### **BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans R.12-03-014 (Filed March 22, 2012)

### TRACK III REPLY COMMENTS OF THE WESTERN POWER TRADING FORUM

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In accordance with the directives provided in the March 21, 2013, Administrative Law Judge's Ruling Seeking Comment on Track III Rules Issues ("Ruling"), the Western Power Trading Forum<sup>1</sup> ("WPTF") respectfully submits the following reply comments on Track III issues. Opening comments were originally specified to be due on April 12, 2013. However, by email ruling issued on March 28, 2013, Administrative Law Judge David Gamson granted the unopposed request of the Division of Ratepayer Advocates to change the comment dates for Track III Rules issues so that opening comments were due on April 26, 2013 and reply comments on May 10, 2013.

#### I. Reply Comments on Track III issues

The Ruling directed that parties could file comments on a series of Track III issues. As with its opening comments, WPTF responds to parties on some, but not all of the opening comments. As a result, the numbering below is not sequential. WPTF's reply comments are focused on three issues: (a) the need for the Commission to develop a forward capacity market; (b) the need for greater transparency with regard to the Long Term Procurement Planning

<sup>&</sup>lt;sup>1</sup> WPTF is a California non-profit, mutual benefit corporation. It is a broadly based membership organization dedicated to enhancing competition in Western electric markets in order to reduce the cost of electricity to consumers throughout the region while maintaining the current high level of system reliability. WPTF actions are focused on supporting development of competitive electricity markets throughout the region and developing uniform operating rules to facilitate transactions among market participants.

process ("LTPP") and utility procurement activities; and (c) the importance of having utility Requests for Offers ("RFOs") open to all resources.

# 1. Maximum and minimum limits on IOU forward purchasing of energy, capacity, fuel, and hedges - Forward Capacity Market Issues

In connection with Question 1, a number of parties' opening comments addressed the

need for a multi-year forward capacity obligation and a centralized capacity market<sup>2</sup> and were

supportive of both concepts. For example, Calpine described the many benefits of a capacity

market when it explained that:

In a centralized capacity market, an LSE in the CAISO balancing authority area would be required to either secure sufficient capacity on a forward basis or have the CAISO procure capacity on its behalf. There are numerous benefits associated with such a centralized capacity market, including leveling the competitive playing field among all capacity resources by assuring that all suppliers are providing exactly the same product at the same time (e.g., a one-year capacity commitment on a 3-year forward basis); increasing the scope of cost allocation to potentially include the allocation of reliability costs to non-Commission jurisdictional entities, such as municipal utilities and exporters; helping to limit credit and collateral requirements for non-IOU LSEs; increasing the efficiency of capacity procurement, especially as capacity procurement requirements are differentiated with respect to operating characteristics; and creating a clearing price market that could be more easily monitored and mitigated, and that would yield more transparent and rational pricing for capacity.<sup>3</sup>

NRG noted that, "it would be ideal to combine a more forward procurement requirement with the creation of a centralized capacity market."<sup>4</sup> And IEP stated that, "As a practical matter, if existing generators and repowers are excluded from bidding in long-term procurement solicitations, then a reasonable short- or medium-term capacity market (e.g., 3-5 years) should be made available to these projects. In the absence of a functioning short- or medium-term capacity

<sup>&</sup>lt;sup>2</sup> Calpine Corporation ("Calpine") at pp. 4-5; NRG Energy Inc. ("NRG") at pp. 1-4; Southern California Edison at p. 12; Independent Energy Producers Association ("IEP") at p. 4.

<sup>&</sup>lt;sup>3</sup> Calpine, at p. 5, footnote omitted.

<sup>&</sup>lt;sup>4</sup> NRG, at p. 5.

market, existing units have no reasonable means to recover the cost of repowers or expansions that may provide significant value (e.g., environmental benefits, enhanced reliability) at substantial ratepayer savings."<sup>5</sup>

WPTF observed in its opening comments that the issue of forward capacity procurement requirements needs to be addressed both here and in the Resource Adequacy docket, R.11-10-023; that the implementation of multi-year forward capacity obligation and a centralized capacity market is slated for discussion, and that WPTF hopes that both the multi-year forward obligation and a centralized capacity market will soon be implemented. WPTF has consistently argued that unless and until such time as energy and ancillary services prices appropriately reflect scarcity value, a properly designed capacity market is necessary to retain needed capacity resources and send the appropriate price signals for new investment.

Therefore, WPTF supports both the implementation of a multi-year forward capacity obligation for all load-serving entities ("LSEs") and the implementation of a centralized capacity market. As stated in our opening comments, while implementation of both the forward obligation and a capacity market may not occur simultaneously, the two policy initiatives should be viewed as interconnected and necessary elements of effective and efficient market design. To the extent that the implementation of a centralized capacity market construction is not implemented in the same time frame as the imposition of a multi-year forward resource adequacy obligation, the Commission must, in collaboration with the California Independent System Operator ("CAISO"), clearly communicate the commitment to a centralized capacity market structure for all reasons previously identified by WPTF and others, and establish an appropriate time frame in which it will be accomplished.

<sup>&</sup>lt;sup>5</sup> IEP, at p. 4.

#### 2. Impacts of transparency on forward procurement

Question 2 generated a number of comments, both pro and con, with regard to market transparency. The City and County of San Francisco ("CCSF") stated that, "The City believes greater transparency in forward procurement is necessary particularly in the context of rising ratepayer costs."<sup>6</sup> And further, "Also, the lack of transparency in the forward procurement process makes it more difficult for customer advocates and other potential intervenors to effectively monitor and participate in Commission proceedings to review the reasonableness of IOU proposed purchases and to oppose unduly expensive agreements."<sup>7</sup>

The California Environmental Justice Alliance ("CEJA") urged the Commission "to require further transparency within the procurement process to ensure the ability for meaningful public participation by communities affected by procurement."<sup>8</sup> CEJA also requested that the Commission "require the publication of all non-confidential information from PRG meetings to further facilitate the open decision-making policy highlighted in SB 1488."<sup>9</sup> The Clean Coalition recommends that, "Full transparency should be the presumption with respect to RFOs and contracts to ensure that forward procurement meets future energy and capacity needs in the best interest of ratepayers."<sup>10</sup> Persuasively, the Sierra Club observes that:

While IOUs may argue that such confidentiality is necessary in the "competitive" context of a regulated public utility, the world's major financial markets maintain much more transparency about price, volumes, bids, offers, terms, and conditions, than public utilities that are regulated by government agencies. In stark contrast, highly competitive markets such as the stock, options, currency, commodity, and bond markets have transparent, open public access to data, information, and analysis about contract prices and volumes for trillions of dollars in assets that is

<sup>&</sup>lt;sup>6</sup> CCSF, at p. 1.

<sup>&</sup>lt;sup>7</sup> Id, at p. 2.

<sup>&</sup>lt;sup>8</sup> CEJA, at p. 4.

<sup>&</sup>lt;sup>9</sup> Id, at p. 6.

<sup>&</sup>lt;sup>10</sup> Clean Coalition, at p. 2.

available in near real time in many cases. Open access to this information is a fundamental feature of the operation of these critical markets. Sadly, the Commission has allowed regulated utilities to create secret markets that transact billions of dollars per year on energy commodities, in a much less transparent manner than Wall Street, and this situation is absolutely contrary to the public interest in a modern, democratic society.<sup>11</sup>

To the contrary, the utilities argue for preservation of the secretive status quo. San Diego Gas & Electric Company ("SDG&E") first contends this issue is out of scope, then states "it is not necessary to reach the question of whether to eliminate current confidentiality protections applicable to this information because, "SDG&E routinely provide confidential information to the CAISO through established non-disclosure procedures"<sup>12</sup> and then argues that "disclosure of the data identified in the question is statutorily prohibited."<sup>13</sup> Pacific Gas and Electric Company ("PG&E") agrees that transparency is "outside of the scope of this LTPP Track 3 proceeding," and contends that, "The current level of transparency should not be changed. It strikes the right balance between bundled customer's interests and the interests of market participants that want to meaningfully participate in proceedings that impact constituents and organizations they represent."<sup>14</sup> Southern California Edison Company ("SCE") argues that "the Commission's current confidentiality rules provide a sufficient level of transparency to the public and can adequately provide visibility to the CAISO."<sup>15</sup>

Put simply, the intervenors have it right and the utilities are flailing about at their attempts to defend the overly conservative and secretive status quo. First of all, the suggestion that transparency issues are outside of scope is palpably incorrect. The May 17, 2012, Scoping

<sup>13</sup> Id, at p. 4.

<sup>&</sup>lt;sup>11</sup> Sierra Club, at p. 6.

<sup>&</sup>lt;sup>12</sup> SDG&E, at p. 3.

<sup>&</sup>lt;sup>14</sup> PG&E, at p. 5.

<sup>&</sup>lt;sup>15</sup> SCE, at p. 4.

Memo and Ruling of Assigned Commissioner and Administrative Law Judge ("Scoping Memo")

lists the following issues as being within the scope of Track III:

- 1. Flexible resources procur ement and contract policies;
- 2. Preserving competition in the resource adequacy market;
- 3. Ensuring utilities reduce their need to procure GHG compliance instruments by pursuing cost-effective GHG emissions reductions on a portfolio-wide basis;
- 4. Addressing any unresolved issues or issues that need to be revisited from the 2010 LTPP related to GHG compliance product procurement authority;
- 5. Establishing a fair standard under which to compare Utility-Owned Generation renewable applications to other recent renewable proposals and contracts;
- 6. Making enhancements to the Energy Resource Recovery Account compliance filing requirements;
- 7. OTC power procurement policies;
- 8. Nuclear fuel procurement policies;
- 9. Policies related to ISO new markets and market products, including flexiramp products and intra-hour products;
- 10. Refinements to the Procurement Review Group;
- 11. Refinements to the independent evaluator process;
- 12. Multi-year forward procurement requirements;
- 13. Long-term contract solicitation rules;
- 14. Changes to the Commission's adopted CAM per SB 695, SB 790, D.11-05-005 and any relevant previous decisions (beyond any changes considered in Track 1).
- 15. GHG procurement policies necessary to facilitate the implementation of the California Air Resources Board's cap-and-trade program.<sup>16</sup>

The suggestion by SDG&E and PG&E that these issues can be adequately examined without also

considering related issues of confidentiality and transparency is incorrect. Whether the utilities

like it or not, there is a growing consensus among the non-utility community that vital

information at the Commission is all too often shrouded in secrecy or given nothing more than

perfunctory disclosure through the vehicles of the Procurement Review Group ("PRG") or the

Cost Allocation Mechanism ("CAM") group adjunct to the PRG.

<sup>&</sup>lt;sup>16</sup> Scoping Memo, at p. 12 (footnotes omitted).

As WPTF explained in its opening comments, far greater transparency is also sorely needed with respect to bid criteria for RFOs. Utility RFOs need to have far more transparent bid criteria in order to ensure robust and price-competitive responses. Unless bidders know in advance the metrics that will be utilized by the IOU for bid evaluation, RFO responses will necessarily factor in a degree of uncertainty which can compromise the price competitiveness. Conversely, when bid requirements and evaluation criteria are transparent, RFOs are more likely to focus on price, with the lowest bidders prevailing, to the benefit of ratepayers.

In conclusion, greater transparency is needed with regard to the levels of future procurement for which each IOU has entered into contracts because doing so will provide clearer signals to the market with regard to future planning and will enable prospective suppliers to better focus their future bid activities. As explained above, to the extent there can be greater transparency with regard to existing contracts and bid criteria, the market is more likely to respond to future competitive RFOs with more sharply focused products and more competitive pricing. This will benefit ratepayers and lead to a more vibrant, transparent and price-efficient market.

#### 3. Long-term contract solicitation rules

# a. Should the Commission adopt a rule that explicitly indicates that existing power plants may bid upgrades or repowers into new-generation RFOs?

In its opening comments, WPTF strongly urged that upgrades and repowers should be allowed to compete in utility RFOs, and indeed that all vintages of supply, including new, repowered, upgraded, and existing supply, should be eligible for long-term RFOs. In short, we objected to the underlying implicit concept in the question that suggests that the utilities should conduct "new generation" RFOs. Instead, WPTF recommended that utilities should be required to issue RFOs to meet established needs for defined wholesale products including energy, and various types of capacity, Any offer that meets an established need should be eligible including purely financial offers that are not tied to specific physical resources on an ex ante basis. It is notable that several parties agreed with this position.

For example, CEJA states that, "The Commission should adopt a rule that explicitly indicates that existing power plants may bid upgrades or repowers into new-generation RFOs. Upgrades or repowers of existing power plants can be less expensive for ratepayers and less damaging to the environment."<sup>17</sup> Sierra Club agrees with this environmental argument, stating that, "The rule should be designed to further the State's energy and environmental policy goals."<sup>18</sup> The Green Power Institute ("GPI") argues:

The thrust of issue no. 3 in the Ruling is how to treat existing power plants that have been upgraded or repowered and wish to bid into solicitations for new generation. In the opinion of the GPI, the Commission's singular goal in this particular kind of solicitation should be in procuring the lowest-cost energy possible. This means that the offers need to be refocused from their present orientation to the machinery that produces the needed product, to instead focus squarely on the needed products themselves, regardless of how they are produced. If a particular product or service can be provided equally well by a greenfield facility or a repower of an existing facility, then delivered price should be the only determining factor.<sup>19</sup>

Similarly, Competitive Power Ventures, Power Development, Inc. ("CPV") asserts, "The Commission should require that IOU solicitations be open to both existing and new generation to ensure that the broadest range of projects are afforded available commercial opportunities. This will advance the best interest of ratepayers and offer new commercial opportunities to existing generation that all too often have limited commercial opportunities."<sup>20</sup> SDG&E "does not object

<sup>&</sup>lt;sup>17</sup> CEJA, at p. 7.

<sup>&</sup>lt;sup>18</sup> Sierra Club, at p. 12.

<sup>&</sup>lt;sup>19</sup> GPI, at 1.

<sup>&</sup>lt;sup>20</sup> CPV, at p. 4.

to allowing existing facilities to bid upgrades or repowers into new-generation RFOs."<sup>21</sup> IEP concurs with its statement that, "the age or vintage of a unit, or whether a unit is a repower or upgrade, should not disqualify a resource that can provide the defined produce or service from bidding."<sup>22</sup>

Further, a number of other parties, including SCE and DRA, agree that at least "incremental" MW associated with upgrades and repowers should be eligible for new generation RFOs. For example, the Division of Ratepayer Advocates urges, "The Commission should explicitly allow existing power plants to bid upgrades of those resources into new resource RFOs, providing that the quantity being offered is incremental to the existing rated capacity of the resource."<sup>23</sup> SCE agrees with CEJA's incremental distinction: "The Commission should only allow capacity (whether developed at an existing power plant site or at a new site) that is *incremental* to what was assumed in the underlying "need determination" analysis to compete in "new generation" RFOs, so long as such incremental megawatts (MW) can provide the necessary attributes that the Commission has authorized the utility to procure."<sup>24</sup> While WPTF agrees with these parties that incremental capacity associated with upgrades and repowers should be eligible for new generation RFOs, it disagrees with these parties that non-incremental MW should not be eligible.

PG&E, however, stakes out a different position that the Commission should reject. It argues that:

<sup>&</sup>lt;sup>21</sup> SDG&E, at p. 7.

<sup>&</sup>lt;sup>22</sup> IEP, at p. 5.

<sup>&</sup>lt;sup>23</sup> DRA, at p. 7.

<sup>&</sup>lt;sup>24</sup> SCE, at p. 6.

In the past, LTRFOs have been limited to new or repowered resources that are capable of addressing the incremental need. This limitation should remain in place. Existing facilities, including upgrades to existing facilities, should continue to be considered in short-term or intermediate-term solicitations. However, allowing existing resources to compete in new-generation LTRFOs may lead to over-procurement, increased costs for customers, higher emissions, and/or a failure to meet the needs of the RFO.<sup>25</sup>

WPTF disagrees with both PG&E's position and its faulty underlying rationale. There is no reason why allowing existing resources to participate in RFOS should lead to "over-procurement." A utility is not going to procure more power than it needs simply because repowers or upgrades participate in its RFOs. The acceptance of such bids will also not lead to "increased costs for customers." If bids from repowers and upgrades are uncompetitive, they simply will not be accepted. If anything, by widening the field of prospective bidders, all respondents are more likely to feel the competitive pressure and respond accordingly with the lowest price bid they can offer. Moreover, allowing all suppliers to compete to meet the established need for which the utility is conducting the RFO should serve to ensure that costly commitments to unneeded new build are avoided.

As noted by WPTF in its opening comments, there may be needs that are highly unlikely to be met in any other way than by new generation, but this should never be pre-judged. Instead, the Commission should eliminate any form of discrimination between new and existing resources in long-term solicitations. As noted by Calpine, "Rather than crafting rules that are tailored to specific vintages of capacity (e.g., new, existing, repowered, upgraded), the Commission should reform long-term procurement rules to eliminate discrimination between

<sup>&</sup>lt;sup>25</sup> PG&E, at p. 9.

different vintages of capacity. Discriminatory procurement policies and practices are inefficient and ultimately raise customer costs."<sup>26</sup>

In conclusion, WPTF believes that repowers should not be valued "differently;" that a proposal that includes repowers should be evaluated as to whether or not the proposal does or does not meet the technical needs, as described in the RFO; that the utility's bid evaluation should assess whether or not the proposal does indeed meet the technical requirements set out in the solicitation; that all suppliers should be allowed to participate in an RFO; and that all procurement should be done through RFOs.

# 5. Changes to the Commission's adopted Cost Allocation Mechanism (CAM) per Senate Bill (SB) 695, SB 790, Decision 11-05-005 and relevant previous decisions.

The discussion of CAM issues was quite varied. Not unexpectedly, the utilities once again defend the status quo as it serves their anticompetitive needs by burdening their competitive load serving entities - Community Choice Aggregators and Electric Service Providers. Parties who are forced to subsidize this cost burden, such as CCSF, the Marin Energy Authority ("MEA") and the Alliance for Retail Energy Markets and Direct Access Customer Coalition ("AReM/DACC") are just as predictably disenchanted with the CAM's uneven and disproportionate impact on competitive retail markets. WPTF concurs with the AReM/DACC recommendations that the utilities should be obligated to forecast departing load for direct access and community choice aggregation customers with all such forecast load exempt from nonbypassable charges; that the CAM should not be applied to any IOU procurement of resources needed to meet bundled load; that any procurement authorized to meet bundled load requirements should not confer automatic CAM treatment; that this proceeding should become

<sup>&</sup>lt;sup>26</sup> Calpine, at p. 9.

the venue for addressing how non-utility LSEs will be given an opportunity to self-fulfill their system or local reliability needs and avoid CAM procurement by the IOUs; that the Commission should refine the current guidelines and requirements for the energy auctions and the proxy calculation and that workshops should be scheduled to address each of these issues.<sup>27</sup>

#### 7. Refinements to the Independent Evaluator (IE) program

In its opening comments, WPTF agreed that refinement to Independent Evaluator ("IE") guidelines is an area for which procurement rule changes should be considered in this proceeding; that there should be absolutely no constraints on the ability of IEs to communicate directly with Commission staff; and that the most fundamental problem with the IE process is the fact that they must account to the utility whose procurement they are evaluating in order to be paid. The old expression that "He that pays the piper calls the tune" is abundantly applicable here.

PG&E endorses keeping the current rules for IE qualification in place<sup>28</sup> and concludes that "the current IE process is working well."<sup>29</sup> SCE briefly responds to the specific procedural questions asked in the Ruling and states that it, "is not aware of any specific IOU behavior that has sought to limit an IE's interactions with the Commission. Any NDAs with IEs should comply with the Commission's confidentiality rules to protect market-sensitive information, but this should not affect the Commission's access to information."<sup>30</sup> SDG&E states that it, "supports the IE qualifications detailed in D.04-12-048 summarized below, and does not

<sup>&</sup>lt;sup>27</sup> AReM/DACC, at pp. 1-2.

<sup>&</sup>lt;sup>28</sup> PG&E, at p. 24.

<sup>&</sup>lt;sup>29</sup> Id, at p. 25.

<sup>&</sup>lt;sup>30</sup> SCE, at p. 23.

perceive a need to modify these requirements.<sup>31</sup> In summary, the utilities are largely content with the current IE program, as is, and do not address the issue of whether it is appropriate for them to pay the allegedly "independent" evaluators of their procurement.

To the contrary, other parties concur with WPTF with regard to the hiring and payment of

IEs. Sierra Club, for example, says:

...the Commission should also consider a different approach where the Commission employees its own auditors to do the evaluation. In the last LTPP, the Commission recognized that it would be preferable to have the Independent Evaluators be hired by and report to the Commission, but rejected this proposal because of "practical and administrative hurdles." Rather than perpetuating a system that has structural conflicts of interest built in the system, the Commission should assert its authority by having Commission auditors evaluate IOU procurement.<sup>32</sup>

CEJA points out that, "Problematically, IEs are still hired by IOUs, which creates actual and perceived conflicts of interest."<sup>33</sup> WPTF continues to object to the fact that the Commission is willing to continue to let the so-called "independent" evaluator process to be anything but independent. In this Track III proceeding, the Commission should consider this issue to be within scope and finally resolve it rather than continually punting to the next, unspecified proceeding.

## II. Conclusion

WPTF reiterates the recommendations in its opening comments that:

- (a) The Commission should endorse the concept of a multi-year forward procurement requirement that should apply to all LSEs and enforced through a centralized capacity market administered by the CAISO;
- (b) The Commission should make it explicitly clear that the IOUs are to plan for reasonable amounts of departing load and then only procure for the assumed amounts of retained bundled load;

<sup>&</sup>lt;sup>31</sup> SDG&E, at p. 18.

<sup>&</sup>lt;sup>32</sup> Sierra Club, at p. 15.

<sup>&</sup>lt;sup>33</sup> CEJA, at p. 14.

- (c) In order for bidders to make the most price-competitive bids, the criteria for bid evaluation need to be completely clear and transparent;
- (d) Winning bid/offer information should be released five years after the fact on an anonymous basis that conceals the identification of the successful bidders;
- (e) Upgrades and repowers should be allowed to compete in RFOs;
- (f) The utilities should not conduct "new generation" RFOs and should instead be required to issue RFOs for a need, whether that need is capacity, energy, ramping capability, location or a combination of some or all of these products, with any entity that can meet the need(s), as specified, allowed to bid;
- (g) The Commission should focus on creating robust RFO metrics that define the needs properly such as capacity, energy, ramping capability, and location instead of predetermining the resources or types of suppliers that can bid into the RFO;
- (h) The Commission should reject "one-off" bilateral contracts that are untested by a competitive RFO;
- (i) All procurement should be done through RFOs;
- (j) The IOUs' procurement to serve their bundled load should be linked specifically to each IOU's forecasted bundled load over a reasonable time period such as three to five years;
- (k) In no event should the resources used to meet bundled load requirements be afforded CAM treatment;
- (1) It is important for the Commission to ensure that the full value of energy and other related products is netted from the contract price achieved in CAM energy auctions;
- (m) CAM procurement must clearly be for reliability purposes and just as clearly must benefit <u>all</u> parties;
- (n) Rather than attempting to differentiate between CCAs and ESPs, the Commission should instead focus on establishing clear guidelines for when CAM is to be applied, a more detailed test for determining "who benefits" and criteria for determining when a CCA or ESP can demonstrate that it is fully resourced and thus exempt from CAM charges;
- (o) It is most important that there be absolutely no constraints on the ability of IEs to communicate directly with Commission staff; and
- (p) The Commission's Energy Division, rather than the utilities, should oversee the hiring and oversight of IEs.

WPTF thanks the Commission for its attention to the reply comments and discussion contained herein.

Respectfully submitted,

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WESTERN POWER TRADING FORUM

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