



Pacific Gas and  
Electric Company™

Charles R. Middlekauff

*Mailing Address*  
P.O. Box 7442  
San Francisco, CA 94120

*Street/Courier Address*  
Law Department  
77 Beale Street  
San Francisco, CA 94105

(415) 973-6971  
Fax: (415) 972-5952  
Internet: CRMd@pge.com

January 5, 2006

**HAND DELIVERY**

Docket Clerk  
California Public Utilities Commission  
505 Van Ness Avenue, Room 2001  
San Francisco, CA 94102

Re: *Order Instituting Rulemaking to Promote Policy and Program Coordination and  
Integration in Utility Resource Planning (R. 04-04-003)*

Dear Docket Clerk:

Enclosed for filing is the original and five (5) copies of the “**POST-WORKSHOP  
COMMENTS OF PG&E ON ASSIGNED COMMISSIONER’S RULING  
REGARDING NEXT STEPS IN PROCUREMENT PROCEEDING IN 04-04-003**”  
in the above-referenced matter.

Please file the original document, date-stamp a copy, and return the enclosed copy in the  
postage-paid, self-addressed envelope provided for this purpose.

Sincerely,

/S/

Charles R. Middlekauff

CRM:jsn

cc: President Michael R. Peevey  
Commissioner Geoffrey F. Brown  
Commissioner Dian M. Grueneich  
Commissioner Susan P. Kennedy  
Commissioner John Bohn  
ALJ Carol A. Brown  
Mr. Sean Gallagher, Director, Energy Division  
Official Service List for R.04-04-003

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

Order Instituting Rulemaking to Promote  
Policy and Program Coordination and  
Integration in Electric Utility Resource  
Planning

R. 04-04-003

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**POST-WORKSHOP COMMENTS OF PG&E ON ASSIGNED  
COMMISSIONER'S RULING REGARDING NEXT STEPS IN  
PROCUREMENT PROCEEDING IN 04-04-003**

WILLIAM V. MANHEIM  
JOHN W. BOGY  
CHARLES R. MIDDLEKAUFF

Pacific Gas and Electric Company  
P.O. Box 7442  
San Francisco, CA 94120  
Telephone: (415) 973-6971  
Facsimile: (415) 973-5520  
Email: crmd@pge.com

Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

January 5, 2006

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PROCUREMENT PROCEEDING  
IN R. 04-04-003**

In accordance with the Assigned Commissioner's Ruling Regarding Next Steps In Procurement Proceeding ("ACR") issued on December 2, 2005, Pacific Gas and Electric Company ("PG&E") submits the following post-workshop comments.

**I. INTRODUCTION**

Commissioner Peevey and the Commission Staff are to be commended for taking the initiative to insure that the 2006 Long Term Procurement Plan ("LTPP") proceeding is well-structured, efficient and productive. Having a clear and well-established roadmap for the 2006 LTPP proceeding is essential to achieving these goals. In an effort to assist the Commission and Commission Staff, PG&E has prepared a Proposed Roadmap for the 2006 LTPP proceeding that is based on Staff's initial proposal, as well as comments

made by various parties in pre-workshop comments and at the December 14, 2005 workshop. PG&E's Proposed Roadmap is described below and laid out in detail in Appendix A.<sup>1</sup> PG&E hopes that its Proposed Roadmap can be used by the Commission Staff to develop a detailed schedule for this proceeding.

In addition, in pre-workshop comments and at the workshop, PG&E and other parties raised specific procedural and substantive issues regarding the four goals for this proceeding identified by the ACR.<sup>2</sup> PG&E's post-workshop comments will briefly address each of these goals and some of the concerns expressed by other parties regarding these goals. PG&E will also address several additional issues raised by Commission Staff and other parties during the December 14<sup>th</sup> workshop. Finally, PG&E will address the Transmission Planning Collaboration proposal attached as Appendix B to the ACR.

## **II. PG&E'S PROPOSED ROADMAP**

Developing a schedule for the 2006 LTPP proceeding is a daunting task. This proceeding will address a large number of issues, and is also affected by several ongoing Commission proceedings as well as activities by other entities, such as the California Independent System Operator Corporation ("ISO") and the California Energy Commission ("CEC"). PG&E understands that most parties agree there are essentially three phases to this proceeding:

- Phase I -- Need Determination and Cost/Benefit Allocation

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<sup>1</sup> Appendix A also includes a comparison of PG&E's Proposed Roadmap and the Commission Staff proposal included as Appendix A to the ACR. As is evident from this comparison, PG&E's Proposed Roadmap and Staff's proposal are very similar.

<sup>2</sup> ACR at 6 (describing the four goals for this proceeding).

- Phase II – LTPP Design
- Phase III – LTPP Submission

PG&E has developed a Proposed Roadmap that includes these three phases and sets forth specific dates and deadlines for each.<sup>3</sup> By proposing actual dates for specific events, PG&E has tried to develop a roadmap that results in a draft decision being issued on all Load Serving Entities' ("LSEs") LTPPs by the end of November 2006, which is the same timing proposed by Staff. The specific dates also highlight how tight the current schedule is in this proceeding, and the need to be singularly focused on the relevant issues, rather than trying to address each issue raised by every party. Below is a brief description of three phases in this proceeding, explaining the activities and timing for each.

Phase I of the 2006 LTPP proceeding will address the need for new generation in California and the allocation of costs/benefits associated with this new generation. As Staff explained at the December 14<sup>th</sup> workshop, most parties filing pre-workshop comments recognized that need determination is an essential first step in the 2006 LTPP proceeding. Under PG&E's Proposed Roadmap, workshops will be held in late January 2006 on need issues, followed by briefing and a Commission decision on need by no later than May 2006. Phase I will also address legal and policy issues related to cost/benefit allocation. A determination of cost/benefit allocation is essential before LSEs can

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<sup>3</sup> Because PG&E's Proposed Roadmap incorporates issues raised by Staff and other parties in both pre-workshop comments and at the December 14<sup>th</sup> workshop, the roadmap differs from some of PG&E's pre-workshop comments. For example, in its pre-workshop comments, PG&E noted that there is no need for briefing on the new generation need determination issue. Based on Staff's and the parties' comments, PG&E now believes that briefing on the new generation need determination would be beneficial.

prepare their LTPPs, as most parties at the December 14<sup>th</sup> workshop recognized.

PG&E's Proposed Roadmap calls for a Commission decision on cost/benefit allocation issues in May 2006. It is critical that Phase I be narrowly focused on relevant issues, as this phase directly impacts the remainder of the proceeding.

Phase II will address LTPP design. Under PG&E's Proposed Roadmap, Phase II will include a series of workshops in March and April 2006 to discuss LTPP design issues, including objectives and expectations for the LTPPs, scope of issues to be covered in LTPPs, assumptions to be included and specification of the outputs. Because a successful outcome in Phase II will help streamline the rest of the proceeding, PG&E's Proposed Roadmap provides that workshops continue through April 2006, a month later than Staff proposed.

Phase III will be the actual submission of each LSE's 2006 LTPP. Staff's initial proposal required LSEs to submit their LTPPs by May 2006. PG&E extended this deadline to July 2006 so that LSEs could incorporate into their LTPPs the results of the Commission's May 2006 Phase I determinations on need and cost/benefit allocation and the results of the Phase II workshops. While PG&E's Proposed Roadmap slightly delays LTPP submission, the July 2006 submission date will insure that LSEs have sufficient time to incorporate the outcomes of Phases I and II and will significantly reduce the need for later updates or revisions. PG&E's Proposed Roadmap also provides for a longer period of time from LTPP submission to hearings, in response to concerns raised by TURN and other parties that they have sufficient time to conduct discovery and prepare testimony. PG&E believes that the additional time spent in LTPP design and pre-hearing

work will allow the hearings, if they are needed, to be shorter and more focused. Thus, although Phase III starts later under PG&E's Proposed Roadmap, PG&E believes a draft decision can still be issued by November 2006, which is the same as the date proposed by Staff.

### **III. GOALS IDENTIFIED BY THE ACR**

#### **A. Review The Need For New Generation And Cost/Benefit Allocation**

It was generally agreed in both pre-workshop comments and at the December 14<sup>th</sup> workshop that a determination of the need for new generation in California is an important first step in the 2006 LTPP proceeding. As PG&E noted in its pre-workshop comments, the need for PG&E's service territory for the 2008-2010 period has already been determined and should not be revisited.<sup>4</sup> However, with this exception, PG&E generally agrees that a need determination should be made before the 2006 LTPPs are submitted.

At the December 14<sup>th</sup> workshop there was some discussion of the use of the CEC's *Committee Final Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission* ("Transmittal Report") and the *Integrated Energy Policy Report* ("IEPR") in the 2006 LTPP proceeding. The CEC asserted during the workshop that, with limited updates, the need determinations in these reports can be used for the 2006 LTPPs. PG&E submitted comments to the CEC regarding the *Transmittal Report* identifying concerns about certain data and policy

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<sup>4</sup> PG&E Comments at 7.



recommendations, including incorrect data used by the CEC.<sup>5</sup> It is PG&E's understanding that the "Additional Non-Designated Need" shown in the *Transmittal Report* capacity tables is contract need, and not the need for new generation. That is, existing generation with expiring contracts would be included as "additional need." As a result, the capacity tables overstate the need for new generation. Moreover, as the CEC acknowledged at the December 14<sup>th</sup> workshop, the *IEPR* and *Transmittal Report* data does not include 2005-2006 transactions that could impact a need determination. Given these and other concerns, the need determinations and recommendations in the *Transmittal Report* and *IEPR* cannot simply be adopted wholesale in this proceeding. Nevertheless, PG&E believes that a reasonable forecast of the need for new generation can be created using publicly available CEC data that will not require hearings. The Order Instituting Rulemaking ("OIR") for the 2006 LTPP proceeding should make clear that CEC data should be adjusted to insure that it is up to date and accurate.

As to policy and legal issues regarding cost/benefit allocation for new generation, PG&E believes it is essential to resolve these issues early in the 2006 LTPP proceeding. At the December 14<sup>th</sup> workshop, the City and County of San Francisco ("CCSF") incorrectly suggested that cost/benefit allocation issues may require hearings.<sup>6</sup> While determining the costs and benefits of specific new generation may require hearings as a part of an application for a Long Term Request for Offers or other generation specific application/proceeding, the policy and legal issues concerning the cost/benefit allocation

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<sup>5</sup> Appendix B includes the specific concerns raised by PG&E to the CEC regarding the *Transmittal Report*.

<sup>6</sup> December 14<sup>th</sup> Workshop Transcript ("Tr.") at 56:13-57:6.

can be resolved without hearings or the development of a new, detailed factual record. Resolution of cost/benefit allocation policy and legal issues is essential early in this proceeding so LSEs can incorporate the Commission's determinations into their LTPPs.

Finally, the OIR initiating the 2006 LTPP proceeding should make clear that the Commission will address the cost cap and sharing of cost cap savings in the cost/benefit allocation determination in this proceeding, as the Commission recently noted in D.05-12-022.<sup>7</sup>

### **B. LTPP Design**

The ACR identified a "review of long-term resource plans" as the second goal for the 2006 LTPP proceeding.<sup>8</sup> From Staff's comments at the December 14<sup>th</sup> workshop, PG&E understands that this goal generally addresses LTPP design, with the intent that LTPP objectives, expectations, scope, assumptions and outputs be determined before all LSEs submit their respective LTPPs. In addition, once transmission information is received from the ISO, Phase II can address how the integrated planning process, reviewing both generation and transmission, should occur in the 2006 LTPP proceeding. PG&E believes that time invested in workshops addressing design issues upfront will be well-spent and will help streamline the LTPP review process.

### **C. LTPP Submission**

The third goal identified in the ACR was the "review and approval of new 10-year

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<sup>7</sup> D.05-12-022 (2005) at 8-9.

<sup>8</sup> ACR at 6.

procurement plans.”<sup>2</sup> A few issues that were raised in pre-workshop comments and at the December 14<sup>th</sup> workshop regarding preparation and submission of the actual LTPPs require comment.

First, in pre-hearing comments and at the December 14<sup>th</sup> workshop, a number of parties noted that in order to effectively include transmission in the LSEs’ LTPPs, a limited waiver of the Federal Energy Regulatory Commission’s (“FERC”) Order 2004 may be necessary. PG&E urges the Commission to consider this issue early in the 2006 LTPP proceeding and to jointly with the IOUs petition FERC for a waiver of the Order 2004 limitations to facilitate the IOUs effective participation in this state-mandated resource planning proceeding. Although not included in PG&E’s Proposed Roadmap, PG&E suggests that the parties and the Commission organize a conference call for all interested parties as soon as possible to discuss a joint petition.

Second, at the December 14<sup>th</sup> workshop, there was also some discussion whether all Commission-jurisdictional LSEs should file LTPPs. The Commission has clear statutory jurisdiction over certain LSEs to ensure resource adequacy, including the development of new generation and cost allocation, as well as a statutory responsibility to establish resource adequacy requirements for all Commission-jurisdictional LSEs.<sup>10</sup>

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<sup>2</sup> ACR at 6. The ACR identified as a fourth goal “any procurement policy issues not handled in R.04-04-003 or other procurement related dockets.” The ACR and the initial Staff proposal did not discuss this goal in detail or provide any specific examples of what might be included in this goal. PG&E does not have any comments regarding this goal. However, given the significant amount of work already necessary for this proceeding, PG&E urges the Commission to limit the scope of this proceeding to issues that must be resolved for the LSEs to develop LTPPs and not allow this proceeding to become a catch-all for all procurement related issues.

<sup>10</sup> Pub. Util. Code § 380 (2005).

Issues regarding new generation and cost/benefit allocation are at the heart of an LSE's LTPP. Requiring all Commission-jurisdictional LSEs to submit an LTPP that is reviewed by the Commission is an essential part of insuring resource adequacy, including issues regarding new generation procurement and cost allocation.<sup>11</sup> Moreover, it will be difficult for the Commission to assess the IOUs' LTPPs if the LTPPs of other Commission-jurisdictional LSEs are not submitted at the same time. The Commission cannot evaluate assumptions regarding LSE specific loads and resources without the benefit of information from all Commission-regulated LSEs to review. The OIR initiating the 2006 LTPP proceeding should include all Commission-jurisdictional LSEs, not just the IOUs.

Third, at the December 14<sup>th</sup> workshop, in response to PG&E's pre-workshop comments, Staff also asked whether the 2006 LTPP proceeding should be delayed until the completion of the avoided cost proceedings.<sup>12</sup> To clarify, PG&E does not believe the 2006 LTPP proceeding should be delayed pending the outcome of the avoided cost proceeding, or other procurement related proceedings such as the new resource adequacy proceeding. However, PG&E does encourage the Commission to proceed expeditiously in the avoided cost and resource adequacy proceedings as development of a uniform avoided cost to evaluate all supply, demand and transmission options and establishment

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<sup>11</sup> PG&E recognizes that all Commission-jurisdictional LSEs have been named as respondents in the Commission's new Resource Adequacy Proceeding. *See* R.05-12-013 (December 20, 2005). However, to the extent there is overlap between that proceeding and the 2006 LTPP proceeding, or new generation or cost/benefit allocation issues are addressed in the 2006 LTPP proceeding rather than in the resource adequacy proceeding, it is essential that all Commission-jurisdictional LSEs be named as respondents in both proceedings.

<sup>12</sup> Tr. at 88:11-25.

of multi-year resource adequacy requirements for all LSEs are critical elements in developing integrated resource plans.

Finally, with regard to the scope of the 2006 LTPP proceeding, the OIR should make clear that the goal of the proceeding is not to identify specific generation or transmission projects. Specific projects are generally evaluated as a part of a CPCN or in reviewing the results of a Request for Offers (“RFO”). The goal of the 2006 LTPP proceeding should be the submission of plans that identify overall needs for each LSE, not the review of specific projects.

#### **IV. ADDITIONAL ISSUES RAISED IN PRE-WORKSHOP COMMENTS AND AT THE DECEMBER 14<sup>TH</sup> WORKSHOP**

Commission Staff and the parties raised numerous issues in both pre-workshop comments and at the December 14<sup>th</sup> workshop. PG&E will not attempt to address all of these issues. However, a few issues require clarification or comment.

##### **A. Staff’s Proposal For Bi-Weekly Procurement Meetings**

During the December 14<sup>th</sup> workshop, Commission Staff asked whether bi-weekly procurement meetings would be useful. Given the enormous amount of work that must be done in this proceeding, PG&E believes bi-weekly procurement meetings would not be efficient. Parties would be required to prepare for and travel to these meetings, which would take away valuable time from preparing for the various workshops, LTPP design and the LTPPs. Moreover, such meetings may get bogged down in discussing matters that are not relevant to the core issues in this proceeding, or are only tangentially relevant.

**B. Staff's Question Regarding Submitting LTPPs With Testimony Or Simply As A Plan**

Staff also asked during the December 14<sup>th</sup> workshop whether the LTPPs should be submitted with testimony or simply as plans. Many of the LTPP policy and qualitative issues do not readily fit into a “plan” framework and require separate testimony and factual support. Although PG&E strongly encourages streamlining the process to focus on core issues, testimony is necessary to describe and support certain policy and qualitative issues.

**C. The 2006 LTPP Proceeding Should Not Be Used To Try To Develop Standard Products, Services And Contract Terms.**

During the December 14<sup>th</sup> workshop, a CEC representative suggested that the 2006 LTPP proceeding could be used to develop standardized products, services and contract terms.<sup>13</sup> Expanding the scope of this proceeding to attempt to develop standardized products, services, and contract terms would be inefficient, counter-productive and unnecessary. The Commission spent an inordinate amount of time in the renewable energy proceeding trying to come up with standard terms and conditions for renewable energy contracts. Ultimately, the Commission was only able to come up with a few terms and conditions out of the many proposed. There is already a very tight schedule proposed for this proceeding in order to get the LTPPs approved by the end of 2006. Attempting to include the development of standard products, services and contract terms would bog down this proceeding and insure substantial delays well into 2007.

Moreover, attempting to develop standard products, services and contract terms is

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<sup>13</sup> Tr. 109:14-110:15.

counter-productive and unnecessary. Standard products, services and contract terms hinder the ability of buyers and sellers to reach the best set of products and terms based on their combined interests and often do not fit unique local situations.<sup>14</sup> Buyers and sellers should negotiate products, services and contract terms as necessary, rather than having terms dictated through this proceeding. Using operational flexibility as an example, standard contract terms can also increase costs either directly because “custom” terms to satisfy operational needs would be negotiated at a premium to the LSE, or indirectly because the standardized terms do not provide the operational flexibility needed to minimize overall costs or maximize support for system reliability. The historical record for standard contract terms, such as the qualifying facility or “QF” standard offers, is not good and has often resulted in substantial above-market costs to ratepayers. Finally, standard products, services and contract terms would disadvantage Commission-regulated LSEs from other buyers in the market who can be flexible in the services and terms they negotiate.

**V. THE TRANSMISSION PLANNING COLLABORATION PROPOSAL IS A GOOD START, BUT REQUIRES MORE WORK.**

The Commission sponsored a separate workshop in the afternoon on December 14<sup>th</sup> to address and discuss a Transmission Planning Collaboration proposal between the CEC, ISO and the Commission. PG&E appreciates the Commission’s efforts to integrate its generation procurement process with the ISO transmission planning and approval process. Timely consideration of transmission alternatives will result in a stronger

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<sup>14</sup> For example, obtaining generation for the Humboldt area in PG&E’s service territory involves unique operational issues that would not be addressed by standard contract terms.

procurement process and ensure that the most cost-effective solutions for customers are selected. PG&E also appreciates the strong commitment shown by the Commission, ISO, and the CEC at the December 14th workshop to integrate their organization's various processes in a way that avoids unnecessary duplication.

As all parties are aware, the transmission development process in California can be costly and time-consuming. Given the importance to the State of timely new transmission development, one goal of the transmission collaboration process discussed at the December 14th workshop should be to continue to find ways to expedite the transmission planning and siting processes. In all events, the parties should take care not to add additional layers to an already-complex and time-consuming transmission planning and siting process.

In addition, the transmission collaboration process should seek to explain what information will be communicated at each step of the integrated plan. As described at the December 14<sup>th</sup> workshop, there are numerous handoffs of information between the various entities in order to arrive at an integrated plan. To ensure alignment of expectations, better descriptions of the information to be passed between the parties is needed. It was also stated at the workshop that generators could receive a benefit in the evaluation process if their siting allowed a transmission upgrade to be deferred or avoided based on the siting of the generator's project. There needs to be further exploration of how this concept is implemented within the commercial procurement framework.



PG&E recognizes that the transmission planning collaboration process is still in development. In this regard, PG&E understands that the ISO is working to clarify the planning process concept that was discussed at the December 14<sup>th</sup> workshop by developing a detailed integrated planning process proposal. PG&E understands that this detailed integrated planning process proposal would provide timely transmission-related input to the Commission's resource procurement process, yet allow needed transmission upgrades and generator interconnections to proceed to the project development phase without undue delay. In addition, this integrated planning process proposal will provide descriptive text that further describes the information that is communicated at each step of the process. PG&E plans to comment on this detailed proposal, which the ISO expects to present in early January, with a view towards finalizing the process by the end of January.

## **VI. CONCLUSION**

PG&E looks forward to the 2006 LTPP proceeding as an opportunity for the Commission to review the LTPPs of all Commission-jurisdiction LSEs to ensure the procurement of necessary generation and the proper cost/benefit allocation over the next ten years. PG&E is submitting a Proposed Roadmap to assist the Commission and

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**APPENDIX A**

**PG&E's Proposed Roadmap For 2006 LTPP Proceeding**

## PG&E's Proposed Roadmap for 2006 LTPP Proceeding

### **Phase I -- Need Determination and Cost/Benefit Allocation**

#### A. Need Determination

- Goal: Establish where necessary factual generation need numbers for the 2006-2016 time period and address any other need-related issues
- Activities:
  - January 30-31, 2006 – Workshop on need issues
  - February 6, 2006 – Post-workshop briefs (if necessary)
  - February 13, 2006 – Post-workshop reply briefs (if necessary)
  - April 15, 2006 – Draft decision on need issues (and cost and benefit allocation issues as discussed below)
  - May 15, 2006 – Commission decision on need issues (and cost and benefit allocation as discussed below)

#### B. Cost and Benefit Allocation

- Goal: Address legal and policy issues regarding cost and benefit allocation
- Activities:
  - February 28, 2006 – Parties submit briefs on cost and benefit allocation legal and policy issues
  - March 15, 2006 – Parties submit reply briefs on cost and benefit allocation legal and policy issues
  - April 15, 2006 – Draft decision on cost and benefit allocation legal and policy issues
  - May 15, 2006 – Commission decision on cost and benefit allocation legal and policy issues

## **Phase II – LTPP Design**

- Goal: Identify the objectives and expectations, scope of issues to be covered, assumptions to be incorporated, and specification of the outputs for LTPPs.
- Activities:
  - March 20-21, 2006 – Workshops on content, design, inputs, assumptions and other LTPP design-related issues
  - April 11-12, 2006 – Follow-up workshop on design-related issues and presentation of draft proposals for contents of filings

## **Phase III – LTPP Submission**

- Goal: LTPPs submitted, reviewed and approved
- Activities:
  - July 17, 2006 – LTPPs submitted
  - Early August 2006 – Workshops to discuss LTPPs questions
  - October 2, 2006 – Hearings on LTPPs commence (if needed)
  - November 27, 2006 – Draft decision on LTPPs

## Comparison Staff Initial Proposal and PG&E's Proposed Roadmap

<b>Staff Initial Proposal</b>	<b>Proposed Roadmap</b>
<p><u>January 2006</u></p> <ul style="list-style-type: none"> <li>• Post-workshop comments (1/5)</li> <li>• Post-workshop reply comments (1/12)</li> <li>• ISO draft Transmission Study (1/?)</li> <li>• Establish new LTPP rulemaking (late January)</li> <li>• Workshop on new generation need and comments (late January)</li> </ul>	<p><u>January 2006</u></p> <ul style="list-style-type: none"> <li>• Post-workshop comments (1/5)</li> <li>• Post-workshop reply comments (1/12)</li> <li>• ISO draft Transmission Study (1/?)</li> <li>• Establish new LTPP rulemaking (late January)</li> <li>• Workshop on new generation need (1/30-1/31)</li> </ul>
<p><u>February 2006</u></p> <ul style="list-style-type: none"> <li>• Prehearing conference on new rulemaking (2/?)</li> <li>• Parties file briefs on cost and benefit allocation (2/?)</li> <li>• Workshop on LTPP design (<i>i.e.</i> Staff workshop on Integrated Resource Planning + Staff workshop on procurement policies to be considered in 2006 filings) (Late February)</li> </ul>	<p><u>February 2006</u></p> <ul style="list-style-type: none"> <li>• Post workshop briefs on generation need (2/6)</li> <li>• Post workshop reply briefs on generation need (2/13)</li> <li>• Prehearing conference on new rulemaking (2/20)</li> <li>• Parties submit briefs on cost and benefit allocation legal and policy issues (2/28)</li> </ul>
<p><u>March 2006</u></p> <ul style="list-style-type: none"> <li>• Workshop presenting draft LTPPs (3/?)</li> </ul>	<p><u>March 2006</u></p> <ul style="list-style-type: none"> <li>• Parties submit reply briefs on cost and benefit allocation legal and policy issues (3/15)</li> <li>• Workshops on LTPP design (3/20-21)</li> </ul>

<p><u>April 2006</u></p> <ul style="list-style-type: none"> <li>• Interim draft decision on new generation and costs and benefit allocation</li> <li>• Ruling on resource plan filings (if needed)</li> </ul>	<p><u>April 2006</u></p> <ul style="list-style-type: none"> <li>• Workshop on LTPP design and presentation of proposals for draft contents (4/11-12)</li> <li>• Draft decision on generation need, cost and benefit allocation legal and policy issues (4/15)</li> </ul>
<p><u>May 2006</u></p> <ul style="list-style-type: none"> <li>• LTPP plans filed</li> </ul>	<p><u>May 2006</u></p> <ul style="list-style-type: none"> <li>• Commission decision on generation need and cost and benefit allocation legal and policy issues (5/15)</li> <li>• Ruling on resource plan filings (if needed).</li> </ul>
<p><u>June 2006</u></p> <ul style="list-style-type: none"> <li>• Reports on Quarterly Transaction Report Audits</li> </ul>	<p><u>June 2006</u></p> <ul style="list-style-type: none"> <li>• Reports on Quarterly Transaction Report Audits</li> </ul>
<p><u>July 2006</u></p> <ul style="list-style-type: none"> <li>• Hearings on LTPPs</li> </ul>	<p><u>July 2006</u></p> <ul style="list-style-type: none"> <li>• LTPPs submitted (7/17)</li> </ul>
<p><u>August 2006</u></p> <ul style="list-style-type: none"> <li>• Post hearing briefs and reply briefs</li> </ul>	<p><u>August 2006</u></p> <ul style="list-style-type: none"> <li>• Workshops to discuss LTPP questions</li> </ul>
<p><u>September 2006</u></p>	<p><u>September 2006</u></p>
<p><u>October 2006</u></p>	<p><u>October 2006</u></p> <ul style="list-style-type: none"> <li>• Hearings on LTPPs (10/2) (if needed)</li> <li>• Post-hearing briefing</li> </ul>
<p><u>November 2006</u></p> <ul style="list-style-type: none"> <li>• Draft decision on LTPPs</li> </ul>	<p><u>November 2006</u></p> <ul style="list-style-type: none"> <li>• Draft decision on LTPPs (11/27)</li> </ul>

## **APPENDIX B**

PG&E Comments On California Energy Commission's *Committee Draft Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission* Submitted November 8, 2005



**Pacific Gas and Electric Company Comments on  
The California Energy Commission's  
Committee Draft Transmittal of 2005 Energy Report Range of Need and Policy  
Recommendations to the California Public Utilities Commission  
Draft Transmittal Report**

**Introduction**

PG&E takes this opportunity to comment on the Committee Draft Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission, Draft Transmittal Report (CEC-100-2005-008-CTD) ("Draft"). PG&E appreciates the hard work and extensive discussion among the Energy Report Committee, CEC staff, and stakeholders that has preceded this Draft. Unfortunately, the Draft includes recommendations on resource requirements and policies that are not factually supported in this proceeding. As discussed below, PG&E respectfully requests that the Draft's conclusions on resource be revised in order to ensure the resource requirements are consistent with the CEC's technical analysis and promote the development of necessary, cost-effective, and environmentally beneficial generation. Additionally, PG&E believes that many of the policy recommendations included in the Draft are more appropriately discussed in the CEC IEPR report. Finally, PG&E recommends the Draft be revised to provide a more detailed evaluation of the cost impacts of the included recommendations and the subsequent costs to consumers.

In addition to these comments on the Draft, PG&E provides additional comments to the proposed revised Tables included in Appendix B, provided by CEC staff on November 7, 2005. PG&E appreciates the opportunity afforded by the Committee, acting upon PG&E's recommendation at the November 4, 2005, Committee hearing, to enable the IOUs and interested parties to confer with CEC staff to clarify the information presented in the Tables accompanying the Draft Transmittal Report. This extra step in the process was necessary to ensure that the Draft is credible and useful for resource planning in the CPUC's 2006 Long Term Plan proceeding. Our comments to the revised table are included in Appendix A of this document.

**General Comments**

This genesis of this report was CPUC President Peevey's assigned commissioner's rulings (ACRs) of September 2004 and March 2005 that the CEC would determine the appropriate level and range of resource needs for the 2006 long-term plan (LTP) for each investor-owned utility (IOU) within the IEPR process. PG&E and many other parties expected this process to follow the successful but informal cooperation between the CPUC and the CEC in assessing each utility's 2004 LTP, which made good use of the CEC staff's extensive resource planning knowledge. In short, PG&E expected that the Draft would provide an update on the forecasts in each utility's approved 2004 LTP, based on known and foreseeable changes since 2004, which have been expected to be modest. Instead the Draft presents forecasts that sometime refer to physical capacity and at other times to contractual capacity; that contradict other CEC assessments of resource need, and that mix new public policy discussion with what was supposed to be an objective, quantitative-based exercise.

PG&E commented recently on the new public policy positions reflected in the Draft, especially in the areas of Distributed Generation and Combined Heat and Power. (See PG&E's comments of October 14, 2005 on the Draft IEPR.) Many of these new public policy recommendations have been inserted into the Draft, and, thus, we reiterate these comments in brief here. We believe the public policy positions should be removed from the Draft as they are outside the scope of this part of the IEPR proceeding.

### **The Draft's recommendations for PG&E requirements contradict all other analyses of Northern California resource needs**

The Draft's determinations of resource need and requirements contradict all other analyses of Northern California requirements, including the CEC's own July, 2005 analysis in this proceeding (California and Western Electricity Supply Outlook, Staff Report<sup>15</sup>). In particular, Table B-5 of the Draft presents PG&E-area "Base Demand Case" capacity requirements for the period 2009-2016, including a need for over 4,000 MW of new resources in 2009, 7,300 in 2010 and increasing dramatically beyond this timeframe.

This assessment is significantly different from the CEC's July, 2005 analysis, which projects that Northern California is adequately resourced through 2010. Further, the July analysis comports with the CEC's adopted 2004 Update to the Energy Report of a year ago, which reported that the PG&E area would have well in excess of 15% planning reserves through 2008 (based on an expected case)<sup>16</sup>. Additionally, the July 2005 WECC Power Supply Assessment projects Northern California will have a reserve margin of over 17% through 2009.<sup>17</sup> PG&E notes that it provided the same information on load and resources that was used in all of the 2005 analyses.

### **Resource Accounting Tables present regional contractual resource requirements, not IOU physical requirements**

In order to ensure that the Draft is credible and useful for resource planning, PG&E recommends that it be edited to clarify that the resource need presented represents the *contractual requirements for load serving entities* (LSEs) in the IOU planning area and not the physical requirements for new generating capacity or the contractual requirements of individual IOUs. As discussed above, previous CEC and WECC analyses demonstrate that Northern California has sufficient physical resources to meet its total energy requirements for the next several years, and the need determinations provided in this Draft presenting a range of contractual resource requirements. This clarification was discussed in detail by the Energy Report Committee at the November 4, 2005 hearing on the Report.

The Report should also be revised to emphasize the need requirements are planning-area requirements, not individual IOU requirements. The annual Resource Accounting Tables

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<sup>15</sup> California and Western Electricity Supply Outlook, Staff Report<sup>15</sup>, CEC-700-2005-019, July, 2005

<sup>16</sup> Integrated Energy Policy Report 2004 Update, CEC-100-04-006CTF, October, 2004, Table A-3

<sup>17</sup> WECC 2005 Power Supply Assessment, presentation by Stan Holland, WECC, at July 26, 2005 CEC IEPR Hearing

included in Appendix B of the Draft present loads and resources owned and controlled by both utility and non-utility LSEs. According to PG&E's calculation the "Additional Non-Designated Need" presented on the tables reflect not only PG&E's resource position, but also the net requirements for all other LSEs in the PG&E-Planning Area.

### **The Draft overstates electric resource requirements**

The Draft tables included in Appendix B presents "Additional Non-Designated Need" for the PG&E planning area that significantly overstates current electric resource requirements by ignoring planned resource additions. In 2005 PG&E applied to the CPUC to assume ownership and complete construction of the 530 MW Contra Costa 8 generating plant, and has executed several long-term contracts with renewable resources. Further, PG&E is currently in the process of evaluating bids to procure up to 2200 MW, as defined and approved in PG&E's last CPUC-approved long-term procurement plan. While this is briefly discussed in the Draft Report these resources are not represented on the tables, and procurement to the CEC recommended amounts would result in significant over-procurement.

The tables do not accurately represent regional supply and demand. The tables present total "Service Area Demand" for the IOU planning area, but for supply resources only includes the "claimed" capacity of generation rather than the total capacity available in the market. The table presents "existing capacities" for only those resources claimed by LSEs in their submitted supply forms, but many existing generation resources currently have no firm capacity sales contracts and, as such, this capacity would not have been claimed and is not included in this resource balance. The result is that requirements are overstated since available capacity not under contract, or new and un-contracted capacity that becomes available during the forecast period, is not considered to be regional resources. For example, PG&E's portfolio includes over 4000 MW of expiring DWR-contracted resources. It is highly unlikely that this generating capacity will disappear, and will be available for contract after the DWR contracts for this capacity expire.

### **Replacing aging power plants will neither meet customer requirements nor reduce costs**

The Draft includes a policy recommendation that IOUs should replace capacity from what the CEC had deemed to be aging power plants. It assumes that these resources will be retired by 2012 and proposes that the investor owned utilities should replace this capacity, specifically proposing "To facilitate the retirement of these aging power plants, the Energy Commission has apportioned these 50 plants to the three IOUs based on their physical location, along with their existing capacity...."(p.46) This apportionment of new capacity requirements without consideration of utility need or cost raises several troubling concerns.

The Draft has failed to provide any basis for the retirement assumption. Most of the proposed retiring resources located in Northern California are not utility owned, and PG&E is unaware of specific retirement plans for these resources. If utilities were to prospectively replace these resources and they are not retired, the resulting stranded costs would be substantial. PG&E notes that it is planning to retire the Hunters Point Generating Station in 2006 and the Humboldt Bay Generating Station prior to 2010.

Further, requiring the utilities to replace this non-utility generation will result in subsidization of non-utility energy service providers and direct access customers by utility customers. The CEC reports that IOU loads represent approximately 60% of statewide electricity demand, yet expects them to replace all of the aging plant capacity, much of which is currently sold to non-utility LSEs. The likely result of this will be that utilities would incur the cost of replacing this generation, and the existing, less-expensive generation will be contracted by non-utility participants.

### **Load forecast will require updating for CPUC Long-Term Procurement Plan**

The Draft recognizes that some of the information used in constructing the range of need shown in the tables in this report will be out of date by the conclusion of the CPUC's 2006 long-term procurement proceeding (LTPP). The Draft offers the following guidelines for when and how adjustments to the numbers would be appropriate.

In terms of the demand forecasts, the Energy Commission believes that the revised staff forecast provides the appropriate basis for the 2006 LTPP. A biennial proceeding focused upon the long-term cannot be a good source of short term demand forecasts that are updated frequently for recent historic data and near-term expectations. Such near-term demand forecasts are appropriate for many operating activities. The Energy Commission does not anticipate any conditions in which an update of the staff revised forecast for the years 2008 and beyond would be appropriate....(page 55)

PG&E disagrees with the above statement, and believes that adjustments are appropriate. The range of annual average growth rates for PG&E energy and peak demand over the period 2004-2006, as shown in Table 11, page 75, appear reasonable. However, as the long term planning process moves into the CPUC phase, these growth rates must be "calibrated" to recent levels of observed demand in order to produce more realistic estimates of MWh and MW demand during the forecast horizon. Staff's revised projections, as shown in the Draft, are currently calibrated to 2004 observed demand.

Allowing for another update, which could still rely on the staff's solid growth rates, will avoid the very real possibility that staff's 2008-2016 projections in MWh or MW will be inconsistent with more recent observed data on energy use and peak demand that is not now available but may be available prior to the filing of the IOU's 2006 long-term procurement plans.

### **Energy Efficiency should be treated in a consistent fashion throughout the forecast horizon**

The current analysis underlying the Integrated Energy Policy Report does not include PG&E's full forecast of energy efficiency savings in a manner consistent with the way PG&E treats this demand side resource. The Draft report treats forecasted energy efficiency savings beyond 2008 as a supply-side resource. There are two problems with such treatment: (a) it makes comparisons difficult; and (b) it incorrectly reduces the cost-effectiveness of future energy

efficiency programs, since they no longer receive the credit they deserve for reducing the need for reserves.

The inconsistent treatment of targeted energy efficiency savings in the Draft creates confusion. For example, Table 6 suggests that the LSE's aggregate forecasts for the PG&E planning area are lower than the staff's projection. However, as PG&E pointed out in its June 30<sup>th</sup> workshop presentation, the forecasts are not comparable. If placed on a comparable basis, the aggregate LSE projections for PG&E's planning area are very likely to be above, not below, the levels projected by CEC Staff.

PG&E requests that the CEC avoid confusion by modeling energy efficiency savings as a reduction to projected demand throughout the forecast period.

### **The Draft must distinguish between customer-scale distributed generation (DG) and large combined heat and power (CHP) generating facilities**

As PG&E has noted in comments on the Draft IEPR, the IEPR Committee has used the terms "Distributed Generation ("DG") and Combined Heat and Power ("CHP") interchangeably. The lack of clarity about when the CEC refers to DG and when the CEC refers to CHP is confusing and can even be misleading.

The terms "DG" and "CHP" encompass a very broad range of facilities with varying levels of efficiency, air emissions and other environmental impacts, and system impacts, from small residential photovoltaic systems to very large cogeneration plants. As such, policies should be developed with a careful consideration of the very different forms of DG and CHP.

PG&E recommends that the final Report include a clear definition of distributed generation, and continues to recommend the following:

Distributed generation is electricity produced on a customer site from generators under 10 MW in size that are interconnected to the utility distribution system and that are designed predominantly to serve load at the customer site or over the fence to one or two adjacent customers.

PG&E appreciates the CEC's effort to hold utilities revenue neutral through reinstatement of an Electricity Revenue Adjustment Mechanism. However, PG&E is disheartened by the implication that PG&E is somehow opposed to CHP and other DG because the policies proposed by the CEC run counter to PG&E's shareholder interests. This is not the case. As we explained to the CEC in a letter to Commissioner Pfannenstiel on September 8, 2005, PG&E's shareholders are indifferent to the amount of DG installed by our customers because various revenue adjustment mechanisms ensure that PG&E recovers any costs created by departing load.

PG&E supports DG as one of the choices our customers can make to meet their energy needs. Consistently throughout the IEPR process, PG&E has been supporting inclusion of cost benefit analysis in the decision making process. We have also consistently called for thoughtful policy decisions that are informed by cost benefit analysis rather than policy recommendations

that support DG or CHP without including cost considerations. We do this because any uneconomic policy recommendations will have a negative impact on our customers (NOT our shareholders). If there is to be such an impact, it should be in carefully considered situations only, where the total resource costs justify it or where overwhelming policy considerations justify limited impacts on other customers.

**Existing and new CHP are not necessarily fuel-efficient, cost-effective or environmentally superior to other thermal generation**

The Draft makes several policy recommendations for CHP that are essentially the public policy advocacy positions of current cogeneration companies: that the IOUs should buy all electricity from CHP plants in their territories under standard offer contracts of at least ten years duration; that the CEC and CPUC should develop a yearly procurement target for CHP; and that the IOUs should be required to schedule CHP power at cost.

PG&E objects to the Draft adopting as recommended public policy these recommendations, without having considered the views of other stakeholders and interested parties. During the October 6, 2005, Committee hearing on the 2005 IEPR Committee Draft Report PG&E offered oral and subsequent written comments regarding its position on the benefits as well as the difficulties encountered with its cogeneration experience. None of PG&E's observations are reflected in the Draft.

The CPUC has jurisdiction under PURPA to establish wholesale rates for the purchase of power from qualifying facilities only. Not all CHP qualifies as QF power; thus the Draft's recommendation that the CPUC establish avoided cost rates and contract terms for the sale of all power from CHP may run afoul of federal law. For non-QFs selling to the utilities at wholesale, FERC has exclusive jurisdiction to set just and reasonable rates. As we discuss below, FERC has jurisdiction to determine which cogenerators will be certified as QFs.

There are several good public policy reasons to reject or restrict the carte blanche long-term extension of existing QF cogeneration contracts and to oppose an open ended standard offer for new cogeneration facilities instead of market-based pricing and terms. PG&E has detailed its concerns in this area in our response to the Draft IEPR and extensively in our Avoided Cost testimony before the CPUC.<sup>18</sup> We reiterate these arguments briefly here.

First, a cost-effectiveness test (as the Draft IEPR concluded) is essential. Such a test would reveal that efficient cogeneration projects are in fact cost effective, can be and are economically competitive with other generation sources. Efficient cogeneration projects do not need the help of governmental programs and public subsidies. On the other hand, no public benefit is realized from economically propping up old, inefficient, cogeneration projects with outdated and inferior environmental controls, many of which are owned by large industrial and oil producing companies.

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<sup>18</sup> See PG&E's prepared and rebuttal testimony in the CPUC's R. 04-04-003 and 04-04-025 of August 31, 2005 and October 28, 2005 regarding Qualifying Facilities Policy and Pricing Issues.

Second, the issue of expiring QF Power Purchase Agreements (PPAs) is presently being considered by the CPUC in its QF Avoided Cost Proceeding. PG&E submitted testimony in that proceeding, examining the validity of cogeneration industry claims regarding the benefits realized from cogenerated power in California. In its testimony PG&E rebuts these representations and shows that the most cost effective manner of providing for the state's future energy supply needs is not through the extension of the PPAs of old, inefficient cogeneration plants, but through the construction of state-of-the-art modern generation facilities.

Third, the capacity of older cogeneration units nearing the end of their contracts in PG&E's territory is not large. We think many of these plants may be able to continue generating electricity even if paid only market prices in the future, but even if we are wrong and the cogenerators fail to continue after their contracts expire, we would only be losing about 500 MW through the year 2010. This potential lost capacity is a small fraction of the capacity of new, already licensed but yet-to-be-constructed generation projects in PG&E's service area.

Fourth, the whole question of what types of CHP will be certified by FERC as qualifying facilities under PURPA is under review as part of FERC's implementation of the 2005 Energy Policy Act. The outcome of that review is uncertain, but will probably decrease the range of cogeneration facilities deemed to be QFs and eligible for avoided-cost pricing. The CEC and the CPUC should not act hastily to order the utilities to enter into contracts with facilities which may be determined to have too small a thermal load to be qualified as QFs.

Finally, giving CHP a set aside while making renewables compete through RFOs would give CHP an advantage over renewables and would be inconsistent with the concept of renewables as the rebuttable presumption.

### **Conclusion**

PG&E believes that the Draft should be revised to present a range of utility contractual resource needs as envisioned by CPUC President Peevey's ACR. PG&E believes that such revisions must and should be included before the Draft is finalized and transmitted to the CPUC.

## Appendix A

### **Pacific Gas and Electric Company Comments on CEC IEPR Proposed Revised Annual Aggregated Energy Resource Accounting Tables and Annual Aggregated Capacity Resource Accounting Tables**

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to comment on the CEC Staff's proposed revised annual Aggregated Energy Resource Accounting Tables of November 7, 2005. These tables, included as Appendix B to the Committee Draft Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission, Draft Transmittal Report, present the capacity and energy balances for the period 2009-2016 for the states load serving entities (LSEs).

PG&E appreciates the effort that staff has expended developing these tables and understands the difficulty in presenting information in a comprehensive manner. PG&E provides the following recommendations for revising the tables in order to increase the clarity of the information so that it may be better understood by all reviewers and users.

First, PG&E recommends that the final Appendix B include a discussion of the methodology used in developing the tables. While discussion of the methodology is included in Chapter 5 of the Report, it would be very helpful to the reader of the tables to include the relevant methodology along side the tables.

Second, PG&E recommends re-arranging the tables in order to present the "Aging Plant Replacement" information at the bottom of the sheet and not on the table itself. PG&E appreciates that the Committee wants to present the capacity and energy from Aging Plant Replacement with the contractual resource need information, but the current table design is confusing. Aging Plant Replacement capacity and energy values are not used in any calculations on the table, and it is unclear why this information resides on the table. PG&E believes the CEC goal of presenting this information with the resource need information is achieved by simply including it beneath the table.

Finally, PG&E recommends the tables be renamed "(IOU)-Planning Area (Scenario) Demand Case" rather than the current "(IOU) (Scenario) Demand Case" in order to reflect the nature of the information presented on the tables. The current table titles are something of a misnomer, as the tables include a composite of utility information and non-utility information. While PG&E cannot speak to the comprehensiveness of the non-IOU information, the tables do not present PG&E-specific demand case data. Changing the tables name would clarify for the reader that they are not examining utility-specific information.



**CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL**

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 5th day of January 2006, I served a true copy of:

**POST-WORKSHOP COMMENTS OF PG&E ON ASSIGNED  
COMMISSIONER'S RULING REGARDING NEXT STEPS IN PROCUREMENT  
PROCEEDING IN 04-04-003**

[**XX**] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for R.04-04-003 with an e-mail address.

[ **XX**] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for R.04-04-003 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 5th day of January, 2006 at San Francisco, California.

\_\_\_\_\_/S/\_\_\_\_\_  
Jennifer Newman