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STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

CALIF. ENERGY COMMISSION

MAR 10 1983

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BUSINESS MEETING

1516 Ninth Street
Hearing Room
Sacramento, California

Wednesday, March 9, 1983

10:15 A.M.

Reported by:

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COMMISSIONERS PRESENT

1
2 Charles Imbrecht, Chairman

3 Arturo Gandara, Vice Chairman

4 Russell Schweickart, Commissioner

5 Karen Edson, Commissioner

6 Geoffrey Commons, Commissioner

7 PUBLIC UTILITIES COMMISSION

8 Bill Foley, ex officio

9 STAFF PRESENT

10 John Geesman, Executive Director

11 Bill Chamberlain

12 Michael Shapiro

13 Ralph Chandler

14 Dan Meek

15 Jim Faulkinbury

16 Karen Mathies, Secretary

17 PUBLIC ADVISER'S OFFICE

18 Ernesto Perez

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P R O C E E D I N G S

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3 CHAIRMAN IMBRECHT: Call the meeting to order.
4 I apologize for our tardiness. We have a couple of other
5 issues that we had to deal with this morning.

6 I'm going to have to excuse myself shortly to
7 attend a meeting at the Capitol. I'll ask Vice Chairman
8 Gandara to handle the proceedings.

9 I should just make one preliminary announcement,
10 and that is that I thought that today we were to be joined
11 by an ex officio member of the Commission under the Act.
12 The Resources Secretary is empowered to designate an
13 ex officio member. I was informed on Monday that Secretary
14 Van Vleck has designated Dr. Gordon Snow, and so we'll
15 invite him to join us on the dais whenever he cares to
16 participate.

17 That brings the Commission to its full complement,
18 both voting and ex officio for the first time in quite
19 a while. So, it will be good to work with those other people.

20 I think we'll turn to Item No. 1, and ask the
21 staff for the presentation.

22 EXECUTIVE DIRECTOR GEESMAN: Mike Shapiro --

23 CHAIRMAN IMBRECHT: Yes, Mr. Geesman.

24 EXECUTIVE DIRECTOR GEESMAN: -- the Office
25 Manager for our Small Power Producers Office will make the

1 presentation. With him is Ralph Chandler.

2 CHAIRMAN IMBRECHT: Please identify yourself
3 and proceed.

4 MR. SHAPIRO: Good morning, Commissioners. I'm
5 Michael Shapiro with the Office of Small Power Producers.
6 With me is Ralph Chandler, who is the manager of our Geo-
7 thermal Program.

8 We are here this morning to put before you a
9 proposal to modify the procedures we utilize in issuing
10 grants to local governments under our Geothermal Grant
11 Program.

12 The Commission, in earlier proceedings, has
13 approved a grant manual. Let me give you some background
14 on why we are here this morning.

15 COMMISSIONER EDSON: Let me interrupt very briefly
16 and remind the Commission that when the last round of
17 grants was before the Commission several months ago, concern
18 was raised about the criteria that the Commission was using
19 to rank projects.

20 The Committee reviewed those criteria and worked
21 with the staff to develop the proposal that is now before
22 you.

23 I think there are several very significant
24 changes, and before Mike goes on, let me just outline the
25 most significant of them.

1 First of all, the grant manual and the resolution
2 before the Commission proposes that 25 percent be allocated
3 to each of the three funding categories under AB 1905.
4 Those are mitigation, planning and development categories.

5 In addition, it allows the remaining 25 percent
6 of the funds to be allocated to any of the categories,
7 depending on their individual scores.

8 And, lastly, it sets a minimum threshold point
9 criteria for qualification as a funded project.

10 The previous criteria for evaluation tended to
11 include a bias, I think, for development projects, which
12 we think we have accommodated in this, which will allow,
13 I think, us to have before us a very balanced mix of projects.

14 With that, let me ask Mike to go on, if the
15 Commission is interested in further presentation.

16 CHAIRMAN IMBRECHT: Thank you very much.

17 MR. SHAPIRO: Let me just make a point or two
18 in terms of the timing of this, and then I'll defer to
19 Ralph Chandler to get in some of the details.

20 At the last Commission meeting where the
21 Geothermal Grant Program was considered at the end of
22 December, the question of modifying the criteria came up.
23 It was decided by the Commission to approve that second
24 round of grants in order not to change the rules of the game
25 on the applicants who had come in, but to direct staff to

1 propose modifications prior to the close of the third
2 round, which is now in process, which will conclude in
3 June. And, we have alerted prospective applicants that
4 there will probably be modifications adopted by the
5 Commission which will apply to that third round of funding.

6 With regard to the second round, we have issued
7 those grants, applicants will be coming in for a workshop
8 on the 23rd of this month, and we have a tentatively
9 scheduled legislative reception, co-hosted by Senator
10 Nielsen and Assemblyman Hauser, so we're well ahead in
11 moving that round forward.

12 As Commissioner Edson indicated, we met with the
13 Commission Committee on the Geothermal Program. They have
14 given us some guidance. I will now defer to Ralph Chandler
15 to go over some of the details of the points we are proposing
16 as a result of the guidance we received from the Committee.

17 CHAIRMAN IMBRECHT: Where is the legislative
18 reception scheduled for?

19 MR. SHAPIRO: Tentatively we expect to have that
20 reception at the Capitol. Mr. Chairman, there is some
21 documents moving through the Office of Government Affairs
22 on their way to you, which gives some details on that.

23 CHAIRMAN IMBRECHT: All right, fine. Do you have
24 a rough time frame on that?

25 MR. SHAPIRO: We are looking at a morning workshop

1 from about 10:00 to noon, with a lunch break and a 1:00
2 p.m. short reception, which was the time that was mutually
3 convenient for both Senator Nielsen and Assemblyman Hauser.

4 CHAIRMAN IMBRECHT: All right, fine. Thank you.

5 MR. CHANDLER: Good morning. My name is Ralph
6 Chandler with the Geothermal Program.

7 Briefly, the Commission's Geothermal Development
8 Grant Program was established by Assembly Bill 1905, passed
9 back in May of 1980.

10 In October of 1981, the current grant application
11 manual for local governments was adopted by the full
12 Commission.

13 Since then, 22 grants, totalling slightly over
14 \$1,200,000 have been issued by the Commission through two
15 funding rounds. The third round is currently under way,
16 with preapplications due in March, and final applications
17 due in early May.

18 Approval of the staff funding recommendations
19 for the third round is tentatively scheduled for late June
20 of this year.

21 As Commissioner Edson mentioned, upon completion
22 of the second funding round back in December of 1982, the
23 Commission Geothermal Committee requested staff to make
24 certain revisions to the grant application manual.

25 The revised manual that each of you have is part

1 of your backup material as a result of several meetings
2 between staff and the Committee.

3 Staff were specifically requested to make changes
4 to the evaluation criteria, Section 5 of the manual.

5 In summary, the revisions are based upon direction
6 from the Committee to, number one, require a minimum score
7 of 80 out of 120 points to qualify for funding. Second,
8 to designate 25 percent of the available grant dollars to
9 fund, quote, "qualified projects" within each of the three
10 project categories. These being planning, development and
11 mitigation. Thirdly, to designate the remaining 25 percent
12 to fund, quote "qualified projects" receiving the next
13 highest score, regardless of category. And, fourth, if
14 insufficient qualified projects are received for any of the
15 categories, designate the dollars remaining from the 25
16 percent allotted, to fund qualified projects receiving
17 the next highest scores, regardless of category. And,
18 fifth, to modify the evaluation criteria with greater
19 emphasis to be placed upon matching funds. And, lastly,
20 to change the points assigned to each criteria and to allot
21 30 points to the overriding evaluation criteria to be used
22 to augment scores for other criteria.

23 I believe the Commission Committee has prepared
24 a resolution which would adopt these changes to the
25 guidelines and criteria section of the manual, and define

1 the percentage allocations to each of the respective
2 project categories.

3 CHAIRMAN IMBRECHT: Thank you.

4 Are there questions from the Commissioners?

5 Vice Chairman Gandara.

6 VICE CHAIRMAN GANDARA: Yes. Thank you, Mr.

7 Chairman.

8 The -- I read the enclosed materials, and the
9 Committee is to be congratulated for, I believe, trying to
10 take into account the Commission's concerns from the last
11 go around.

12 I don't have any problems with the recommendations
13 here, but I do have a number of -- at least two questions
14 and some concerns about how various proposals would interact.

15 First, is the make-up of the review committee,
16 the evaluation panel. Who decides that -- is that by
17 staff, Committee direction, or how has it been done?

18 MR. CHANDLER: The make-up of that committee was
19 jointly agreed upon between the Commission's Development
20 Division and the Commission's Siting Division. We have
21 representatives from both divisions, as well as a outside
22 public member from the Geothermal Resources Council, and
23 a member from the Department of Conservation and their
24 Division of Mines and Geology, as well as a review by our
25 technical support contractor from the Oregon Institute of

1 Technology, their Geoheat Center.

2 I've been talking with the chairman of the
3 Geothermal Coordinating Council, Fred Tornatore of the
4 Geothermal Program, and we also have a public member that
5 sits on that Committee, and we are considering including
6 that public member to also be a part of the technical
7 advisory committee for the fourth round.

8 VICE CHAIRMAN GANDARA: The information that
9 I have indicates that of the eight members, four are from
10 the Development Division, and one is from a contractor
11 of the Development Division.

12 MR. CHANDLER: That's correct.

13 VICE CHAIRMAN GANDARA: Okay. I -- you know, I
14 guess that the recommendations that have come to us have
15 been from fairly good projects. I have no problems with
16 the quality of selections. However, there is another
17 portion of your proposed changes that says that 30 points
18 of each category will be awarded to overriding factors,
19 okay, and that is a far more subjective criteria.

20 So, I would think that, if we're going to retain
21 that 30 points -- 30 percent, which I think would be
22 significant. I mean, I think, if I recall from the last
23 go-around, any project --

24 (Chairman Imbrecht leaves the dais.)

25 VICE CHAIRMAN GANDARA: In the words of Alexander

1 Haig, you don't have to worry, I'm in charge. (Laughter)

2 Thank you, Mr. Chairman.

3 COMMISSIONER SCHWEICKART: Weren't you third in
4 command of the whole government? (Laughter)

5 VICE CHAIRMAN GANDARA: So, I believe my concern
6 would be the interaction of those two elements, would be
7 to the extent that there is some subjectivity -- a large
8 percentage. I don't think there was any project below
9 84 points -- wasn't it something like that -- that qualified.

10 So, I would recommend that the evaluation committee
11 be broadened if we retain that criteria, and would -- maybe
12 the Committee would like to make a recommendation by the
13 end of this discussion, but that -- you know, that is my
14 first question -- okay, my first concern.

15 The second one that I would have is that I'm not
16 quite clear what the qualified criteria is. For example,
17 it says "designate the" -- "if insufficient qualified projects
18 are received for any category, designate the dollars
19 remaining from the 25 percent allocated to fund qualified
20 projects receiving the next highest scores, regardless of
21 category."

22 MR. SHAPIRO: Let me try and explain that,
23 Commissioner. It may not be worded as clearly as we might
24 hope to.

25 Our concern was that if in any particular category,

1 such as a development category, we did not have sufficient
2 project applications that met the, quote, "minimum
3 qualifications," which is 80 out of 120, that rather than
4 go below that minimum qualification, we would take remaining
5 funds in that category and select the next highest qualified
6 projects from other categories to utilize those funds.

7 VICE CHAIRMAN GANDARA: Okay. That's 80 out of
8 120 points.

9 MR. SHAPIRO: That's correct.

10 VICE CHAIRMAN GANDARA: So these -- the 30 points,
11 due to overriding factors, can be an input into the qualify-
12 ing --

13 MR. SHAPIRO: That is correct.

14 VICE CHAIRMAN GANDARA: Okay. Well, I guess it
15 is as I understood it, so I -- does anybody else have any
16 other questions? I think I'll have a recommendation on that
17 later.

18 Commissioner Schweickart, then Commissioner
19 Commons.

20 COMMISSIONER SCHWEICKART: Mike, one of the
21 questions I had in regard to the excess 25 percent and its
22 allocation was that we are looking, if you will, at potential-
23 ly -- and my question is the degree of the reality of the
24 potential -- at potentially apples and oranges; that is, we
25 would, in essence, then, be comparing development, mitigation

1 and -- pardon me, I've forgotten the third category.

2 COMMISSIONER EDSON: Planning.

3 MR. SHAPIRO: Planning.

4 COMMISSIONER SCHWEICKART: Planning, all right --
5 on, if you will, an equal basis; that is, which category
6 has the highest points, and yet it may be awarding, if you
7 will -- pardon me a sports analogy -- it would be like
8 awarding the final trophy to the highest scorer of the --
9 or the next highest scorer of the football players, basket-
10 ball players and soccer players, and I would suggest that
11 the basketball player is going to get it every time.

12 So, the question is, within each of the categories,
13 is the scoring established in such a way that there is, in
14 fact, if you will, equitable competition so that when one
15 says "the next highest scoring proposal," they are, in some
16 sense, compared on an equal basis.

17 COMMISSIONER EDSON: Commissioner Schweickart,
18 perhaps I can answer that. The short answer is yes.

19 COMMISSIONER SCHWEICKART: That's good enough.

20 COMMISSIONER EDSON: In fact, when we reviewed
21 the last criteria, we found a general scoring area that
22 applied to all categories, which, in fact, contained, I
23 think, a serious bias in favor of development projects.

24 What you now have are three separate categories
25 where the criteria are tailored to the type of activity that

1 is envisioned, so that you end up, I think, with a
2 normalized scoring process.

3 COMMISSIONER SCHWEICKART: All right.

4 MR. SHAPIRO: I think, Commissioner Schweickart,
5 that partly responds to your question. We have eliminated
6 what we perceive to be bias that existed in the earlier
7 manual.

8 I think also in some cases we have similar
9 criteria in each of the categories, in terms of match,
10 and likelihood of success, and demonstration of need, which
11 tends to lessen the degree of favoritism in one area over
12 another when you're doing your scoring, and would likely
13 not tilt that extra 25 percent to any one area.

14 But, there is some latitude still there, which
15 hopefully through the Technical Advisory Committee and
16 Commission deliberations can be minimized.

17 COMMISSIONER SCHWEICKART: Mike, let me ask
18 another question which gets into the people involved. Do
19 we have the same evaluation team covering all three cate-
20 gories, or do we have different people evaluating each of
21 the categories?

22 MR. SHAPIRO: It is the same team.

23 COMMISSIONER SCHWEICKART: It's the same team.
24 All right.

25 If there is some way of assuring the preservation

1 of that, I think we may have a process with some integrity.
2 built in. If we end up at some point in the future having
3 different teams specializing, then quite clearly there will
4 be a tendency, if one is favorable toward development
5 projects or whatever, to bias high on the scoring so that
6 any extra money ends up in the development category, or
7 planning or mitigation.

8 So, I think it's very important that we maintain
9 assurance of equity by not having separate or different
10 teams evaluating that.

11 MR. SHAPIRO: I think along those lines, that we
12 would be favorably disposed to broadening the Committee,
13 within limits, so it's manageable, in terms of technical
14 advice, to make certain that all types of projects and all
15 issues are fully explored before they are ranked.

16 We can get back to the Commission on the types
17 of members that can be included in a broadening effort.

18 VICE CHAIRMAN GANDARA: Commissioner Commons.

19 COMMISSIONER COMMONS: I think these changes come
20 about from our last meeting, which there were some issues
21 that had been raised, and this is a first step in looking
22 at some of our loans and grants programs, I think of trying
23 to increase our leverage, establish thresholds. I think
24 probably the most important or significant thing to me is,
25 as a taxpayer, is if we have \$500,000, we're not allocating

1 \$500,000. We're saying that an applicant has to have a
2 significantly qualified project in order to receive funding.
3 I think that's the most important thing that is occurring
4 in the change.

5 The second is I think there is a significant
6 improvement in terms of the fairness, where the bias is
7 removed from one area, and projects are evaluated in each
8 of the three areas, as directed by the Legislature.

9 I've been uncomfortable about having points, and
10 in most of the other loan programs that we'll be looking at
11 is establishing on such items as leverage and payback, that
12 there be specific requirements.

13 We have in this instance an unusual situation
14 where some counties are receiving funds back from the
15 government for geothermal projects, and other counties are
16 not, and you run into some inequities if you establish a
17 threshold, because it would not be fair across the state.

18 So, we have, I think, a situation here where when
19 you're talking about mitigation measures, planning and
20 feasibilities, particularly that -- taking some of the
21 different factors into account and giving points is probably
22 a fairer method of allocating than by establishing thresholds.

23 In order to compensate when you have a review
24 team, the 30 points allows them, if there are some overriding
25 factors that are significant -- for example, if it's a major

1 innovation, or the project is such that we can see
2 significant leverage or benefit in other areas, I think
3 it will give the evaluating team the opportunity to see
4 that the funds are directed in that area where the criteria
5 aren't the fairest.

6 Whether this is the perfect allocation, I think
7 it's a significant improvement, and staff should be congratu-
8 lated in terms of really tackling this.

9 Concerning Commissioner Gandara's comments on the
10 panel, possibly that panel ought to be approved in terms
11 of make-up by the Committee. I don't think personally that
12 one division should have a majority on the panel, and perhaps
13 by allowing the Committee the latitude of approving the
14 final panel, that would resolve that problem, but I would be
15 amenable, as a Committee member, to recommend a change there
16 if a Commissioner had one, and I would have to ask if
17 Commissioner Edson would also be, but I think that would be
18 one area that we should take another look at.

19 VICE CHAIRMAN GANDARA: My only recommendation
20 would be that the panel not be composed to greater than a
21 50 percent composition of the Development Division, and/or
22 its contractors.

23 COMMISSIONER EDSON: I think you've raised a good
24 point, and I would simply ask the staff to present to the
25 Committee their recommendation on possible revisions to the

1 review panel.

2 VICE CHAIRMAN GANDARA: Is there --

3 COMMISSIONER COMMONS: Could we have the panel
4 to be subject to the approval of the Committee?

5 COMMISSIONER EDSON: I think in effect that's
6 probably what would happen.

7 MR. SHAPIRO: We have no problem with that. We
8 will come back to you with a proposal for modifying the panel.

9 VICE CHAIRMAN GANDARA: Do I hear a motion?

10 COMMISSIONER EDSON: I would move adoption of the
11 resolution.

12 COMMISSIONER SCHWEICKART: Second.

13 VICE CHAIRMAN GANDARA: Call roll, please.

14 SECRETARY MATHIES: Commissioner Commons?

15 COMMISSIONER COMMONS: Aye.

16 SECRETARY MATHIES: Commissioner Edson?

17 COMMISSIONER EDSON: Aye.

18 SECRETARY MATHIES: Commissioner Schweickart?

19 COMMISSIONER SCHWEICKART: Aye.

20 SECRETARY MATHIES: Commissioner Gandara?

21 VICE CHAIRMAN GANDARA: Aye.

22 SECRETARY MATHIES: Chairman Imbrecht?

23 MR. PEREZ: Vice Chairman Gandara, if I may offer
24 the services of my office. Peripherally this may raise the
25 issue of the legal requirements that the Commission must

1 comply with in terms of using advisory bodies. It has
2 arisen in other areas, and certainly Bagley-Keene entails
3 noticing requirements to be imposed upon advisory bodies
4 to staff, to committees, and to the Commission.

5 I'm not saying that there are any operative elements
6 of Bagley-Keene applicable to this advisory body, but I would
7 certainly volunteer to look into the matter with the division
8 and report back to the Commissioners on that point.

9 VICE CHAIRMAN GANDARA: I would think the Committee
10 would be interested in that as well.

11 Item 2?

12 MR. CHAMBERLAIN: Yes, Mr. Vice Chairman, Dan
13 Meek is here to explain this item in whatever level of
14 detail the Commission wishes.

15 VICE CHAIRMAN GANDARA: Mr. Meek.

16 MR. MEEK: Good morning, Commissioners, and
17 everyone else.

18 I don't know how much discussion is necessary
19 on this item, or even tolerable to Commissioners who have
20 heard the facts quite often in the past.

21 I have a series of eight informative slides, but
22 we can proceed without them at the discretion of the Vice
23 Chairman.

24 COMMISSIONER SCHWEICKART: If I could --

25 VICE CHAIRMAN GANDARA: Commissioner Schweickart.

1 COMMISSIONER SCHWEICKART: -- Commissioner
2 Gandara.

3 The Intergovernmental Affairs Committee has
4 reviewed this matter, and is recommending support to the
5 Commission.

6 The principal purpose of having this item on the
7 agenda today is to provide any opportunity for public
8 to comment to the Commission prior to the Commission
9 deliberating in Executive Session for final approval on this
10 matter, so that we may have -- if I could suggest it,
11 Commissioner Gandara, a showing of hands of any who might
12 be interested in potential comment based on the recommenda-
13 tion of the Committee.

14 VICE CHAIRMAN GANDARA: Okay, thank you.

15 Let me ask if there is any -- I think most of
16 the Commissioners are very familiar with the issue, but let
17 me ask if there is any reason that any Commissioner might
18 wish to have a fuller presentation by Mr. Meek before going
19 to public comment.

20 If not, is there any public comment? There is
21 no public comment.

22 Then I would think that we are ready to move on
23 this item. Commissioner Schweickart, do you have a motion?

24 COMMISSIONER SCHWEICKART: Commissioner Gandara,
25 I would suggest that, except I'm not sure that it might not

1 be appropriate to have a very brief summary, perhaps absent
2 slides, so that any who are here might be better informed
3 as to what the proposed action is before electing not to
4 comment, let's put it that way.

5 VICE CHAIRMAN GANDARA: As you wish.

6 Mr. Meek --

7 MR. MEEK: Okay.

8 VICE CHAIRMAN GANDARA: -- can you give us a brief
9 presentation?

10 MR. MEEK: Right. What we're suggesting here is
11 that the Energy Commission should become a party in Bonne-
12 ville, the 1983 rate proceeding of the Bonneville Power
13 Administration.

14 This proceeding was initially intended to begin
15 with the proposal by Bonneville on February 28th, but that
16 has been delayed now until March 28th.

17 California utilities basically buy three different
18 commodities from Bonneville. One is nonfirm surplus energy,
19 another now is firm surplus power, and a third commodity
20 is firm capacity.

21 Nonfirm surplus energy is actually quite important
22 to California's electricity supply system. In 1981, for
23 example, California purchased over 27,000 gigawatt-hours
24 of nonfirm surplus energy from the Northwest, about half of
25 that from Bonneville, and the rest of it under prices that

1 are influenced by Bonneville from time to time.

2 In 1982 the amount was 33,000 gigawatt-hours,
3 which amounted to over 23 percent of California's total
4 electricity consumption.

5 This is essentially one of California's most --
6 least expensive sources of power. It is perhaps the least
7 expensive outside of California's own hydroelectric genera-
8 tion.

9 The power that was purchased from Bonneville in
10 1982, for example, came here at a rate of less than one
11 cent per kilowatt-hour, saving California hundreds of millions
12 of dollars that would otherwise have been spent to burn oil
13 and gas in California power plants, although we realize that
14 power purchased from the Northwest does not always displace
15 oil and gas, and sometimes it, in fact, displaces geothermal
16 power from the Geysers, or encourages Pacific Gas and Electric
17 and SMUD to shut down the Rancho Seco Nuclear Power Plant.

18 There is an opportunity for substantial additional
19 savings, but that depends upon adding transmission capacity
20 in Northern California, to permit California to accept more
21 nonfirm surplus energy.

22 Such a proposal has been supported here by the
23 Energy Commission since 1977, but we realize that it requires
24 cooperation between California and the Northwest. Particular-
25 ly it requires that Bonneville adopt a long-term nonfirm

1 surplus energy rate formula.

2 Without such a formula, the California utilities
3 could not expect to benefit financially from building
4 additional transmission in Northern California, even though
5 they would be receiving additional power from the Northwest,
6 because simply building the line would permit the Northwest
7 to charge California a much higher rate for the nonfirm
8 surplus energy that California receives over the existing
9 lines.

10 An alternative to building additional transmission,
11 under a long-term rate formula, enabling California to
12 benefit to the extent of several hundred additional millions
13 of dollars per year would be to use nonfirm surplus energy
14 in what I call low-value uses in the Pacific Northwest.

15 This is something that has now been suggested in
16 the draft power plan of the Northwest Power Planning Council,
17 which was an eight-member body established by Congress,
18 established by Federal legislation in 1980 to direct power
19 planning in the Northwest.

20 What they have suggested is that instead of
21 additional sales to California, it might be profitable for
22 Bonneville to subsidize the installation of from 900 to 1,400
23 megawatts of electric boilers in Northwest industry, particu-
24 larly in the forest products industry.

25 This is an eventuality we would like to avoid.

1 For one thing, it's thermodynamically inefficient to
2 generate heat with electricity, rather than using the waste
3 products of the forest products industry, itself, to
4 generate the heat, which is most often the case in the
5 Northwest now.

6 Another proposal before the Power Planning Council
7 is to drastically reduce the rate for energy in the North-
8 west for irrigators who agree to irrigate more and more
9 marginal land.

10 We believe there are higher value uses for this
11 nonfirm surplus energy in California, but it does depend
12 on cooperation for a long-term rate and additional transmis-
13 sion into this state.

14 A second commodity that the California utilities
15 purchase from the Northwest is firm surplus power. Right
16 now those purchases are being made primarily by Pacific
17 Gas and Electric. Only 200 average -- 200 megawatts with
18 energy, and also by the Western Area Power Administration.

19 Bonneville now projects that the -- now states
20 that the Northwest has a firm power surplus of about 15,000
21 gigawatt-hours per year, and this is energy that is available
22 to California, even if the Northwest experiences a multi-year
23 severe drought.

24 We believe that the Northwest could sustain its
25 firm surplus at at least this level by implementing

1 conservation measures, the Northwest Power Planning Council
2 has identified as costing less than two cents per kilowatt-
3 hour in constant 1983 dollars.

4 COMMISSIONER SCHWEICKART: Excuse me, Mr. Meek.
5 Will you just summarize the proposed action, rather than a
6 full exposition of BPA matters. I think it might help.

7 MR. MEEK: Commissioner Schweickart, I thought
8 I was being brief. (Laughter)

9 COMMISSIONER SCHWEICKART: No doubt.

10 VICE CHAIRMAN GANDARA: He was. I can assure
11 you he was. (Laughter)

12 MR. MEEK: In any event, the potential savings
13 from firm surplus sales to California might be about \$200
14 million a year for the state.

15 However, that also requires the offer of long-term
16 contracts to California, and long-term stable rates that
17 California knows in advance. And this is something the
18 Energy Commission has been advocating for the past year.

19 The alternative in the Northwest is to cut back
20 on conservation programs, and, in fact, that is what is
21 occurring now. Bonneville is revising its budget to cut
22 back on conservation, and to reduce the firm surplus power
23 available to California.

24 The third commodity California buys is capacity.
25 Right now California purchases about 3,000 megawatts of

1 capacity, during the summer, from the Northwest, in addition
2 to some capacity during the winter.

3 The only contracts that are involved in this rate
4 case will be the PGandE -- the Portland -- the Pacific
5 Gas and Electric contracts, and I'm sure that Pacific Gas
6 and Electric will take care of those rates on their own.

7 In any event, the proposed action is for -- is
8 to become -- for the Energy Commission to become a party
9 in Bonneville's 1983 rate proceeding. There will be hearings
10 in the spring, and probably a final Bonneville decision on
11 the rates some time during the late summer, when the decision
12 will be submitted to the Federal Energy Regulatory Commission
13 for approval, which might take additional years for final
14 approval, although the rates are typically approved on an
15 interim basis almost immediately.

16 We believe that this action is important to
17 California and hope that the Commission approves it.

18 VICE CHAIRMAN GANDARA: Commissioner Commons,
19 do you have some questions?

20 COMMISSIONER COMMONS: The use of surplus power
21 from the Pacific Northwest is -- in terms of overall
22 satisfaction of California energy needs and the impact on
23 our cost is possibly the largest issue, I think, before
24 this Commission, in terms of what its impact is.

25 Fifteen thousand megawatts is a large number when

1 we look at the overall power demand in the state.

2 The resolution which we have, which is rather
3 simple, beneath it are some very major issues, and I feel
4 a little uncomfortable, not so much with the proposed action,
5 but with some of the whereases.

6 I think the California Energy Commission has a
7 responsibility to the state because of the overriding
8 interest of the state and what happens, to be involved in
9 the rate case.

10 However, within the whereases, we've raised, by
11 innuendo some rather significant issues, and have suggested
12 the direction and possibly where we're coming from, which
13 I'm not ready at this time to take a position on.

14 Some of the major issues are what is the rate
15 that will be paid? There is a marginal and average cost.
16 It's suggested here -- we could talk about firm, but it's
17 firm excess capacity, the definition of that excess capacity.
18 I believe Mr. Meek raised the issue that excess capacity
19 may vary, depending upon the conservation measures that may
20 be taken. But that's the second issue, is firm.

21 This is the only place I know of in the country
22 where one area of the country or state is given preference
23 over another area of the country, and actually we have a
24 restraint in trade, which has been approved by Congress.
25 It's a very sensitive issue, but I think California has a

1 real interest in terms of that power.

2 We also have a public/private utility issue that
3 isn't addressed. We're talking about a transmission
4 capacity, and the whereases state that it's to Northern
5 California. I know that there are some who have looked at
6 having that transmission capacity extended to Southern
7 California, and why we should restrict ourselves to Northern
8 California at this time, I don't know.

9 There are also, in terms of the economic benefit,
10 depending upon the outcome of firm versus nonfirm, and the
11 rate negotiations, a very real argument can be raised that
12 having a firm long-term power contract may not be in the
13 interest, right now, of the California rate payers, because
14 we're able, on the spot market, to purchase the excess power
15 which appears over the next few years to be rather substan-
16 tial, at very much less than the cost that we would purchase
17 the surplus power if we had a firm contract.

18 I'm not sure at this time that we can make that
19 decision. I think that's all part of the intervention
20 proceedings, and that would come out in terms of what the
21 direction that that Commission were going.

22 So, I would like, if the Committee would not
23 object, that we modify, not the resolution, but we don't
24 raise some of the issues without more hearing on the issues
25 and on the matters and discussion.

1 The third whereas, where we talk about the
2 facilitating of an investment in additional transmission
3 capacity in Northern California. On the fourth whereas,
4 that would affect it. I think we can say where -- that
5 one could be modified to say "where such intervention could
6 save California rate payers up to \$500 million," rather
7 than invention -- investment, that that would be a way
8 of allowing us to intervene without having other issues
9 that we may not want to handle at this time raised.

10 VICE CHAIRMAN GANDARA: Commissioner Schweickart.

11 COMMISSIONER SCHWEICKART: Yes. Commissioner
12 Gandara, again, let me try and clarify what it is we propose
13 here; that is, to raise the issue on the agenda in order to
14 accept public comment on an issue of clear concern to
15 California, from any who may wish to comment for the
16 Commission's consideration. The Commission, itself, would
17 deliberate in Executive Session on this matter of litigation
18 and in deciding whether or not to support this resolution.

19 So, that it is -- the major purpose here is to
20 accept public comment on the issue for our consideration,
21 not to act at this time on this resolution.

22 VICE CHAIRMAN GANDARA: Okay. I must say I'm
23 a bit confused. I thought that we had two issues before
24 us. One was an intervention, and I guess what we have
25 announced for Executive Session is a separate matter; is it

1 not?

2 COMMISSIONER SCHWEICKART: Perhaps I can turn
3 to General Counsel.

4 MR. CHAMBERLAIN: I think the confusion arises
5 because we have been handling interventions and administra-
6 tive proceeding in Executive Session, and I believe
7 Commissioner Schweickart believes that it would be appro-
8 priate to do the same thing in this particular case, at
9 least in terms of the Commission's deliberation, in order
10 to give the Commission an opportunity to hear attorney/client
11 sensitive statements from its attorneys before making a
12 final decision on it.

13 I think that's up to the Commission. It could
14 either adopt the resolution here, or if Commissioners
15 believe that that's necessary, then it should occur in
16 Executive Session.

17 VICE CHAIRMAN GANDARA: Okay, well, if that's
18 the case, then, let me do this. With the consent of the
19 other Commissioners, let's defer to the Committee's recommend-
20 ation that the -- we hear public comment on this matter,
21 that the two actions -- the resolution on the intervention
22 as well as the lawsuit -- be taken up in Executive Session.

23 COMMISSIONER COMMONS: I would object to that.

24 COMMISSIONER EDSON: Well, we would be reporting --

25 VICE CHAIRMAN GANDARA: Is there any public comment?

1 COMMISSIONER EDSON: -- back to the --

2 VICE CHAIRMAN GANDARA: Yes.

3 COMMISSIONER EDSON: -- to anyone who is interested
4 following the Executive Session, so I think obviously the
5 opportunity to hear the result of those deliberations is
6 there.

7 COMMISSIONER COMMONS: Well, let me state the
8 basis of the objections. I think the legal matter -- the
9 legal issues might be properly handled in an Executive
10 Session as to how we would intervene, the nature of the
11 intervention, and the legal aspects. However, I think that
12 we have some major overriding policy concerns and delibera-
13 tions that I think the public has a right to hear the view-
14 points of the Commission, and a right to discuss, which
15 is part of the public hearing process if someone from the
16 public wants to address the issue. But I think the public
17 also has a right to hear the Commission's deliberations on
18 the nonlegal policy, the substantive issues that are raised
19 by this intervention, and it is not properly restricted, or
20 should be restricted to an Executive Session.

21 VICE CHAIRMAN GANDARA: Well, I believe that
22 Commissioner Schweickart has indicated that is why he
23 calendared the item, so we have had the policy discussion.
24 Is there any further comment on the policy issue?

25 COMMISSIONER COMMONS: Well, I would --

1 VICE CHAIRMAN GANDARA: If not, then I would --

2 COMMISSIONER COMMONS: I would like to make a
3 motion on it.

4 VICE CHAIRMAN GANDARA: Well, let me make a
5 recommendation here. I don't think it's an either/or
6 situation. Chairman Imbrecht has indicated that he would
7 like the Executive Session postponed until he gets back
8 from his meeting. What we can do is we can just postpone
9 this item until after the Executive Session. If it is the
10 Commission's wish at the Executive Session to deal with the
11 intervention and the lawsuit separately, then I think that
12 we can come back and do that, but I think that at least as
13 the Presiding Member's recommendation here, that there is
14 some linkage and relationship between litigation, which has
15 always been a proper aspect of Executive Sessions, as well
16 as this intervention.

17 So, I would suggest that we can do both; essentially
18 defer action on the item until then.

19 COMMISSIONER COMMONS: That would be acceptable.

20 VICE CHAIRMAN GANDARA: Okay, why don't we do that.

21 Let's move onto the next item, then. Item 3.

22 EXECUTIVE DIRECTOR GEESMAN: Jim Faulkinbury is
23 here from our Computer Services Office.

24 MR. FAULKINBURY: Commissioners.

25 Item 3 is a augmentation to the data general

1 maintenance contract, which we established last year.

2 The funds were set aside, and are available in
3 the EDP line item, as yet unencumbered, because we knew
4 this would be coming up.

5 The contract we set up for maintenance with the
6 computer was for three years, and included an escalation
7 clause for the company on 90-days' written notice to the
8 state to escalate no more than 15 percent --

9 EXECUTIVE DIRECTOR GEESMAN: I think you said
10 14 in the memo.

11 MR. FAULKINBURY: Fourteen percent, excuse me.
12 Fourteen percent over the amount previously billed. In
13 addition to the escalation, we had a major upgrade of our
14 equipment from a one megabyte machine to a four megabyte
15 machine during the year, and the remainder of those charges
16 are reflected as the maintenance obligations for that
17 upgrade.

18 Do you have any questions? Yes.

19 VICE CHAIRMAN GANDARA: Commissioner Commons.

20 COMMISSIONER COMMONS: I understand the inflation
21 rate this year has been substantially less than 14 percent.
22 What is the escalation that they are using?

23 MR. FAULKINBURY: That is very difficult to
24 ascertain because of the upgrade. The major portion of the
25 contract was the one megabyte machine, and I would estimate

1 that they did, in fact, use the full 14 percent on the
2 remainder of it.

3 I suspect they did that because they took a
4 major loss, due to a litigation that preceded the contract,
5 and it drug it out over a year from the time they made the
6 bid to the time that we actually signed the contract.

7 COMMISSIONER COMMONS: Well, if you have an
8 escalation provision of no more than 14 percent, my under-
9 standing of an escalation provision is that's based on the
10 actual inflation rate, and if the inflation rate were 20,
11 the escalation rate would be 14. If the inflation rate
12 were eight, the escalation rate would be eight.

13 MR. FAULKINBURY: The contract, per se, did not
14 specify that it would be tied to the annual inflation rate.
15 It just said that they could not increase it any more than
16 14 percent.

17 COMMISSIONER COMMONS: And on what basis could they
18 increase it five percent, or ten percent, or 14 percent?

19 MR. FAULKINBURY: It would based on their own
20 corporate dictate.

21 COMMISSIONER COMMONS: We're talking about a
22 small number of dollars, but I would be concerned on having
23 these type of contracts with that type of language, in
24 general, signed by the Commission.

25 VICE CHAIRMAN GANDARA: Mr. Faulkinbury, refresh

1 my memory, but I was under the impression that this was
2 a contingency case for increased maintenance demands, and
3 -- you know, something other -- I mean, there was a basis
4 for why there would be requests for an escalation rate
5 within the -- for an escalation or an augmentation.

6 MR. FAULKINBURY: The contract was established
7 by the State Administrative Manual. It's a boilerplate
8 contract, and this was the verbage that was used by the
9 Department of General Services, as a standard contract.
10 They did give them the option of escalating it, and the
11 escalation was actually bid in the bid. So, we did have
12 a preknowledge that they would go for the full escalation,
13 just based on what they had anticipated in their bid item
14 as the escalation rider to the contract.

15 VICE CHAIRMAN GANDARA: Any other questions,
16 comments?

17 COMMISSIONER SCHWEICKART: No. I'll move the
18 item.

19 COMMISSIONER EDSON: Second.

20 VICE CHAIRMAN GANDARA: Would you call the roll,
21 please?

22 SECRETARY MATHIES: Commissioner Commons?

23 COMMISSIONER COMMONS: Opposed.

24 SECRETARY MATHIES: Commissioner Edson?

25 COMMISSIONER EDSON: Aye.

1 SECRETARY MATHIES: Commissioner Schweickart?

2 COMMISSIONER SCHWEICKART: Aye.

3 SECRETARY MATHIES: Commissioner Gandara?

4 VICE CHAIRMAN GANDARA: Aye.

5 SECRETARY MATHIES: Chairman Imbrecht?

6 VICE CHAIRMAN GANDARA: The next item is approval
7 of minutes. Are there any correction to the minutes?

8 SECRETARY MATHIES: May I make a correction?

9 VICE CHAIRMAN GANDARA: Pardon.

10 SECRETARY MATHIES: There is a typographical error
11 on Item 10. The contract amount is \$700,000.

12 VICE CHAIRMAN GANDARA: Okay. What is the
13 correction?

14 SECRETARY MATHIES: On Item 10 --

15 VICE CHAIRMAN GANDARA: It's not --

16 SECRETARY MATHIES: -- the amount of the Highway
17 Patrol contract is \$700,000.

18 VICE CHAIRMAN GANDARA: I'm sorry, I didn't hear
19 that.

20 SECRETARY MATHIES: The amount of the contract
21 is \$700,000.

22 VICE CHAIRMAN GANDARA: Yes, okay.

23 Any other corrections?

24 COMMISSIONER SCHWEICKART: Move the minutes.

25 COMMISSIONER EDSON: Second.

- 1 VICE CHAIRMAN GANDARA: Call the roll, please.
- 2 SECRETARY MATHIES: Commissioner Commons?
- 3 COMMISSIONER COMMONS: Aye.
- 4 SECRETARY MATHIES: Commissioner Edson?
- 5 COMMISSIONER EDSON: Aye.
- 6 SECRETARY MATHIES: Commissioner Schweickart?
- 7 COMMISSIONER SCHWEICKART: Aye.
- 8 SECRETARY MATHIES: Commissioner Gandara?
- 9 VICE CHAIRMAN GANDARA: Aye.
- 10 SECRETARY MATHIES: Chairman Imbrecht?
- 11 VICE CHAIRMAN GANDARA: Policy Committee Reports?
- 12 Any Policy Committee Reports?
- 13 Next item, Briefing --
- 14 COMMISSIONER EDSON: Excuse me. I did want to
- 15 indicate --
- 16 VICE CHAIRMAN GANDARA: Commissioner.
- 17 COMMISSIONER EDSON: -- that the Executive Loan
- 18 Committee will be placing on the agenda for the next business
- 19 meeting its recommendations to the Commission on the alloca-
- 20 tion of oil overcharge revenues.
- 21 VICE CHAIRMAN GANDARA: Briefing on Staff Inter-
- 22 ventions?
- 23 MR. CHAMBERLAIN: No.
- 24 VICE CHAIRMAN GANDARA: General Counsel's Report?
- 25 MR. CHAMBERLAIN: We have nothing today other than

1 the Executive Session.

2 VICE CHAIRMAN GANDARA: Executive Director's
3 Report?

4 EXECUTIVE DIRECTOR GEESMAN: We're in a situation
5 now where we need some mechanism by which the Commission
6 can establish priorities for moving ahead on frozen contracts.
7 Several categories of those contracts, some have been approved
8 by the Commission, some have not, some are entirely federally
9 funded, some are not, some are special funded, some are
10 out of other sources of funds. What's your pleasure, to
11 refer it to a Committee, to have it at a business meeting?
12 The Chairman had earlier indicated to me a desire to poten-
13 tially take up informational matters on Thursdays, following
14 business meetings. Any of those fora are available to you.

15 VICE CHAIRMAN GANDARA: I would suggest that
16 that is an item currently under discussion, and so that
17 probably we could defer any action right now, pending the
18 deadline for the filing of agenda items, which is, what,
19 Thursday noon? So, that if we do not have a mechanism in
20 place by then, then it might be inappropriate to calendar
21 some recommendations.

22 Any other Commissioners have any other comments?

23 COMMISSIONER SCHWEICKART: As I recall, prior to
24 the freeze we had gone through all of the contracts, and
25 we did have them prioritized, and there was -- there were

1 a number of categories.

2 I would certainly appreciate, John, a current
3 listing of where we do stand, and a reflection of what
4 the -- immediately prior to the freeze, what the last
5 status was, in terms of above-the-line, below-the-line,
6 et cetera, for our consideration.

7 I think we should all have uniform information
8 on the current status.

9 EXECUTIVE DIRECTOR GEESMAN: Okay, okay.

10 COMMISSIONER SCHWEICKART: That would be helpful
11 to my office.

12 EXECUTIVE DIRECTOR GEESMAN: Okay.

13 VICE CHAIRMAN GANDARA: Commissioner Commons.

14 COMMISSIONER COMMONS: My position would be that
15 it should come before the whole Commission. The prioritiza-
16 tion that had been done in December had never been discussed,
17 to my recollection, by the Commission. As to those contracts
18 which -- so, there has not been a Commission vote, I think
19 it has to come before the Commission. On -- to those
20 contracts where we already have approval, and the Commission
21 has already voted to proceed, I think that's an appropriate
22 matter, personally, to go back through the Committee, in
23 terms of -- we probably should process them, because they've
24 already received Commission approval.

25 VICE CHAIRMAN GANDARA: In any case, it appears

1 that there is a common desire to receive the information,
2 and that we would be providing direction to you, certainly
3 at least one way or the other, as to whether -- by tomorrow.

4 EXECUTIVE DIRECTOR GEESMAN: Okay.

5 VICE CHAIRMAN GANDARA: That leaves us with
6 public comment. Is there any public comment?

7 Then, I would suggest that we recess to some
8 indefinite time. We will have Executive Session on the items
9 called for by the General Counsel, and then possibly,
10 depending on that discussion as well, continuation of the
11 item, as to Commissioner Commons --

12 MR. CHAMBERLAIN: Mr. Chairman, if I could suggest,
13 given the dictates of the Public Meetings Act, I would
14 suggest that we recess to a time certain.

15 If, in fact, the Executive Session has not occurred
16 by that time, we could make an announcement for anyone
17 who is here who wishes to hear the results of the Executive
18 Session, that we would recess again to another time certain.

19 The problem with recessing to an indefinite time
20 is that it does not give the public an opportunity, really,
21 to know when they should be here.

22 VICE CHAIRMAN GANDARA: A point well taken. A
23 point well taken. Twelve o'clock?

24 MR. CHAMBERLAIN: Well, why don't we make it --

25 COMMISSIONER SCHWEICKART: I --

1 MR. CHAMBERLAIN: -- 1:30.

2 COMMISSIONER SCHWEICKART: Yeah, I would think
3 Executive Session would occur at 12:00 if the Chairman is
4 back.

5 VICE CHAIRMAN GANDARA: That's what I was
6 indicating, the Executive --

7 COMMISSIONER SCHWEICKART: So, the time certain
8 for reconvening the public session is 1:30?

9 VICE CHAIRMAN GANDARA: It would be 1:30. Okay.

10 (Whereupon, at 11:10, the business meeting was
11 adjourned for lunch break and Executive Session, to be
12 reconvened at 1:30 p.m. that same day.)

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AFTERNOON SESSION

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3 MR. CHAMBERLAIN: I've been asked by the
4 Commission to announce the results of the Executive Session.

5 The Commission determined in Executive Session
6 to bring suit against the Bonneville Power Administration
7 relating to certain contracts that that agency apparently
8 has let.

9 Additionally, the Commission determined to
10 intervene in the 1983 rate case, and determined not to
11 adopt any resolution relating to that intervention, but
12 simply to authorize the intervention.

13 That was the extent of the Executive Session.
14 No further action was taken, and I've been asked to say
15 that the meeting is adjourned.

16 (Off the record.)

17 (After going off the record, a brief interchange
18 began between Mr. Perez, Mr. Chamberlain and Commissioner
19 Commons. At that point the reporter asked whether this
20 should be on the record. Whereupon, the reporter complied
21 and resumed recording as directed.)

22 MR. PEREZ: The purpose of requiring the
23 Executive Session or the closed session to occur within
24 the context of a regular business meeting is presumably
25 that the regular business meeting will be brought to a

1 proper close, following the conduct of the closed session.

2 Have you given any thought to that?

3 MR. CHAMBERLAIN: It would simply be a formality
4 to have the Commissioners here to say "The business meeting
5 is being adjourned." There are no Commissioners -- I mean,
6 we don't have a --

7 COMMISSIONER COMMONS: Am I --

8 MR. CHAMBERLAIN: -- a quorum.

9 COMMISSIONER COMMONS: Am I, as a Commissioner,
10 allowed to add an adjournment to the meeting since there
11 is not a quorum?

12 MR. PEREZ: I think if the propriety is observed,
13 I would be satisfied.

14 COMMISSIONER COMMONS: This is Commissioner
15 Commons. The meeting is hereby adjourned.

16 MR. PEREZ: Thank you.

17 (Whereupon, the business meeting of the California
18 Energy Resources Conservation and Development Commission
19 was adjourned at 1:35 p.m.)

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REPORTER'S CERTIFICATE

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I, AMBER WHITSETT, an electronic court reporter,
do hereby certify under penalty of perjury:

That I am a disinterested person here; that the
foregoing hearing of the California Energy Resources Conser-
vation and Development Commission was reported by me, Amber
Whitsett, an electronic court reporter, and thereafter
transcribed into typewriting.

I further certify that I am not of counsel or
attorney for any of the parties to said hearing, nor in any
way interested in the outcome of said hearing.

I have hereunto set my hand this 10th day of
March, 1983.



Amber Whitsett