staff’s (Staff’s) OTC Proposal (See Ruling,
22 Appendix A) would prohibit a utility from entering into a contract for longer
23 than one year with an OTC facility. There are three possible exemptions from
24 this prohibition. A utility is exempt from this prohibition if one of the following
25 three conditions applies:

- 26 1. A facility is found by the Water Resources Control Board to be fully
- 27 in compliance with Section 316(b) of the Clean Water Act.

1 2. If the Commission authorizes the procurement of new capacity in
2 the LTPP proceeding, contracts longer than one year and/or that
3 extend beyond the Water Resources Control Board OTC compliance
4 date as detailed in the October 1, 2010 Statewide Water Control
5 Policy on the Use of Coastal and Estuarine Waters Used for Power
6 Plant Cooling or in successor documents for the express purpose of
7 enabling the repowering of those OTC facilities are permitted if
8 those contracts do not result in operation of the once-through-
9 cooling system beyond the compliance date.

10 3. If an OTC facility elects to comply with the State Water Resources
11 Control Board OTC policy by means of SWRCB Track 2 (under
12 which water intake is reduced by 93% or screens or similar
13 technologies that are expected to be approved by the State Water
14 Resources Control Board are utilized) contracting with such a
15 facility beyond the State Water Resources Control Board's
16 compliance date is permitted.

17 The Commission has a long history of supporting water policies which
18 improve water quality and encourage conservation. The Commission has stated
19 that: (CPUC Water Action Plan, December 15, 2005, p. 2)

20 In light of increasing statewide concerns about water quality and
21 supply, the Commission will explore innovative solutions to water
22 problems and keep pace with newer approaches it is implement-
23 ing in the energy and telecommunications sectors as well as strate-
24 gies being used by water agencies and entities not subject to
25 Commission jurisdiction. In our loading order for water supply
26 sources, we recognize that cost-effective conservation is the best,
27 lowest-cost of supply.

28 The Staff_proposal encourages conservation, seeks to improve water
29 quality, and is consistent with the Commission's policy goals. Therefore, the
30 Commission should adopt the Staff_proposal.

31 **B. The Rulebook**

32 Energy Division staff (Staff) "has consistently envisioned that the
33 Rulebook should supersede existing decisions, in that the document would be

1 treated as a General Order and will be fully enforceable.” (Ruling, Appendix B,
2 p. 2)

3 I disagree with Staff on this issue. The Rulebook should serve an informa-
4 tive purpose and should not be treated as a General Order as suggested by Staff.
5 The Rulebook should serve to:

- 6 1. Inform the public of the procurement rules that have been adopted
7 by the Commission.
- 8 2. Inform CPUC staff, the IOUs, and other parties of the procurement
9 rules that have been established by the Commission.

10 The Commission does not need to establish a Rulebook in order to change
11 its procurement rules. Therefore, I recommend that the Commission not estab-
12 lish a Rulebook at this time.

13 Below, I address Staff’s proposed changes to the Commission’s existing
14 procurement rules.

15 **1. Independent Evaluators (IEs)**

16 Staff proposes that “A minimum criterion for independence is that the IE
17 has no financial interest in any of the potential bidders, including the affiliate, or
18 in the outcome of the process.” (Ruling, Appendix B, p. 10) This requirement is
19 necessary, but not sufficient.

20 Even though an IE has no financial interest in any of the potential bidders
21 in a solicitation, the IE may still have a conflict of interest. The IE has a conflict of
22 interest if his or her firm has a financial interest in a potential bidder. Therefore,
23 I recommend that the Commission mandate that neither the IE nor an IE’s
24 employer have a financial interest in any potential bidder in a utility solicitation.

25 Staff recommends that “An IE may remain in the IE pool for two years,
26 after which he/she must go through a reevaluation process based upon the

1 inclusion criteria as defined in Section 1 (b) to assure continued compliance.”
2 (Ruling, Appendix B, p. 11)

3 I recommend that this item be changed to indicate that an IE will not be
4 subject to the two-year limit unless the IE has been given an assignment by the
5 IOU and has completed that assignment. In some instances, the IE will not have
6 been assigned and have completed an assignment within a two-year period. In
7 this case, neither the IOU nor its procurement review group (PRG) will be able to
8 fairly evaluate the IE’s performance.

9 2. Procurement Review Groups

10 Section 451 of the Public Utilities Code requires that the Commission
11 ensure that all utility charges are just and reasonable. Because the Commission
12 is responsible for ensuring that rates are reasonable, it must consequently ensure
13 that utility costs (including procurement costs) are reasonable.

14 Prior to 2002, the Commission often discharged this responsibility via
15 periodic ex-post reasonableness reviews. Since October 2002, the reasonableness
16 of utility procurement has been determined by the interaction of the utility, its
17 PRG, and the advice letter process. The PRGs have been an important part of
18 this process. They have reduced the need for the ex-post reasonableness review,
19 and have been used by the Commission on numerous occasions. The Commis-
20 sion has explicitly noted their effectiveness.

21 The Commission established a PRG for each IOU’s interim procurement in
22 August 2002. (D.02 08 071, slip op. at 24 25). The PRG process was initially
23 extended until the end of 2003 (D.02 10 062, slip op. at 3) and then extended
24 indefinitely.

25 The Commission has reviewed the PRG process and found that “PRGs are
26 valuable for the IOUs’ procurement process and we direct the IOUs to continue

1 to use them in an advisory capacity for their procurement activities, including for
2 procurement when an IOU is considering recovering costs from bundled and
3 unbundled customers using the D.06-07-029 CAM.” (D.07-12-052, Conclusion of
4 Law 23, slip op. at 293)

5 The PRG process acts as an alternative to formal Commission proceedings.
6 Instead of Commission review of all procurement activities in formal
7 applications or in ex-post reasonableness reviews, utility procurement is
8 reviewed by the PRG, and then the utility is allowed to request approval through
9 expedited applications or the advice letter process. I believe that the
10 Commission assumes that utility procurement activities will be adequately
11 reviewed by the PRGs. In this way, lengthy Commission proceedings can often
12 be avoided.

13 Staff recommends that “The California Energy Commission and IOU are
14 invited to participate in the PRG.” (Ruling, Appendix B, p. 12) I have no
15 objection to the California Energy Commission re-involving itself in the PRG
16 process. However, it is not necessary to invite the IOUs to participate in their
17 own PRG. The IOUs convene the PRG meetings and make presentations to their
18 PRGs.

19 An IOU should not be allowed to routinely participate in another IOU’s
20 PRG. There may be times when joint meetings of the PRGs may be held, but this
21 should be a special circumstance. One IOU should not be allowed to have
22 access to confidential information of another IOU via the PRG process. For these
23 reasons, I recommend that the above-quoted sentence be rewritten to read “The
24 California Energy Commission is invited to participate in the PRGs.”

25 Staff recommends that “The members of each PRG would be committed to
26 devote the time necessary to meet and confer with the utilities on each proposed
27 contract and/or procurement process and provide written comments to the

1 utilities within no later than fifteen days of initiation of the review process.”

2 (Ruling, Appendix B, p. 17)

3 | I am a member of PG&E’s PRG group. I am unable to provide meaningful
4 feedback to PG&E on a proposed contract or process until PG&E responds to my
5 data requests.

6 Therefore, I recommend that the following language be used:

7 The members of each PRG would be committed to devote the time
8 necessary to meet and confer with the utilities on each proposed
9 contract and/or procurement process. PRG members shall submit
10 data requests to the IOU within 48 hours of the initial presentation
11 by the IOU. PRG members shall provide written comments to the
12 IOUs within 15 days of the IOUs response to a PRG member’s
13 data request.

14 **V. Conclusion**

15 The Commission should adopt my recommendations for the reasons given
16 herein. This completes my direct testimony. Witness qualifications are given in
17 Appendix A.

APPENDIX A
WITNESS QUALIFICATIONS

QUALIFICATIONS AND PREPARED TESTIMONY OF
L. JAN REID

My name is L. Jan Reid. My business address is 3185 Gross Road, Santa Cruz, CA 95062. I retired from the California Public Utilities Commission (CPUC) in June 2005, and am now working as sole proprietor of Coast Economic Consulting, and as a consulting economist and expert witness.

I hold a Bachelor of Arts degree in Economics and a Master of Science degree in Applied Economics and Finance from the University of California, Santa Cruz. The subject of my master's thesis was whether the Capital Asset Pricing Model (CAPM) is a biased estimator of market risk.

I was employed at the Commission in the Office of Ratepayer Advocates from 1998 to 2005. I sponsored written testimony on cost of capital, electric procurement, risk management, and credit ratings. I have made presentations in Commission workshops, developed econometric models, and provided internal financial and economic analysis in proceedings related to market power, electric procurement, operations support services, asset valuation, performance-based ratemaking (PBR) proposals, and utility service quality.

Since leaving the Commission, I have represented myself and Aglet Consumer Alliance in procurement review groups (PRGs) for Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company. I have participated in formal proceedings involving cost of capital, renewables portfolio standards, long-term procurement plans, resource adequacy, and demand-response programs.

This completes my statement of qualifications.

VERIFICATION

I, L. Jan Reid, make this verification on my behalf. The statements in the foregoing document are true to the best of my knowledge, except for those matters that are stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Dated August 65, 2011, at Santa Cruz, California.

/s/

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