

BUSINESS MEETING
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
)
Business Meeting)
)
_____)

CALIFORNIA ENERGY COMMISSION
HEARING ROOM A
1516 NINTH STREET
SACRAMENTO, CALIFORNIA

WEDNESDAY, AUGUST 16, 2006

10:03 A.M.

Reported by:
Peter Petty
Contract Number: 150-04-001

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

Jackalyne Pfannenstiel, Chairperson

James D. Boyd

John L. Geesman

Jeffrey D. Byron

STAFF and CONTRACTORS PRESENT

B.B. Blevins, Executive Director

William Chamberlain, Chief Counsel

Michael Smith, Legislative Director

James Reede, Jr.

Bill Pfanner

Gary Fay

Lisa DeCarlo

Jamie Patterson

Merwin Brown, Contractor

Beth Chambers

Clare Laufenberg-Gallardo

Lorraine White

Gordon Schremp

PUBLIC ADVISER

Margret Kim

ALSO PRESENT

Krishna Nand
City of Vernon

ALSO PRESENT

Christopher T. Ellison, Attorney
Ellison, Schneider and Harris, LLP
on behalf of South Bay Replacement Project

Laura Hunter (via teleconference)
Environmental Health Coalition

G. Braiden Chadwick, Attorney
Downey Brand Attorneys, LLP
on behalf of Avenal Energy Project

Steve Gilliland (via teleconference)
Avenal Energy Project

Pete Montgomery
bp

Joe Sparano
Western States Petroleum Association

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P R O C E E D I N G S

10:03 a.m.

CHAIRPERSON PFANNENSTIEL: This is the Energy Commission business meeting of August 16th. Let's begin with the Pledge of Allegiance.

(Whereupon the Pledge of Allegiance was recited in unison.)

CHAIRPERSON PFANNENSTIEL: For some reason we have no consent calendar today, so we'll begin with item 1 on the agenda.

Possible approval of the Executive Director's data adequacy recommendation for the Vernon Power Plant, a 943 megawatt combined cycle facility in the City of Vernon, Los Angeles County. Mr. Reede.

DR. REEDE: Good morning, Commissioners, and Chairperson Pfannenstiel. My name is Dr. James Reede. And staff has completed its data adequacy review of the Vernon Power Plant project application for certification submitted on June 30, 2006.

Staff has determined that the AFC does not contain all the information required by the California Code of Regulations, Title 26, 1704, including appendix B for the 12-month AFC process.

1 Twenty-three technical disciplines were
2 reviewed, and information is still needed in six
3 areas. They are air quality, cultural resources,
4 project description, transmission system
5 engineering, visual resources and waste
6 management.

7 I have submitted a packet through the
8 Secretariat for your review. We ask that the
9 Executive Director's recommendation that the plant
10 application be found inadequate be approved.

11 CHAIRPERSON PFANNENSTIEL: Thank you.
12 Is there discussion?

13 COMMISSIONER GEESMAN: Is anyone here
14 from Vernon to address the staff's recommendation?

15 DR. REEDE: Yes, their Project Manager,
16 Dr. Krishna Nand, is here.

17 COMMISSIONER GEESMAN: Would you care to
18 respond to the staff's recommendation, or indicate
19 when these deficiencies might be corrected?

20 DR. NAND: My name is Krishna Nand and
21 I'm the AFC Program Manager. And we have looked
22 into these comments and we are working on it. And
23 hopefully within a week we will supply, provide
24 all the information. Thank you.

25 COMMISSIONER BOYD: So you agree that

1 it's deficient and you accept the staff's
2 recommendation?

3 DR. NAND: We have to, and we are
4 working --

5 (Laughter.)

6 DR. NAND: Thank you.

7 COMMISSIONER BOYD: I'm a tad surprised
8 because this is your second power plant
9 application in current memory, so. But, anyway,
10 as long as it's an amicable disagreement.

11 DR. NAND: Okay, thank you.

12 CHAIRPERSON PFANNENSTIEL: Thank you.

13 COMMISSIONER GEESMAN: Madam Chair, I
14 will move the staff recommendation.

15 COMMISSIONER BOYD: I'll second it.

16 CHAIRPERSON PFANNENSTIEL: In favor?

17 (Ayes.)

18 CHAIRPERSON PFANNENSTIEL: Thank you.

19 It's been found data inadequate for now. Thank
20 you, Dr. Reede.

21 DR. REEDE: Thank you.

22 CHAIRPERSON PFANNENSTIEL: And in which
23 case we will not assign a Committee at this point.

24 Item number 2, possible approval of the
25 Executive Director's data adequacy recommendation

1 for the South Bay Replacement Project, a natural
2 gas fired, combined cycle facility with a nominal
3 500 megawatt output. And I should say that we do
4 have two members of the public on the phone
5 wishing to speak to this item.

6 Yes, Mr. Pfanner.

7 MR. PFANNER: Yes, good morning,
8 Commissioners. My name's Bill Pfanner; I'm the
9 Project Manager for the South Bay project. Staff
10 has completed the data adequacy review for the
11 South Bay project.

12 The application was submitted on June
13 30th, and staff has determined the AFC does not
14 contain all the information required. Twenty-
15 three technical disciplines were reviewed, and we
16 have identified three areas that are considered
17 data inadequate, air quality, transmission system
18 engineering and waste management.

19 I would like to note subsequent to our
20 preparation of the package for the Commission we
21 received letters from four agencies, including San
22 Diego Air Pollution Control District, the City of
23 Chula Vista, California Coastal Commission and the
24 U.S. Fish and Wildlife Service.

25 We also received a letter from a public

1 interest group, Environmental Health Coalition;
2 and their letter is also on record.

3 Staff reviewed the agency and the public
4 interest group's letter, and has not changed its
5 recommendation that the AFC is not data adequate
6 for air quality, transmission system engineering
7 and waste management.

8 We would note that many of the items
9 contained in the letters submitted will be data
10 requests by staff during the discovery phase of
11 the AFC process, and are not data adequacy
12 requirements per California code and regulation,
13 Title 20, section 1704.

14 We would also note that the
15 Environmental Health Coalition intends to file for
16 intervenor status, allowing them to file their own
17 data requests.

18 So staff recommends that the Energy
19 Commission not accept the AFC until all the
20 additional information specified in our submittal,
21 attachment B, is supplied. And staff has been
22 working with the applicant in gathering the
23 outstanding information, and anticipate that the
24 AFC can be found data adequate at the August 30th
25 business meeting.

1 If you have any questions I'd be happy
2 to answer them.

3 CHAIRPERSON PFANNENSTIEL: Thank you,
4 Mr. Pfanner. Would somebody from the applicant
5 like to comment?

6 MR. ELLISON: Chris Ellison, Ellison,
7 Schneider and Harris, representing the applicant.
8 We are working with staff on the areas of alleged
9 deficiency. We do anticipate that information
10 that we've already given to staff, and will give
11 to staff, you know, within the next several days,
12 will satisfy staff's requirements.

13 And while we may not agree with all of
14 the conclusions about appendix B, we do have the
15 information or can get it. So, we're looking
16 forward to your next business meeting and being
17 data adequate at that time.

18 CHAIRPERSON PFANNENSTIEL: Thank you,
19 Mr. Ellison. We have two people on the phone,
20 Laura Hunter from the Environmental Health
21 Coalition. Ms. Hunter?

22 MS. HUNTER: Yes, thank you. Good
23 morning, Commissioners and Staff and participants
24 in the meeting. We thank you for the opportunity
25 to address you today on this issue that is very

1 significant for our region, that's replacement of
2 the South Bay Power Plant.

3 This is our first appearance in this
4 kind of hearing, and I just wanted to -- by way of
5 introduction, my name is Laura Hunter; and I am
6 Campaign Director for the Environmental Health
7 Coalition.

8 The Environmental Health Coalition is a
9 26-year-old nonprofit environmental justice
10 organization working in the San Diego/Tijuana
11 region to improve the environmental health of
12 residents in our communities.

13 We have dealt, I hate to say it,
14 intimately with the issues related to this power
15 plant since the '80s. We participated in the
16 South Bay Power Plant working group, and are
17 members of the citizens advisory committee for the
18 Chula Vista Bay -- master plan.

19 Our members live in large concentration
20 downwind of the power plant. And this decision is
21 critically important, as you can imagine, given
22 that we only get to make it once every 50 years.

23 So we do believe that in order to get to
24 the right decision, full information is required.
25 I don't know if I have time, but I would like to,

1 if possible, before I outline the areas that we
2 believe are deficient, talk a little bit about the
3 community, or I don't know if that would be
4 appropriate at this time or not? If you could
5 give me guidance on that.

6 CHAIRPERSON PFANNENSTIEL: I think a
7 brief comment would probably be appropriate, yes,
8 thank you.

9 MS. HUNTER: Okay, and just to give you
10 a sense of the project. Western Chula Vista is a
11 classic environmental justice community downwind
12 of the plant. The community is 70 percent Latino
13 with 30 percent, over 30 percent living below
14 poverty nearby the plant.

15 Depending on the area of the air impact,
16 which is still not yet identified in the AFC, so
17 we would disagree with the proponent's allegation
18 that these are alleged deficiencies. We don't
19 know the area of impact of this plant based on
20 what they submitted.

21 But based on that there could be up to
22 60 schools or preschools in the area of concern.
23 It's a huge disappointment that their proposal
24 proposes no discernible reduction in the most
25 dangerous types of air pollution from the power

1 plant. And the alternatives they propose do what
2 we believe is required by the adequacy, look at
3 alternatives that would lessen those impacts.

4 I want to say that we do support removal
5 of the current power plant and inclusion of dry
6 cooling in any new, proposed new plant. However,
7 locating a large single energy plant directly
8 upwind of western Chula Vista where childhood
9 hospitalization for asthma are already 20 percent
10 higher than the county average, when those impacts
11 could be avoided, we think is not acceptable.

12 As this is a data adequacy hearing, we
13 urge the Commission to find the AFC data
14 inadequate. And we have a couple additional areas
15 that we believe it's inadequate. We made several
16 recommendations in our letter of July 28th.

17 First, we also noted that the air
18 modeling was significantly deficient. We raised
19 some of the same concerns as the Air Pollution
20 Control District.

21 There's one area I wanted to touch on
22 that they did not raise, however we think it's
23 very important. That you ask the proponents to
24 demonstrate compliance with the lower PM standards
25 that are currently being considered by the USEPA.

1 These should be addressed in the AFC.
2 And even though they're not yet in regulatory
3 effect, they do reflect the most current
4 scientific information on the health impacts of
5 particulate matter, and were the recommendation of
6 the scientific advisory committee.

7 We understand that the local air
8 district does not feel they have regulatory
9 authority to require consideration of the new
10 standard, however we do think it is key
11 information for your staff to have to do a fully
12 informed analysis. So we would ask that you would
13 add that to the list of deficiencies.

14 The next major area of inadequacy of the
15 AFC is the severe deficiency of the analysis of
16 alternatives. We point to the Public Resources
17 Code standard that says in order to be adequate a
18 range of reasonable alternatives that would
19 feasibly attain most of the project objectives,
20 but would lessen or avoid any of the significant
21 effects, should be looked at.

22 In addition to technology alternatives,
23 it's also important that they analyze all of the
24 credible locations or sites for the project that
25 would lessen the impact.

1 A third area would be the hybrid
2 solution. None of this was done, you know, --
3 some of it was not done adequately, and some of it
4 wasn't done at all in the current AFC.

5 In our letter we outline several
6 credible alternatives that meet the objectives and
7 significantly lessen the air impacts and these
8 should have been considered.

9 We ask the CEC to find the AFC deficient
10 in the quality and viability of these alternatives
11 and ask that they direct proponents to provide
12 that information.

13 Further, we believe that the alternative
14 of a simple cycle peaking plant was
15 inappropriately rejected even though it could
16 meet, serve to close the RMR gap; and the
17 resulting aggregate air impacts would be reduced.

18 Another credible alternative that should
19 be looked at would be an unfired plant.

20 Last, the analysis that summarizes the
21 contributions of in-area resources to meeting
22 capacity requirements is deficient in that it
23 fails to reflect the viable and expected projects
24 in the region. Most notably it doesn't mention
25 the 750 megawatt proposed community power project

1 (inaudible). This project has made considerable
2 progress in development of the site, including a
3 position in the ISO queue; the required
4 authorization from the Department of the Navy to
5 proceed with conveyance of Miramar property for
6 the purposes of developing a plant; the completion
7 of the site assessment and determination of three
8 possible sites; and initiation of an interconnect
9 study with SDG&E.

10 This 750 megawatt plant could easily
11 close the 54 megawatt RMR deficiency in 2010 noted
12 in the AFC.

13 This also, the project site is a
14 credible alternative site to the SBRP, and was not
15 even mentioned in the AFC.

16 In closing, western Chula Vista is not a
17 case where the community moved in next to a power
18 plant. Really, the homes were there first, and
19 then the power plant came. For the past 45 years
20 western Chula Vistans have borne and continue to
21 bear the air pollution burden from a power plant
22 that serves the region.

23 If we do not, you know, require new
24 facilities to impact communities less than the old
25 facilities, you know, when can residents expect an

1 improvement in the air they breathe.

2 This community deserves a full and fair
3 vetting of cleaner alternatives that meet the
4 objectives that will provide an upgrade in their
5 air quality, along with an upgrade in the energy
6 production system.

7 We were joined by almost 100 downwind
8 residents presenting post cards to the Port
9 District asking for these alternatives to be
10 considered.

11 We urge a finding of not adequate for
12 the AFC. And we look forward for the opportunity
13 to provide these comments today. And look forward
14 to working with the Commission and your staff in
15 the future. Thank you.

16 CHAIRPERSON PFANNENSTIEL: Thank you,
17 Ms. Hunter. We also have Robert Mason from CH2M
18 HILL on the phone. Mr. Mason?

19 Oh, he disconnected.

20 Are there other comments, discussion or
21 questions on the South Bay Replacement project?

22 Is there a motion on data adequacy?

23 COMMISSIONER GEESMAN: I'll move the
24 staff recommendation.

25 COMMISSIONER BOYD: I'll second it.

1 CHAIRPERSON PFANNENSTIEL: In favor?

2 (Ayes.)

3 CHAIRPERSON PFANNENSTIEL: It's found
4 data inadequate at this time. Thank you. So we
5 will defer Committee assignment on South Bay.

6 Item 3, possible adoption of an order
7 directing applicant, Federal Power Avenal, LLC, to
8 provide specific information to the Commission
9 Staff by September 25, 2006. Mr. Fay and Ms.
10 DeCarlo.

11 MR. FAY: Good morning, Commissioners.
12 Item 3 has been identified and I'll just briefly
13 give a little background.

14 At the May 24th business meeting the
15 Commission directed the Committee overseeing
16 review of the Avenal Energy Project application to
17 prepare a draft order for the Commission
18 identifying the information the applicant would be
19 required to provide by September 24th to avoid
20 automatic termination of the project review on
21 that date.

22 The Committee also directed -- the
23 Committee was directed to coordinate this task
24 with both the applicant and the staff. Applicant
25 submitted some information on July 7th to the

1 staff. And the staff reviewed that and added
2 additional items that they believed were required
3 to begin an analysis of the project.

4 Both parties now agree upon the listed
5 information that is contained in the memo that
6 staff sent on July 31st. And that is called the
7 list of additional information needed to bring the
8 Avenal Energy project application for
9 certification up to date.

10 As the Commission directed on May 24th,
11 the Committee's prepared a proposed Commission
12 order to which the staff list of information
13 requirements would append. As specified by the
14 Commission, the order states that the information
15 will be provided to the staff no later than
16 September 25th, the first business day following
17 the deadline identified at the previous business
18 meeting.

19 And that failure of the applicant to
20 provide the required information in a timely
21 manner will result in termination of this AFC
22 proceeding.

23 And I just received additional
24 information from the staff, and I believe they
25 provided you with copies of that. It is the

1 Committee-proposed order with modified language
2 that goes to specifying the format in which the
3 information would be provided to the staff, so
4 that staff is able to review it in the most
5 efficient manner.

6 And so if the Commission has any
7 questions I'd be glad to answer them.

8 CHAIRPERSON PFANNENSTIEL: Ms. DeCarlo,
9 do you have any comments?

10 MS. DeCARLO: No. Mr. Fay summarized
11 our position very clearly. We just provided you
12 language to insure that the post-order is clear as
13 to what must be filed on September 25th, including
14 the format and the number of copies.

15 COMMISSIONER BOYD: Question, Madam
16 Chair.

17 CHAIRPERSON PFANNENSTIEL: Commissioner
18 Boyd.

19 COMMISSIONER BOYD: Thank you. I was
20 going to ask Mr. Fay, since he mentioned that he
21 and we just received the amended order, since he
22 and I are all that's left of the Avenal siting
23 case Committee, --

24 COMMISSIONER GEESMAN: I think I'm on
25 that Committee.

1 COMMISSIONER BOYD: Oh, I --

2 MR. FAY: With the notable exception of
3 Commissioner Geesman.

4 COMMISSIONER BOYD: I apologize. There
5 have been so many solo issues lately. In any
6 event, I was just going to ask you if you're
7 satisfied with the staff's recommended --

8 MR. FAY: Yes, I think --

9 COMMISSIONER BOYD: -- additions and
10 corrections.

11 MR. FAY: -- I think the language would
12 provide a reasonable opportunity for the applicant
13 to deliver the information in the format that
14 staff needs.

15 And the staff has a legitimate concern,
16 so that they don't tie up, double the review time
17 just trying to rationalize new language with the
18 old AFC.

19 And I understand that this modification
20 is acceptable to the applicant. You may want to
21 ask them, but I think it's adequate to do the job.

22 COMMISSIONER BOYD: Thank you. And I'll
23 apologize and defer to Commissioner Geesman.

24 CHAIRPERSON PFANNENSTIEL: Commissioner
25 Geesman, you have a question?

1 COMMISSIONER GEESMAN: Well, at this
2 point I guess the only question I have is to the
3 applicant. Is this order acceptable to you,
4 including the new language discussing format?

5 MR. CHADWICK: Braiden Chadwick with
6 Downey Brand on behalf of the applicant.

7 And, yes, having worked with staff, we
8 are amenable to the order as proposed.

9 COMMISSIONER GEESMAN: So, we're on a
10 track, in your collective judgment, to come back
11 here September 25th with a live proceeding?

12 MS. DeCARLO: I'm not sure staff would
13 be prepared on the 25th to give our decision, or
14 our conclusion with regards to the completeness.

15 COMMISSIONER GEESMAN: Okay. But we're
16 on a track, from the applicant's perspective, to
17 have met the informational needs that we requested
18 a couple of months ago?

19 MS. DeCARLO: Yes, we expect to receive
20 the completed package on September 25th; and then
21 we would request 30 days with which to review the
22 package, and provide you with our conclusion as to
23 completeness.

24 MR. CHADWICK: Yes, the applicant is
25 prepared to provide staff with that at that time.

1 CHAIRPERSON PFANNENSTIEL: We have Steve
2 Gilliland from Avenal Energy on the phone.

3 MR. GILLILAND: Good morning.

4 CHAIRPERSON PFANNENSTIEL: Good morning.

5 MR. GILLILAND: I'm here to answer any
6 questions that any of the Commissioners would
7 have. But I would say that we feel like we've
8 worked pretty well with the staff, and I thank Mr.
9 Pfanner and Ms. DeCarlo, specifically, for their
10 work.

11 And we are happy with the order and the
12 attachment. And while I haven't personally seen
13 Ms. DeCarlo's writeup relative to the format, we
14 did have a conversation yesterday and I am fully
15 confident that what we talked about is contained
16 in her writeup.

17 CHAIRPERSON PFANNENSTIEL: Thank you.
18 Are there further questions of the staff or
19 applicant? Is there a motion, then, to adopt the
20 order?

21 COMMISSIONER GEESMAN: I'll move it.

22 COMMISSIONER BOYD: I'll second it.

23 CHAIRPERSON PFANNENSTIEL: In favor?

24 (Ayes.)

25 CHAIRPERSON PFANNENSTIEL: Passed; thank

1 you very much.

2 MS. DeCARLO: Thank you.

3 MR. GILLILAND: Thank you.

4 CHAIRPERSON PFANNENSTIEL: Item 4,
5 possible approval of work authorization UC MR-053a
6 for \$395,000 with CIEE under UC master research
7 agreement number 500-02-004, with the Regents of
8 the University of California, Office of the
9 President/CIEE. Mr. Patterson.

10 MR. PATTERSON: Good morning,
11 Commissioners. I'm Jamie Patterson; I am the
12 Manager for the PIER transmission research
13 program.

14 We have been developing project recently
15 to meet the requirements of our legislation that
16 to achieve the goals -- for the PIER program we
17 are to include projects that have the potential to
18 enhance transmission and distribution
19 capabilities.

20 We have been bringing these projects to
21 the -- recently to the business meeting. We have
22 had several in July. And we will have more
23 projects coming. The next project after this one
24 we anticipate we'll bring before the Commission at
25 the mid September business meeting.

1 Today at this item, we have this
2 enhancement of transmission data to measure
3 results using real-time measurement data for
4 \$395,000. This will be funded through the '04
5 PIER moneys out of the PIER electric funds.

6 And to present this I will now turn this
7 over to Merwin Brown, the director of the
8 transmission program, who is in charge of our
9 administration. Dr. Brown.

10 DR. BROWN: Good morning, Commissioners.
11 As Jamie said, I'm Merwin Brown, the director of
12 the PIER transmission research program for
13 transmission; and also employed by the University
14 of California.

15 For the operators of a utility or a
16 transmission control area, in order to operate it
17 reliably and economically they have to know from
18 time to time what the state or the status is of
19 the system.

20 And many of these area control operators
21 use what's known as a state estimator. A state
22 estimator is basically a computer program that
23 uses data that they collect from the system to
24 calculate and estimate what the status is of the
25 system.

1 And this is needed in order to be able
2 to do things to predict and understand congestion;
3 to see if we're approaching unreliable situations,
4 instabilities, et cetera.

5 With the changes that the utility
6 industry is seeing, particularly in California, of
7 greater reliance on imports from outside of
8 California, with the implementation of the markets
9 and wholesale power and other things that are
10 going on, these state estimators are becoming
11 increasingly unreliable. And they're becoming,
12 therefore, of less use to the operators of the
13 grid.

14 One aspect of this, based on a number of
15 studies at various universities, as well as
16 talking to the industry, is the suspect that the
17 data, itself, that they're using isn't as reliable
18 or as accurate as it should be.

19 And so there's been a number of
20 proposals that we could use phaser measurement
21 unit data to be able to improve the accuracy and
22 the usefulness of these models of the state
23 estimator.

24 Phaser measurement units is an emerging
25 technology that's beginning to be deployed

1 throughout various places in the United States and
2 in the western grid, and particularly in
3 California, that does provide more precise data
4 and a lot more data. And also allows us to use
5 data outside in a wide area outside the operating
6 arena, whether it's Cal-ISO or Southern California
7 Edison or San Diego or whatever.

8 So, what we're going to do in this
9 project is to actually test this hypothesis. San
10 Diego Gas and Electric has agreed to participate
11 in this, to provide basically a host site. And
12 they're also willing to pay for the installation
13 of some additional phaser measurement units to
14 their system.

15 And then we, the PIER program, will pay
16 for the research part of this project, which is to
17 develop the algorithms that would modify the state
18 estimator that San Diego Gas and Electric is
19 using, as well as do the analysis of seeing how
20 well this works.

21 One of the things we're going to use to
22 test the validity of this, of using phaser data,
23 is to look at congestion problems down in the San
24 Diego area.

25 I might point out because the state

1 estimator code that San Diego Gas and Electric
2 uses was produced by General Electric, General
3 Electric will be a part of this project, because
4 we will need them to make the modifications to the
5 source code in order to make the changes.

6 Any questions?

7 CHAIRPERSON PFANNENSTIEL: I have a
8 couple. The writeup that I have indicates that GE
9 will be a subcontractor? I'm not quite sure how
10 that comes about. Does that mean that the project
11 pays GE to do whatever it is they're going to be
12 doing here?

13 DR. BROWN: Yes, we will pay General
14 Electric to do the source code modification.

15 CHAIRPERSON PFANNENSTIEL: And how much
16 of the funding is going to come from SDG&E?

17 DR. BROWN: About half. It turns out
18 there's about \$300,000-plus for equipment that
19 they're going to buying. That'll be phaser
20 measurement units and phaser data concentrators.
21 And then the rest of it would be the cost of
22 installing them. And then whatever it takes for
23 the utility to gather the data and work with us
24 and our contractors in doing the research.

25 CHAIRPERSON PFANNENSTIEL: My other

1 question is really not this project, per se, but
2 the whole transmission research program, which is
3 described as about a \$7.7 million program. And
4 it's come to us in, as you mentioned, a number of
5 individual projects, and there are a number
6 upcoming.

7 Will all of these be under the UC
8 contract; they'll all be part of CIEE work, all
9 7.7 million?

10 DR. BROWN: I think the answer to that
11 is yes.

12 COMMISSIONER GEESMAN: Yeah, it is. We
13 do have some other transmission-related research
14 that does not come under CIEE, and I believe is
15 performed by CERTS. Don Kondoleon's work is
16 funded from PIER, but not part of the CIEE
17 program.

18 CHAIRPERSON PFANNENSTIEL: I see. Any
19 other questions?

20 COMMISSIONER GEESMAN: I guess I would
21 provide a little bit of a layman's context to go
22 along with Merwin's remarks.

23 After the Easter blackouts in 2003, the
24 primary response of the federal-led effort on the
25 eastern interconnection was to promote the

1 proliferation of these phaser measurement units.
2 And some of the contractors that we relied on in
3 the past quite a bit were instrumental in that.

4 The west had installed phaser
5 measurement units previously. And now, after
6 considerable effort, the eastern interconnection
7 is coming up to a comparable level of having these
8 systems installed.

9 The next big step is figuring out how do
10 we best make use of this data. What value can be
11 derived from substantially enhancing the volume of
12 information that we're now able to get.

13 And this project is instrumental in
14 trying to take this effort to really a new level
15 of usefulness in exploring ways in which PMUs can
16 provide information to the grid operator that
17 actually has measurable value. It's a little bit
18 analogous to MRI equipment being put in hospitals
19 first, and then health clinics, and now doctors'
20 offices.

21 The volume of information gets there
22 long before the number of creative uses are
23 determined. So, this is an important project, and
24 we intend to follow on to it.

25 It's also an area that Merwin's group

1 has been able to keep closely integrated with the
2 national effort, with DOE. So they've attached
3 quite a bit of significance to watching the
4 results from this particular project, so that it
5 can also be applied in the eastern
6 interconnection.

7 CHAIRPERSON PFANNENSTIEL: So this is
8 ahead of where the eastern --

9 COMMISSIONER GEESMAN: Yeah, quite a
10 bit.

11 CHAIRPERSON PFANNENSTIEL: -- utilities
12 are?

13 COMMISSIONER GEESMAN: So I would move
14 the item.

15 CHAIRPERSON PFANNENSTIEL: Is there a
16 second?

17 COMMISSIONER BOYD: I'll second the
18 item. And I'd like to ask where did the term
19 phaser come from. I haven't heard it discussed
20 this much since my kids last watched StarTrek.

21 (Laughter.)

22 DR. BROWN: I was going to say all you
23 need to know is there's two settings, stun and
24 kill.

25 (Laughter.)

1 DR. BROWN: I'm not, I'll have to
2 confess, I'm not an electrical engineer; I'm a
3 nuclear engineer. But, as I understand it, in
4 electrical engineering lingo, the phaser comes
5 about from what's called a phase-angle
6 measurement.

7 What happens, as you probably well know,
8 we use AC power in the United States, and most
9 places in the world, for that matter. And so as a
10 result there's always what's known as an angle
11 that can be measured with regard to where you're
12 at in this angle so it'll wave.

13 Okay, what happens is, for example, if
14 power's produced in the Grand Coulee Dam up in the
15 State of Washington, by the time it gets down to
16 here it turns out that due to what we call stress
17 on the system, think instead of a motor driving a
18 flywheel on a long axis, and it's a big heavy
19 flywheel, so the motor starts up, but the wheel
20 lags. So the wheel's always slightly behind, out
21 of phase with the motor, due to the twist of the
22 axle. That's sort of what happens in the electric
23 grid.

24 But what we can do with phaser
25 measurements that we couldn't do with other

1 measurements is be able to determine how much that
2 twist has occurred; how much has the voltage, for
3 example, gotten out of phase with say the Grand
4 Coulee Dam versus a substation in Southern
5 California Edison.

6 What we're beginning to believe and see,
7 based on earlier research, is that as that angle
8 gets greater that's an indication there's a stress
9 somewhere in the system. And that means there's
10 probably a problem.

11 Our research is attempting to now answer
12 the question what does that angle difference mean.
13 In other words, can we begin to nail down what the
14 specific problem is and go solve it before it
15 becomes a big problem.

16 COMMISSIONER BOYD: Thank you.

17 DR. BROWN: And, yes, sorry.

18 CHAIRPERSON PFANNENSTIEL: Good
19 answer --

20 COMMISSIONER BYRON: It's not a simple
21 concept, frankly.

22 COMMISSIONER BOYD: My limited
23 engineering and mechanical engineering has
24 struggled with that, and I basically, you know,
25 recall some of that from yesteryear.

1 CHAIRPERSON PFANNENSTIEL: The item has
2 been moved and seconded.

3 All in favor?

4 (Ayes.)

5 CHAIRPERSON PFANNENSTIEL: It's been
6 approved, thank you.

7 DR. BROWN: Thank you.

8 CHAIRPERSON PFANNENSTIEL: Item 5,
9 possible approval of amendment 4 to contract 500-
10 99-013 to add \$2,500,000 to the existing
11 interagency agreement with the University of
12 California. The contract provides technical
13 support services in program planning, project
14 support and technology transfer for the Public
15 Interest Energy Research electricity and natural
16 gas programs. Ms. Chambers.

17 MS. CHAMBERS: Thank you. Good morning,
18 Chairman Pfannenstiel and Commissioners. I am
19 Beth Chambers from the energy research,
20 development and demonstration division of the PIER
21 program.

22 I am here to seek approval of amendment
23 4 to this contract of \$2.5 million of '5/6 fiscal
24 year dollars to this existing interagency
25 agreement with the University of California.

1 The contract does provide for technical
2 support; it gives us access to experts with
3 particular strengths in technical and project
4 management aspects in program management within
5 the UC system.

6 Do you have any questions?

7 CHAIRPERSON PFANNENSTIEL: Are there
8 questions, Commissioners? Is there a motion?

9 COMMISSIONER GEESMAN: I'll move it.

10 CHAIRPERSON PFANNENSTIEL: Second?

11 COMMISSIONER BYRON: Second.

12 CHAIRPERSON PFANNENSTIEL: All in favor?

13 (Ayes.)

14 CHAIRPERSON PFANNENSTIEL: Thank you.

15 MS. CHAMBERS: Thank you.

16 CHAIRPERSON PFANNENSTIEL: Item 6,
17 possible approval of an amendment to PIER contract
18 500-05-001 for the Center for Energy Efficiency
19 and Renewable Technologies to reduce the amount by
20 \$36,935 and update the scope of work to reflect
21 recent agreements between San Diego Gas and
22 Electric and the Imperial Irrigation District, as
23 well as unanticipated California Public Utilities
24 Commission proceedings and activity at the
25 California Independent System Operator relevant to

1 the scope of this contract. Good morning.

2 MS. LAUFENBERG-GALLARDO: Good morning,
3 Commissioners. I'm Clare Laufenberg-Gallardo from
4 the engineering office in the siting division.
5 I'm here to present a proposal to amend an
6 existing contract that went into effect in
7 September of 2005.

8 This contract amendment is proposed to
9 update the actual tasks and a language required to
10 achieve the original goals and objectives of the
11 contract.

12 Since the contract went into effect a
13 number of regulatory and business developments
14 have occurred that no one could have anticipated.
15 These include a number of major Public Utilities
16 Commission proceedings; several Energy Commission
17 activities with direct relevancy to the issues in
18 this contract. And those were initiated after the
19 contract started.

20 San Diego Gas and Electric announced the
21 Sunrise Power Link project; IID announced its
22 coordinated green path projects; and then they
23 announced a cooperative effort.

24 Most recently the ISO has undertaken a
25 major effort to integrate planning for the

1 southern part of the ISO-controlled grid,
2 including both the Tehachapi and the Imperial
3 Valley resources, which were the main subject of a
4 contract.

5 These developments have furthered the
6 effort to bring online the generation and the
7 transmission that's necessary to achieve the goals
8 of the contract.

9 But they've also resulted in tasks that
10 were unanticipated at the time that the contract
11 was drafted and approved. And the language in
12 this proposed amendment will reflect these
13 changes.

14 The amendment will reduce the amount of
15 the contract slightly, by about \$37,000, which is
16 largely a reflection of revised travel estimates.

17 And with that, I present this proposal
18 for your consideration. Thank you.

19 CHAIRPERSON PFANNENSTIEL: Thank you.
20 Are there questions?

21 COMMISSIONER BYRON: Thank you, Ms.
22 Laufenberg.

23 CHAIRPERSON PFANNENSTIEL: Commissioner
24 Byron.

25 COMMISSIONER BYRON: Madam Chair, I

1 don't know how often funds come back to the
2 Commission, but --

3 CHAIRPERSON PFANNENSTIEL: It's rare.

4 COMMISSIONER BYRON: -- I'd like to know
5 if the Commissioner that moves this today get
6 these moneys back to their office?

7 CHAIRPERSON PFANNENSTIEL: Only
8 partially.

9 COMMISSIONER BYRON: Okay, thank you.
10 Thank you, Ms. Laufenberg.

11 MS. LAUFENBERG-GALLARDO: Thank you.

12 CHAIRPERSON PFANNENSTIEL: Is there a
13 motion?

14 COMMISSIONER BYRON: I'd like to move
15 it.

16 COMMISSIONER GEESMAN: Second.

17 CHAIRPERSON PFANNENSTIEL: In favor?

18 (Ayes.)

19 CHAIRPERSON PFANNENSTIEL: It's been
20 approved; thank you.

21 Item 7, possible approval of an OIIP to
22 gather and assess information in preparation of
23 the 2007 Integrated Energy Policy Report, and 2006
24 IEPR update, as required by Public Resources Code
25 section 25302(a) and 25302(d). Ms. White.

1 MS. WHITE: Yes, good morning, Madam
2 Chair, Commissioners. Lorraine White with the
3 Executive Office, Project Manager for the
4 Integrated Energy Policy Report.

5 This morning's item is a legal formality
6 for purposes of the 2007 IEPR proceeding. And to
7 my right is Lisa DeCarlo, the legal counsel for
8 the Committee heading up the IEPR this cycle.

9 And since it is a legal formality,
10 she'll be presenting the background on the item.

11 CHAIRPERSON PFANNENSTIEL: Thank you.
12 Ms. DeCarlo.

13 MS. DeCARLO: Thank you. Before you is
14 a proposed order instituting informational
15 proceeding for your consideration and possible
16 adoption.

17 The order establishes an informational
18 proceeding to assist the Commission in preparing
19 and collecting information for the 2006 Integrated
20 Energy Policy Report update, and the 2007 IEPR.

21 The order also delegates all necessary
22 authority to carry out this informational
23 proceeding to the IEPR Committee. Lorraine White,
24 the IEPR Project Manager and I are available to
25 answer any questions you may have.

1 CHAIRPERSON PFANNENSTIEL: Are there
2 questions of the Commissioners? Is there a
3 motion?

4 COMMISSIONER GEESMAN: So moved.

5 COMMISSIONER BOYD: Second.

6 CHAIRPERSON PFANNENSTIEL: All in favor?
7 (Ayes.)

8 CHAIRPERSON PFANNENSTIEL: The OIIP is
9 approved, thank you.

10 MS. DeCARLO: Thank you.

11 MS. WHITE: Thank you very much.

12 CHAIRPERSON PFANNENSTIEL: The next item
13 is approval of the minutes, but I understand that
14 we had not approved the minutes at the July 19th
15 business meeting, since we did not have a quorum
16 of Commissioners who were at that meeting
17 available at our last meeting.

18 So, is there a motion to approve the
19 minutes of July 19th meeting?

20 COMMISSIONER BOYD: I move approval.

21 CHAIRPERSON PFANNENSTIEL: Second?

22 COMMISSIONER BYRON: Second.

23 CHAIRPERSON PFANNENSTIEL: All in --

24 COMMISSIONER GEESMAN: I'd like to be
25 recorded as abstaining because I wasn't in

1 attendance.

2 CHAIRPERSON PFANNENSTIEL: With one
3 abstention, all in favor?

4 (Ayes.)

5 CHAIRPERSON PFANNENSTIEL: Thank you.
6 We will not take up approval of the minutes of
7 July 2nd -- I'm sorry, of August 2nd, since we
8 don't have a quorum here of Commissioners who were
9 at that meeting. We'll take that up next time.

10 Commission Committee Presentations and
11 Discussions. The Transportation Committee has
12 organized a discussion for the Commissioners of
13 the closure of the bp Alaska pipeline.
14 Commissioner Boyd, would you present.

15 COMMISSIONER BOYD: Thank you. As you
16 indicated, the Transportation Committee, in its
17 responsibilities for fuels, has been quite busy of
18 late in light of lots of activity with regard to
19 questions of price, product of supply versus
20 demand. And upon being advised of the problems
21 that bp is having with its North Slope oil
22 pipeline, and in light of the fact that a
23 significant amount of the crude oil California
24 refineries process and produce in California and
25 the west is Alaska crude, we did, as a Committee,

1 ask that staff give us some briefing and some
2 background.

3 And in addition, the Committee has
4 advised both bp and Western States Petroleum
5 Association of this discussion; invited them to
6 attend to listen to this discussion and make
7 comments on the issue if they so desire. And we
8 did receive acknowledgements from both
9 representatives of bp and WSPA that they would
10 attend. And they would be willing to make
11 comments.

12 So, after the staff presentation we can
13 hear first from bp more specifically about the
14 issues surrounding their pipeline incident, as
15 well as their views on supply. And in particular,
16 as to Western States Petroleum Association, to
17 address the supply of crude oil and finished
18 product for Californians. And the status of that
19 supply in light of this supply disruption.

20 So, with that I would turn it over to
21 Gordon, Gordon Schremp.

22 MR. SCHREMP: Thank you, Commissioner
23 Boyd. My name is Gordon Schremp; I am a senior
24 field specialist in the fossil fuels office of the
25 California Energy Commission.

1 My --

2 CHAIRPERSON PFANNENSTIEL: Gordon, I
3 might ask that you dim the lights over the slides;
4 they're a little hard to see from here.

5 MR. SCHREMP: Let's see --

6 CHAIRPERSON PFANNENSTIEL: There you go,
7 right. Thank you.

8 MR. SCHREMP: Okay, you're welcome. My
9 comments today will be somewhat brief and we'd be
10 happy to entertain any questions the Commissioners
11 and the Chair may have.

12 I'll be providing an overview of Alaska
13 and its relative importance to California
14 refineries. As well as the current situation as
15 we know it up there.

16 What the transportation and fuels office
17 has done to date is after being alerted on Sunday,
18 August 6th, of a closure of Prudhoe Bay up in
19 Alaska with the potential impact of 400,000
20 barrels a day of Alaskan production declining, the
21 Energy Commission put together a confidential
22 situation report assessing what the potential
23 impact would be on refiners; and delivered that to
24 the Governor's Office on Monday, August 7th.

25 What the Energy Commission did do is

1 assess the impacts on California refiners; and we
2 made a determination that no action was required
3 at this time. But that we'd be in monitoring mode
4 for both availability of crude oil to the
5 refiners, potential impacts on production of the
6 refineries due to reduced crude oil processing, as
7 well as potential impacts on supply due to a
8 reduction in imports receiving from Washington
9 State refineries, which, by the way, depend on
10 Alaska crude oil as a source much more heavily
11 than California refiners do.

12 And so some of the refiners may cut back
13 production up there and reduce their imports into
14 California, as well as if prices rise
15 significantly in the Pacific Northwest, cargoes of
16 gas and diesel fuel could head north from
17 California, tightening supplies in this state.

18 Recapping some of the events that some
19 of you may be quite aware of: August 4, bpXA,
20 which is bp Exploration Alaska, the arm of the
21 bpPLC, they received information from what's
22 called a smart-pig; it's a device that is pumped
23 through the pipeline, has ultrasonic measurements
24 and is able to detect pinhole leaks, pitting,
25 stress fractures, things like that.

1 The data, this operation was conducted
2 sometime in July. The data was received on Friday
3 the 4th. bp made a determination that the line
4 needed to be shut down. This is one of the main
5 transit lines, not the Alaska pipeline, itself.

6 On the 6th the quantification of how
7 much the reduction would be, about 400,000 barrels
8 a day, that's about half of all the Alaskan
9 production. So it's quite significant.

10 But good news started to appear on
11 August 9th when a determination was made in
12 consultation with the Department of Transportation
13 Office of Pipeline Safety and Alaskan officials,
14 the western area could remain open. And I'll get
15 to that on the next slide.

16 That means about 155,000 barrels a day,
17 which will eventually go up to 200,000 barrels a
18 day over the next week or so, will remain online.
19 And so the eventual impact of the shutdown is
20 about 200,000 barrels a day, or about one-quarter
21 of Alaska's total production.

22 bpXA has ordered a pipe to replace the
23 eastern area pipeline sections that had thinning
24 of the walls; it's about 16 miles of pipe. And
25 they expect the pipe to arrive in the fourth

1 quarter; and the work to be completed in the first
2 quarter of 2007.

3 This is an illustration of the greater
4 Prudhoe Bay field as well as the two sides. Back
5 in March you may recall there was an incident of a
6 release of crude oil up in Prudhoe Bay,
7 approximately 270,000 gallons. That forced a
8 temporary closure and the construction of a
9 bypass. What you see as the green line in the
10 upper left-hand corner.

11 Production was reduced temporarily by
12 about 100,000 barrels a day for five weeks until
13 that bypass was completed.

14 The more recent identification of a
15 problem, what you see on the August leak site on
16 the right, prompted the news on August 6th and the
17 report to the Governor on August 7th.

18 And once again, this is a network of
19 gathering lines and feeder lines and transit lines
20 that take everything to, in the center of that
21 screen, TAPS, or TransAlaska Pipeline System,
22 station 1.

23 This is a -- pull back a little bit and
24 you can see, outlined in red, is the extent of the
25 greater Prudhoe Bay field. It's a field operated

1 by bpXA. There is equity interest in the crude
2 oil extracted and the natural gas liquids, 36
3 percent by Exxon Mobil, 36 percent by
4 ConocoPhillips, 26 percent by bp, 1 percent by
5 Chevron and about .1 percent by Forest Oil.

6 The transAlaskan pipeline system
7 initially began operation in 1977; it's about 800
8 miles; it terminates in the Valdez Harbor, where
9 you have approximately 7 million barrels of
10 storage for crude oil.

11 This gives you an idea of how much crude
12 oil has been going through that pipeline system.
13 Currently averaging about 891,000 barrels per day.
14 It's probably down to about 850,000 barrels per
15 day prior to the reduction of supply from Prudhoe
16 Bay. The peak was a little over 2 million barrels
17 a day, and that was in 1978.

18 Looking at the production, we split up
19 the Alaskan North Slope production. It should be
20 noted that Cook Inlet does have some crude oil
21 production. It's rather modest, less than 20,000
22 barrels a day of the total of, you know, nearly
23 850,000. So that small amount of production is
24 not illustrated in this slide.

25 But as you can see over time Prudhoe Bay

1 did peak along with the entire Alaskan production
2 in I believe that was 1988. A little over 2
3 million barrels a day. And then you see that
4 we're down to now 917,000 barrels a day. A
5 commensurate decline is also occurring in
6 California oil production.

7 This looks over a shorter period of
8 time, February 1 of this year through Monday,
9 August 14th. And as you can see, the production
10 did decline in March. And I think that was the
11 initial -- if I can get this to work -- or maybe
12 not -- right here you see where there was an
13 incident of a 270,000 gallon release. A portion
14 of the pipeline, the gathering system, was closed.
15 And that's about 100,000 barrel-per-day drop in
16 supply.

17 More recently you see a rather
18 significant drop. And, no, that is not the recent
19 incident up in Alaska. This is back in July where
20 we believe that unseasonably warm weather,
21 approximately 14 degrees above average for that
22 time of year in the middle of July, forced closure
23 of portions of the fields.

24 The reason is as they extract the crude
25 oil there's water with that, there's natural gas

1 liquids in that, they have to extract those
2 liquids, segregate them, and then reinject them in
3 the crude oil. That fractionation process does
4 not work well when you don't have a significant
5 enough temperature difference. So that's our
6 understanding, and maybe the bp people or some
7 other industry people can shed additional light on
8 that, but we believe that's why there was actually
9 a significant drop back in the middle of July.

10 Now, more recently you see after the
11 announcement there is a drop of crude oil
12 production here. That's after the eastern side of
13 the field began to be shut down, approximately
14 200,000 barrels a day.

15 This, once again, looks through the time
16 period, and this is 2006. I apologize, the dates
17 seem to be cut off at the bottom, but this is the
18 same time period. Just trying to illustrate once
19 again this big drop that we believe was weather-
20 related, and not operational purposes because of a
21 pipeline going down for inspection or for a leak.

22 Once again, just looking at the data
23 over an even shorter period of time, July 1, and
24 once again, weather-related; and then up here
25 you're seeing the impact of shutting down the

1 eastern side of the Prudhoe fields.

2 Now, what did this do to the supply of
3 Alaska crude oil? Obviously there's been a
4 reduction on the North Slope and the Alaska
5 pipeline is running at reduced rates. But right
6 after the announcement you see that there was a \$2
7 increase in the price of Alaskan North Slope crude
8 oil. But we believe that the announcement that
9 the strategic petroleum reserve in U.S. gulf coast
10 being available for people to make loans from, as
11 was the case during Katrina and Rita, did help
12 calm the markets as an alternative source of crude
13 oil.

14 The refiners, of course, had been
15 scrambling since August 6 and 7 to identify
16 alternative sources. And they'd become quite
17 successful at doing that.

18 California. We used to depend on Alaska
19 for a greater percentage of crude oil than we do
20 now. Last year we averaged about 20 percent of
21 the crude oil being processed at refineries was
22 from Alaska. In June it's about 16 percent. So,
23 that does continue to climb, along with California
24 sources of production. And what will be made up
25 by those two shortfalls or declines will be

1 increases in foreign crude oil.

2 Now, this is my final slide. Sort of
3 where are we at now. We didn't see any immediate
4 impacts based on the reduction of North Slope
5 production. Refiners normally carry seven to ten
6 days worth of supply, but that's for all crude oil
7 from all sources. And there's also crude oil in
8 transit in vessels carrying 1 or 2 million barrels
9 in most cases. So there's a lot of inventory, if
10 you will, on the water.

11 And then we see that refiners should,
12 with that high inventory, in conjunction with a
13 small, relatively small percentage from Alaska,
14 they're able to operate for several weeks without
15 any problems. And I guess what they have to do is
16 bridge the gap between this reduction in supply
17 that will be temporary until they can make
18 alternative plans.

19 The alternative plan portion does take
20 several weeks, if not a couple of months, to
21 identify vessels, sources, line up contracts and
22 start the transit across from the Persian Gulf,
23 which can take up to 19 to 21 days just to make
24 the crossing.

25 So, we believe, in talking with the

1 refiners that do use Alaskan North Slope crude
2 oil, about five refiners in California, that they
3 have been making alternative plans. And they
4 believe that they'll be able to bridge that gap
5 successfully without reducing operations in
6 California refineries. So we believe that's good
7 news.

8 We don't have the ability to collect
9 information from the Washington State refineries.
10 As I mentioned earlier, they have a much larger
11 percentage of their crude oil source from Alaska,
12 about 70 percent. So the impact, we think, is
13 going to be greater on those facilities.

14 But so far so good. And I think the
15 best news of all is that 400,000 barrels a day
16 will not be offline, it will only be 200,000
17 barrels a day. So, that's the really good news.
18 And I'd be happy to answer any questions you may
19 have at this time.

20 COMMISSIONER BOYD: Question. Gordon,
21 I'm going to ask you a question that you probably,
22 or you may not have the answer to. But you do
23 seem to know everything about this arena, so.

24 But, I want the question out there for
25 any succeeding folks who may be testifying. And

1 that is, is there any priority call on the let's
2 say limited amount of North Slope crude that is
3 being still transshipped, let's say?

4 Do you have any idea how much of the
5 reduced amount California will get? Is it going
6 to be just kind of a proportional reduction in
7 everybody's take? Do the Washington State
8 refineries have a little more call on this? Are
9 there obligations that some of the providers up
10 there have to other sources?

11 Do we know any of this, or will I have
12 to ask bp and/or WSPA to shed light on that for us
13 if they can?

14 MR. SCHREMP: Commissioner Boyd, we
15 don't know the contractual details with each of
16 the refiners. What we do know from the California
17 facilities is that they have made alternative
18 arrangements. And that some of that may have to
19 do with what the nature of those contracts are.

20 With regard to the crude oil producers,
21 or the equity interest holders up there, Exxon
22 Mobil and ConocoPhillips have announced force
23 majeure positions on their crude oil, meaning they
24 will not be able to meet all of their standing
25 contractual obligations to supply crude oil.

1 So how those are prorated, we are not
2 aware of those contractual details, nor the
3 impacts of the force majeure declarations.

4 COMMISSIONER BOYD: Okay, thank you.
5 Perhaps other can shed some additional light on
6 that.

7 COMMISSIONER GEESMAN: Could you
8 describe the role of the strategic petroleum
9 reserve in this situation and what the procedures
10 are for accessing those resources?

11 MR. SCHREMP: From what we know of the
12 strategic petroleum reserve, we learned a lot last
13 year in the aftermath of hurricanes Katrina and
14 Rita.

15 The strategic petroleum reserve was made
16 available in two manners to refiners. One was an
17 actual purchase of crude oil from the SPR, a
18 direct purchase with payment. Another was a loan
19 in time, where you could borrow crude today and
20 pay it back at a later time.

21 And those arrangements were conducted, I
22 believe, through the Department of Energy. And so
23 that is an instance where the SPR was used in a
24 situation where supply of crude oil was curtailed
25 temporarily due to the impacts i the Gulf Coast

1 producing area to local refiners.

2 So, it was used as a safety valve, if
3 you will, for additional supply. Not as a tool to
4 try to moderate escalating world crude oil prices.

5 In this instance it appears as though
6 from comments by Secretary Bonderman of the
7 Department of Energy that the Department of Energy
8 was once again willing to offer crude oil
9 available from that SPR on a loan basis. No
10 details given, and no formal announcements, if you
11 will.

12 And at this point we are not aware of
13 any company who may have contacted the Department
14 of Energy and said, yes, we'd like to do a deal.

15 COMMISSIONER GEESMAN: So that's a
16 question then that ultimately each refiner has to
17 address? It's not a function of the Governor of
18 California asking for a release from the reserve,
19 or any sort of governmental process? Is that
20 accurate?

21 MR. SCHREMP: That's an accurate
22 characterization, Commissioner Geesman. Now there
23 is one other factor. The strategic petroleum
24 reserve is in the U.S. gulf coast. You would have
25 to obtain vessels that would be able to fit

1 through the Panama Canal; they're called Panamax
2 vessels. They're not as large as the crude oil
3 vessels coming from foreign countries into
4 California ports.

5 There is a limited supply of these types
6 of vessels. Not because of the size, but because
7 of the ownership. If you move commodities from
8 one U.S. port to another, you must use a Jones Act
9 vessel. This is a 1938 legal requirement. And it
10 is a U.S.-built, U.S.-flag, U.S.-manned vessel.
11 Those vessels are hard to come by.

12 So, one, a request that has been, I
13 think, discussed openly in the press is a
14 temporary waiver of the Jones Act requirement.
15 That would allow greater flexibility for companies
16 to seek a foreign-flag vessel that would meet that
17 size requirement, to be able to take advantage of
18 the loan from the SPR.

19 But, once again, we do not know if the
20 Jones Act has been temporarily waived. We have
21 not seen any announcements to that effect. And
22 the most recent waiver of the Jones Act was
23 conducted through the Department of Homeland
24 Security, Secretary Chertoff. So that was the
25 most recent waiver back in June.

1 CHAIRPERSON PFANNENSTIEL: So my
2 question was going to be who in the federal
3 government has the authority to waive that? The
4 Homeland Security Department?

5 MR. SCHREMP: That's correct, Chairman
6 Pfannenstiel. We believe the most recent waiver
7 back in June was for the movement of a deep-sea
8 drilling rig; and the waiver request was for a
9 foreign-flag vessel to move that size rig. And
10 Secretary Chertoff issued that letter.

11 COMMISSIONER GEESMAN: Well, when I was
12 on the Transportation Fuels Committee several
13 years ago I recall having a workshop where Phil
14 Verleger went on at some length as to how poorly
15 suited the strategic petroleum reserve was to meet
16 west coast needs.

17 I think that was when we were taking up
18 the question of a strategic gasoline reserve --

19 COMMISSIONER BOYD: Right, --

20 COMMISSIONER GEESMAN: -- by state
21 government --

22 COMMISSIONER BOYD: -- I'm having the
23 same thoughts right now.

24 COMMISSIONER GEESMAN: The gasoline
25 reserve, I think, was a uniquely bad idea, but it

1 strikes me that Californians have been paying for
2 the strategic petroleum reserve since it was first
3 set up. And we now have a situation where it
4 would appear by all accounts we're facing a
5 200,000 barrel-a-day shortfall for what sounds
6 like four or five or six months.

7 And yet we can't really make a claim on
8 our insurance policy because it doesn't quite work
9 right. And I know Mr. Sparano is get up here a
10 little bit later and crow about the report that
11 you put out, and I guess we all put it out,
12 yesterday saying that for the 57th time that
13 investigation has been conducted and found
14 nobody's hand in the till.

15 And I salute you, Joe. That's terrific.
16 But I think that, you know, in public life the
17 scandal is never what's illegal. It's what's
18 legal. In circumstances that we find ourselves
19 in, the California motorist is expected to just
20 sit back and take it. And I think there's
21 something wrong with that. And I think that it's
22 state government's responsibility to try and do
23 something about it. And you're, I think, telling
24 us here that not anything we can do. Just sit
25 back and enjoy.

1 COMMISSIONER BOYD: Well, Commissioner
2 Geesman, you and I were thinking along the same
3 lines, at least as it relates to the strategic
4 reserve. I, too, was going to ask, or remind
5 Gordon that we heard lots of testimony during the
6 time you and I, as a Committee, were hearing the
7 strategic finished fuels reserve issue.

8 And, yes, Mr. Verleger, I was reminded
9 of that, did suggest that a strategic crude oil
10 reserve might be better suited for a more west
11 coast location. And I've been thinking about that
12 the last few days and appreciate you bringing it
13 up.

14 And I'm going to leave with Gordon the
15 kind of question you raised, that mightn't we
16 reconsider doing something with that question now
17 that we have quite a bit of experience since we
18 last had held those hearings with regard to the
19 volatility of crude oil supply and the difficulty
20 we had during situations like this, whether
21 California should, perhaps, reconsider the idea of
22 asking the federal government to create a
23 strategic petroleum reserve. We had one once; it
24 was called Elk Hills. We turned it over to
25 commercial production.

1 COMMISSIONER GEESMAN: They sold it.

2 COMMISSIONER BOYD: Yeah. And one
3 wonders if that was the wisest thing in the world.

4 But I think that's a question probably
5 deserving reconsideration by this Commission in
6 light of the tightness of the world crude oil
7 supply, and the instant volatility associated with
8 upset breakdown in the crude oil production and
9 distribution systems.

10 But, in any event, I think that is one
11 issue I take from the discussion we're having
12 today, that maybe we should resurrect.

13 CHAIRPERSON PFANNENSTIEL: I have a
14 question on the prices, though. Looking at your
15 graphic of the prices immediately after this bp
16 announcement you do see a spike up, and I think we
17 all sat that day watching our computer screens and
18 watching the prices go up. And then the
19 announcement from Secretary Vodman, and the prices
20 started down again.

21 But given the discussion we've just been
22 having about the difficulty of accessing the SPR
23 from the west coast, it seems rather incongruous
24 that just the existence of the SPR brought the
25 prices back down again. Is that really what's

1 going on, is that suddenly once everybody realized
2 well, gee, there's an SPR we can borrow from, it
3 won't tighten up our gasoline prices ultimately in
4 California. Then the crude prices dropped down?

5 MR. SCHREMP: Well, one of the things
6 that, or one of the approaches that could be taken
7 with utilizing an SPR loan is that a refiner who's
8 bringing crude oil say to the U.S. gulf coast, in
9 a vessel that's a Panamax size, may pull from the
10 SPR, divert that vessel through the Panama Canal
11 up to the west coast.

12 So that's a diversion strategy that
13 wouldn't require a waiver of the Jones Act. But
14 the refiner would have to have access to the SPR
15 through a network of pipelines vis-a-vis what
16 happened last year following Katrina and Rita.

17 So that's a technique that somebody
18 could use to make it a more effective option. But
19 other than that, right, it's not as effective
20 being on the other side of the Panama Canal and
21 having to use a Jones Act vessel unless you had a
22 waiver. Yes, it's not very --

23 CHAIRPERSON PFANNENSTIEL: But it does
24 seem to have an affect on prices. And that's --

25 MR. SCHREMP: Yes, it does.

1 CHAIRPERSON PFANNENSTIEL: -- what I'm
2 trying to --

3 COMMISSIONER GEESMAN: Well, you also
4 had movement toward a cease-fire in the Middle
5 East during that period of time which I would
6 suggest probably had a larger impact on prices
7 than any other factor.

8 CHAIRPERSON PFANNENSTIEL: Than the SPR?

9 COMMISSIONER BOYD: The things that I've
10 observed the years I've been here is to watch the
11 oil commodities market become just a market, like
12 the stockmarket and what-have-you. And be
13 incredibly influenced by the emotions of any given
14 day.

15 And in the past we have encouraged the
16 Governor to, and we have suggested a release from
17 the SPR just because of the psychic value of
18 having done so, and the apparent effect it has on
19 the market, even as Gordon points out, it would
20 take a long time for that oil to get here. This
21 is the way you can almost separate the market from
22 rationality sometimes these days.

23 But, based on the discussions we're just
24 having with regard to both, maybe we should
25 rekindle the idea of the west coast-based

1 strategic petroleum reserve, i.e., closer to the
2 refining center.

3 Gordon just reminded me in his
4 discussion of what can happen, suggest that
5 perhaps we engage the various federal agencies in
6 a discussion of both the SPR and other immediate
7 actions that they can authorize that might result
8 in at least the SPR, as we know it today, handling
9 some of the gulf's need. And if there are tankers
10 on the high seas that could be directed toward the
11 west coast, maybe some action could be taken to
12 facilitate that in the near term while we have
13 what would obviously be long, drawn-out discussion
14 about whether or not there should be an SPR out
15 here.

16 But price and reality have really
17 decoupled so much in the last few years. And the
18 oil market is driven by emotion more than it is
19 the real hard facts of supply versus demand.

20 COMMISSIONER GEESMAN: Well, I think
21 that you might also find some interest by those
22 similarly situated in the Governor's Offices of
23 Washington State, Oregon, Nevada and Arizona.

24 COMMISSIONER BOYD: Yes.

25 COMMISSIONER GEESMAN: All of which are

1 isolated from any benefit from the strategic
2 petroleum reserve. And all of which, I think,
3 would be directly impacted by a 200,000 barrel-
4 per-day shortfall.

5 COMMISSIONER BOYD: Yes, it is a western
6 regional issue because the refineries are all
7 western regional refineries, not California's
8 refineries and the Washington refineries.

9 As learned in the report that was issued
10 yesterday and all previous reports, we give and we
11 take back and forth throughout this region.

12 Anyway, thank you, Gordon.

13 I think Mr. Pete Montgomery of bp is
14 present and it might be good to hear from bp; and
15 then maybe a broader view from WSPA.

16 MR. MONTGOMERY: Thank you. Gordon
17 stole a great deal of the information I was going
18 to provide. And since he got that from our
19 publicly available peer website, I can see he's a
20 good researcher, as well.

21 My name is Pete Montgomery. I'm the
22 Director of California Government Relations for
23 bp. And thanks for the opportunity to discuss the
24 Prudhoe Bay operations and west coast supply
25 issues.

1 I'll describe the aggressive efforts
2 underway to bring the entire Prudhoe Bay oilfield
3 back into full production, and we'll discuss our
4 monitoring program we have instituted on the
5 western operating area transit lines to insure
6 safe production operations.

7 You're all aware bpAmerica made a
8 decision on Sunday, August 6th, to commence
9 orderly shutdown of the Prudhoe Bay oilfield. It
10 was the right decision based on the information we
11 had.

12 What we found during recent inspections
13 of the eastern transit pipeline was both
14 unexpected and of great concern to our corrosion
15 experts. In a transit pipeline which it operated
16 for almost 29 years without a spill, we discovered
17 areas of severe internal corrosion. We're seeking
18 to understand exactly what caused the pitting of
19 the line. And we won't know exactly what they are
20 until they're subject to laboratory tests.

21 And so not knowing exactly what we were
22 up against the only responsible option available
23 to us was to protect the environment from
24 potential spills by shutting down the field in an
25 orderly fashion.

1 bp continues business resumption
2 activities focused on returning the greater
3 Prudhoe Bay field back to safe and reliable
4 operations.

5 As Gordon mentioned, on Friday, August
6 11th, bp took the decision to continue production
7 from the Prudhoe Bay western operating area
8 following review of new inspection data of
9 pipelines in this area and after extensive
10 consultations with state and federal regulators.

11 Current production is about 150,000
12 barrels of oil and natural gas liquids per day.
13 That production will increase to about 200,000
14 barrels per day as gathering center 1 ramps up to
15 full production after completion of a planned
16 maintenance shutdown.

17 bp has now completed 3700 ultrasonic
18 inspections in the western operating area since
19 March. And we will continue around-the-clock
20 visual and infrared surveillance of the line to
21 insure continued safe operations.

22 The company will evaluate test results
23 on a daily basis to determine if repairs are
24 required, or if continued operation of the line is
25 appropriate. We plan to run maintenance and

1 smart-pigs through the pipeline before the end of
2 November after installing a pig-launcher at
3 gathering center 1.

4 bp has completed its orders for 16 miles
5 of pipeline to replace existing transit lines at
6 Prudhoe Bay. The pipe will be supplied by U.S.
7 mills with anticipated delivery in the fourth
8 quarter of 2006. And we'll complete the
9 installation of 16 miles of new oil transit line
10 at Prudhoe Bay by early next year.

11 The company continues to evaluate
12 interim options for restoring production from the
13 eastern side of the field subject to the approval
14 of the U.S. Department of Transportation, Pipeline
15 and Hazardous Materials Safety Administration.

16 bp's west coast refining and marketing
17 system remains adequately supplied, and no
18 disruptions of crude or fuel supplies are expected
19 at this time.

20 bp, to date, has purchased more than 4.5
21 million barrels of crude on the global market to
22 help cover the shortfall at Prudhoe Bay.
23 Additional crude oil and refined product will be
24 acquired as necessary.

25 Thank you, all. Happy to answer any

1 questions that I can. Information that I'm not
2 able to answer today, either because it's of a
3 market-sensitive nature, I'll be happy to follow
4 up in private meetings. Or if it's information
5 which I don't have onhand, I'll provide to the
6 Commissioners at a later date.

7 COMMISSIONER GEESMAN: I wonder if you
8 could cast any light on Gordon's comment about the
9 decline in production, fairly abrupt decline in
10 the third week of July that he attributed to
11 temperature issues? And based on one of his
12 charts it looked like it was a phenomenon that
13 occurred both at Prudhoe Bay, as well as the rest
14 of the North Slope production.

15 MR. MONTGOMERY: I made a note to look
16 into that and follow up. I wasn't aware of any
17 issue which affected west coast supply, so nothing
18 came onto my radar screen. But I will follow up
19 with our operations folk in Alaska and see what
20 they know. Sounds like a reasonable solution,
21 given that it covered multiple fields and multiple
22 points of production.

23 COMMISSIONER GEESMAN: When you do, if
24 you could also inquire as to how common an
25 occurrence that is, it would be helpful.

1 MR. MONTGOMERY: Okay, will do.

2 CHAIRPERSON PFANNENSTIEL: You heard the
3 discussion that we had about the strategic
4 petroleum reserve. Do you know whether bp has
5 requested any loan from the SPR?

6 MR. MONTGOMERY: No, we have not. We
7 were in consultation with the Department of Energy
8 immediately after making the decision. And in
9 looking at both crude and finished product
10 inventories in the west, which Gordon probably has
11 much more information than I do, prior to the
12 incident; and also crude supplies available on the
13 world market which could work with any of the
14 refining kits, we didn't feel that a 200,000-
15 barrel-a-day production decrease warranted pulling
16 from the strategic petroleum reserve, given the
17 difficulties with bringing that supply to the west
18 anyway. That there were better options.

19 COMMISSIONER BOYD: Pete, you indicated
20 bp has made fairly substantial purchases to
21 compensate for what has occurred up there. Are
22 these purchases of oil to be utilized just by bp
23 in its contractual responsibilities to its own
24 system and its own branded dealers? Or is this
25 oil possibly available for others?

1 Since you're running a system that
2 really provides oil to a lot of people, and as
3 Gordon already indicated, others are short. Is
4 everybody just covering their own shortfall, or
5 did you just buy a big chunk of the market that
6 you will be making available to others?

7 MR. MONTGOMERY: I'd have to get back to
8 you with the specifics, but it's my understanding
9 that we're purchasing crude on the world market to
10 meet our obligations, both for our refineries and
11 other contractual obligations we have.

12 And just for point of information, most
13 of that is West African crude; and it's on its
14 way, arriving in mid to late September, to early
15 October. As most of you know, West African crude
16 is of similar quality as Alaskan North Slope
17 crude, and so can run in our refineries.

18 COMMISSIONER BOYD: Will that crude come
19 here, or will you swap it out with crude in other
20 parts of the country?

21 MR. MONTGOMERY: That crude is destined
22 for the west coast. What part goes to Washington
23 or California I can't say.

24 CHAIRPERSON PFANNENSTIEL: Commissioner
25 Byron, you had a question?

1 COMMISSIONER BYRON: Yes, thank you.
2 Mr. Montgomery, having done a lot of failure
3 analysis work in another life; in fact, even
4 having done some fatigue analysis on the Alaska
5 pipeline many years ago, I'm interested in the
6 potential extent of the problem here.

7 Understanding the root cause; how
8 extensive or widespread it might be throughout the
9 field; and whether or not the schedule for repair
10 is realistic. Is there anything that you can
11 comment with regard -- everybody wants to know the
12 answer before you've done the inspection work and
13 the analysis, I realize. But is the first quarter
14 for completion of the repair realistic?

15 MR. MONTGOMERY: As a point of
16 clarification, it's not repair, it's replacement.

17 COMMISSIONER BYRON: Replacement, I'm
18 sorry.

19 MR. MONTGOMERY: They're replacing 16
20 miles. So, they seem to think that that is
21 expected time for completion.

22 We have the best minds on it; we've sent
23 engineers from all over the world to Alaska to get
24 this done as quickly as possible.

25 COMMISSIONER BYRON: I was trying to do

1 the math. Is that the entire, both western and
2 eastern sides of the collection field?

3 MR. MONTGOMERY: No, it's not. There's
4 22 miles of transit lines and we're replacing 16.

5 COMMISSIONER BOYD: Twenty-two miles in
6 the eastern complex or the entire --

7 MR. MONTGOMERY: No, total, west and
8 east.

9 COMMISSIONER BOYD: West and east.

10 MR. MONTGOMERY: I think the mileage was
11 on the chart that Gordon had, the miles per each
12 transit line; approximately 22 miles. So six have
13 been tested and meet our standards for integrity.

14 COMMISSIONER BOYD: I see you're
15 correct, thank you.

16 COMMISSIONER BYRON: Thank you.

17 CHAIRPERSON PFANNENSTIEL: Other
18 questions for Mr. Montgomery? Thank you.

19 COMMISSIONER BOYD: Thank you very much,
20 Pete.

21 MR. MONTGOMERY: You're welcome.

22 COMMISSIONER BOYD: I guess Mr. Sparano
23 of WSPA can help us understand the supply versus
24 demand dilemma.

25 MR. SPARANO: Good morning,

1 Commissioners. As always, happy to be here. I
2 thank you for giving me this opportunity to
3 address the Commission.

4 For the record my name is Joe Sparano;
5 I'm President of the Western States Petroleum
6 Association. WSPA represents petroleum and
7 natural gas companies in California and five other
8 western states. However, we do not represent the
9 industry in Alaska. Alaska has its own trade
10 association, just to be specific.

11 In the two days following bp's
12 announcement on August 6th, WSPA responded to
13 about three dozen media inquiries. Some from as
14 far away as London, which probably has a
15 connection. And others, as unique to just our
16 town here. But we fielded those questions, dealt
17 with the inquires; and most of them were about
18 expectations for market interruption and any
19 impacts from a market interruption.

20 We also, in addition to responding to
21 those inquiries, we issued a statement. And in
22 that statement created and provided links to both
23 the Energy Commission and the Energy Information
24 Administration websites. And I think some of the
25 folks we dealt with found that very helpful. You

1 folks had information. The EIA keeps a good
2 supply of information.

3 One of our major objectives in our early
4 response when something like this, and I'll get to
5 the objective in a moment, when asked what's going
6 to happen. Number one, it's too early to tell.

7 And as events unfold we suggest that the
8 consumer should buy smart and drive smart and
9 avoid topping off their tanks. And the message
10 there was don't panic. We've seen the results of
11 panic, particularly in Arizona three years ago
12 when they had a line break. And it's not a pretty
13 picture. So one of our objectives was to try to
14 insure that we did not contribute to the creation
15 of that type of problem.

16 We also spoke to the media and tried to
17 assure them that the people in this industry have,
18 for years, periodically been confronted with
19 situations where supply of crude oil products has
20 diminished for a period of time and they're quite
21 adroit at going out and getting new supplies. And
22 I think Pete's comments referred to that in terms
23 of what bp has done, specifically.

24 And finally, we tried to assure folks
25 that it was our understanding companies would

1 continue to go out and get supplies and insure
2 that they would be able to continue operating
3 their refineries. Because at that point it was
4 the 7th and 8th and nobody had a very good idea of
5 what was likely to happen. And we certainly did
6 not have the better news that Gordon Schremp
7 showed from the 9th and 11th.

8 A week and a half later, as we look at
9 the situation, all the indications we have as a
10 trade association, are that the market appears to
11 be responding to the situation in a fairly calm
12 manner.

13 Factors that we think contributed to
14 that include the announcement by the Department of
15 Energy that the strategic petroleum reserve
16 supplies would be made available upon request.
17 And also Governor Schwarzenegger's request that
18 both the federal and state governments move
19 promptly to monitor and mitigate any sort of
20 adverse impacts from the disruption.

21 An observation, and that is this
22 disruption, once again, highlights our very tight
23 supply/demand balance in California. And as your
24 agency has -- your Commission has noted on
25 numerous occasions, our increasing demand for

1 transportation fuels, constraints on refinery
2 capacity increases, constraints on marine
3 movements through our ports, and distribution and
4 storage systems, and the relative isolation we
5 have, that terrific chart that you all put
6 together in the fuel island showing, as
7 Commissioner Boyd mentioned, the relationship to
8 an entire west coast, rather than just California
9 regional operation, it seems that once again we've
10 been reminded that there are things we need to do
11 together to try and improve that supply/demand
12 balance.

13 The fact that we haven't seen, so far, a
14 particularly strong market reaction to the
15 pipeline news gives us some hope that the market
16 will absorb and adjust to this disruption without
17 major adverse impacts to consumers.

18 Commissioner Geesman mentioned what I
19 think, and our industry believes, is an important
20 factor in the rural view of crude oil availability
21 and pricing, and that is the statement that a
22 cease-fire was imminent, and then cease-fire
23 agreement since then, the price of oil is down
24 about \$4 from where it rose immediately following
25 the announcement of the expectation of lower ANS

1 supplies from Prudhoe Bay.

2 We don't know what's going to happen
3 going forward. No one does. I think you've heard
4 some good information today, both from your own
5 staff and from bp, that people in our industry are
6 actively out covering barrels and insuring that
7 there is an adequate supply of crude to turn into
8 the products that we need everyday.

9 I guess on the good news side this is
10 the end of August, and historically speaking,
11 demand for gasoline in particular tends to begin
12 slowing down, although the last numbers I saw were
13 something in the range of 9.5 million barrels a
14 day nationwide. And that's not slow.

15 But, hopefully the market will continue
16 to be allowed, by government, to do what it's
17 supposed to do, being the feature that
18 equilibrates between supply and demand, and
19 typically price is what does that. And I think
20 we've seen, thus far, a pretty good reaction by
21 the market and pretty restrained hand by all
22 parties to insure that the conditions that we're
23 facing are dealt with.

24 I would be happy to answer questions
25 about SPR, about movements of crude or any other

1 questions you have. That's the end of the
2 prepared remarks.

3 COMMISSIONER BOYD: Thank you, Joe. The
4 question that Commissioner Geesman put on the
5 table and I was flirting with, as well, about the
6 strategic oil reserve, do you have any views on
7 whether or not we'd be better off, as a western
8 region if not as a state, if there were, indeed, a
9 strategic oil reserve a little closer to the
10 refining centers we have here, in light of today's
11 world? I know it was a different world when the
12 decision was made to disband the Navy's strategic
13 oil reserve at Elk Hills, since we didn't have an
14 oil-burning Navy anymore. But it's a different
15 world now, and I'm just wondering if your industry
16 has thought about it.

17 MR. SPARANO: I'm not aware of any
18 industry-wide thinking. I have observations,
19 because I, too, remember, as Commissioner Geesman
20 recalled, that we had a pretty spirited debate on
21 the value or not of a product strategic reserve,
22 and I think Commissioner Geesman described it this
23 morning as a uniquely bad idea.

24 One of the things that we should
25 remember is that the strategic petroleum reserve

1 for crude, the federal reserve, was set up to
2 insure that hostilities, world events, whatever
3 the situation might be, America would not get
4 caught short as we were in the '70s, and not have
5 a ready replacement source for crude supplies.
6 And always has been dealt with, except for one or
7 two occasions that I can remember, as a national
8 security device.

9 And for the same reasons that the
10 gasoline reserve was described as a uniquely bad
11 idea, the world has a pretty tight supply/demand
12 balance for crude. Some of the nations with more
13 than a billion people, China and India, continue
14 to draw on that supply.

15 And in order to create a reserve
16 anywhere, whether it's in California, the west
17 coast, up on the east coast, you'll take supplies
18 that are ready for market and stuff them away
19 somewhere and they won't be available.

20 I think we already have 700 million
21 barrels that answer that description sitting in
22 the salt domes in Louisiana and Texas. The issue,
23 from my perspective, is more planning, readiness,
24 flexibility to use ships of adequate size and
25 insuring that the Canal is passable so that the

1 reserve, where we have it, can do what it is
2 supposed to do for us when it is needed for
3 national security.

4 And I think that this last few weeks
5 reflects the restraint that's been shown, so that
6 it isn't just used as a market mover. That we
7 have a worldwide market that does that.

8 COMMISSIONER BOYD: One last question
9 from me, notwithstanding the fact that the Canal
10 could be made inoperable.

11 MR. SPARANO: Um-hum.

12 COMMISSIONER BOYD: Your organization's
13 knowledge of your other members besides bp, with
14 respect to buying and finding additional supplies
15 of oil, you said the market is working and so on
16 and so forth. I want to infer from that, but I'd
17 rather you say it, that to your knowledge the
18 other companies have gone out into the market and
19 have bought adequate replacement oil for that
20 which they would have gotten from the North Slope.

21 MR. SPARANO: All that I know, all that
22 I can know and should know is what I read or what
23 is reported by the individual companies. Some of
24 that is extremely competitively sensitive where a
25 company sits in terms of its crude supply; whether

1 or not it's out buying all those things are piece
2 of knowledge that can move markets.

3 So the only other one I've seen is a
4 published report that one of our companies went
5 out and secured enough crude for its California
6 and Washington operations for the next four to six
7 weeks.

8 But I have no other knowledge of what
9 our companies are doing. Just the knowledge and
10 confidence that for many years the members of this
11 industry have shown a remarkable resilience when
12 it comes to being creative to move supply where
13 it's needed, so that customers get what they need
14 every day.

15 COMMISSIONER BOYD: Thank you.

16 CHAIRPERSON PFANNENSTIEL: Other
17 questions? Commissioner Geesman.

18 COMMISSIONER GEESMAN: Just an
19 observation, and this won't come as a surprise to
20 you, Joe, we've talked about it before. I do
21 think that 25 years of misguided national policy,
22 combined with industry intransigence on efficiency
23 and alternatives to petroleum have created a
24 political gridlock where it's impossible to move
25 forward on the necessary infrastructure

1 improvements and permitting improvements that you
2 continuously request of us and of the Legislature.

3 And I think if we're going to make any
4 progress in avoiding the kinds of situations we
5 find ourselves in today, we need to make
6 simultaneous progress on all three fronts.

7 I know some of your members share that
8 view.

9 MR. SPARANO: Well, the fact of the
10 matter is many of our members are well-invested in
11 what the Commission, itself, has described as
12 alternative and renewable fuels, your definition.
13 And it isn't just in the research area or even
14 research and development; some of it is in
15 deployment.

16 That balance, you know our position
17 well, but I'll restate it just because I think
18 it's appropriate to make sure that we're clear on
19 it, is that our industry strongly supports the
20 continued and even growing use of the clean
21 petroleum products that we make every day. You
22 can't buy a gallon of fuel in California that
23 doesn't meet the state specs, and they're the
24 cleanest in the world, both gasoline and diesel,
25 to the best of my knowledge.

1 We also encourage that that supply be
2 augmented by any and all alternative renewable
3 fuels, as you all have defined them, that meet
4 several tests. And they're not complicated, but
5 they have complications within them. And that is
6 that those fuels need to be scientifically sound
7 and technically feasible and economically
8 attractive; cost effective is another way to
9 describe it.

10 And as you know, we don't subscribe to
11 using mandates or subsidies to get there. And
12 allowing the market to work with appropriate
13 encouragement, as, Commissioner Geesman, you and
14 Commissioner Boyd have personally tried to
15 encourage our lawmakers to do something on the
16 permitting front. And I think the first time we
17 had that conversation collectively was three years
18 ago, three years and probably four or five months,
19 April '03.

20 And so far that political gridlock you
21 described, I think, has been the biggest factor in
22 preventing that.

23 But you also have observed, I think
24 quite accurately, in your 2005 IEPR that there's
25 another element of state infrastructure that needs

1 work, and that's the marine infrastructure, the
2 ports. And we have the same kind of challenge
3 ahead of us. And once again, we're most willing
4 to work with the Commission to try to make
5 something good happen there.

6 But characterizing our industry as
7 intransigent, I think that was the word you used,
8 in trying to come up with some additional
9 alternative renewable fuels, probably is not
10 accurate when it comes to the facts of investment
11 that's been made. And it's very difficult still
12 to convince communities that there should be new
13 facilities or even expanded facilities in their
14 neighborhoods. And that's a big part of the
15 permitting challenge.

16 CHAIRPERSON PFANNENSTIEL: Other
17 questions?

18 COMMISSIONER BOYD: None for me, thank
19 you, Joe.

20 MR. SPARANO: Yeah, thank you for --

21 CHAIRPERSON PFANNENSTIEL: Thank you.

22 MR. SPARANO: Thank you.

23 CHAIRPERSON PFANNENSTIEL: Thank you.

24 Are there any other Committee reports,
25 presentations, discussions?

1 Moving on to the Chief Counsel's report.

2 Mr. Chamberlain.

3 MR. CHAMBERLAIN: Yes, Madam Chairman.

4 We need -- Jonathan Blee and I need a brief
5 closed session with the Commission which I hope
6 will complete the litigation involving the trade
7 associations of the appliance industry. And
8 that's really the only thing that I have to report
9 today.

10 CHAIRPERSON PFANNENSTIEL: So that will
11 convene immediately following the public session.

12 MR. CHAMBERLAIN: Yes.

13 CHAIRPERSON PFANNENSTIEL: Thank you.
14 Executive Director's report. Mr. Blevins, welcome
15 back.

16 EXECUTIVE DIRECTOR BLEVINS: Thank you,
17 Chairman Pfannenstiel. I have no report. I was
18 going to make just one observation based on
19 Gordon's presentation. I think everyone knows
20 that I missed the heat storm.

21 And the thing that I picked up on
22 Gordon's presentation on the chart was that that
23 temperature spike occurred at the same time the
24 heat storm occurred here in the western part of
25 the U.S. And I just found it fairly interesting,

1 if that alignment really exists, that's a fairly
2 remarkable climatological event if you have those
3 temperature spikes occurring from north of the
4 Arctic Circle all the way down the west coast,
5 then I know people are peeling, you know, peeling
6 that onion, climatologically speaking, to
7 determine what went on.

8 But that's, in Gordon's presentation
9 that's the thing that sort of caught me off guard,
10 was the breadth of that temperature variation in
11 that short a period of time.

12 That was it.

13 CHAIRPERSON PFANNENSTIEL: Interesting
14 observation. Let me -- oh, Commissioner Geesman,
15 sure.

16 COMMISSIONER GEESMAN: I have a question
17 for Mr. Blevins. Bring you to a little more
18 mundane subject than climatological --

19 EXECUTIVE DIRECTOR BLEVINS: Climate,
20 yeah.

21 COMMISSIONER GEESMAN: -- questions. We
22 have engaged in a variety of collaborations, as a
23 staff, with the PUC on particular topic areas.
24 And recently those have come to be memorialized in
25 administrative law judge rulings prescribing the

1 form of those collaborations.

2 The most recent is being contemplated
3 today where the ALJ and the RPS proceeding has
4 asked for comments from us by 3:00 this afternoon.

5 Each of these rulings has been a little
6 different from the others. And the origin of this
7 approach was the original RPS collaboration
8 entered into in 2003, early 2003. And that came
9 at the behest of Commissioner Loretta Lynch, who
10 observed that the RPS proceeding was really part
11 of a larger procurement proceeding. The Energy
12 Commission was a party in that larger procurement
13 proceeding, and there needed to be a firewall
14 between our collaborative efforts and the Energy
15 Commission's status as a party in the rest of the
16 procurement proceeding.

17 And so both Commissions adopted an
18 order, I think in our case it was a Committee
19 order by the Renewables Committee; in their case
20 it was either an assigned Commissioner order, or
21 an ALJ order. But both Commissions took action.

22 We had a workplan, and some assurances
23 as to what level of resources would be committed;
24 what could be drawn upon.

25 I don't know today, given the

1 differences that obviously exist in our approach
2 to confidentiality, that I would think it would be
3 a good idea to enter into exactly that same
4 agreement.

5 But I do know it was important to the
6 Commission in 2003 that these things not be done
7 unilaterally; that the full Commission have an
8 awareness of our commitment of resources. And
9 some of the wording in these ALJ orders is fairly
10 problematic, particularly as it relates to sharing
11 confidential information with decisionmakers at
12 the Energy Commission. Some of the orders allow
13 it, some of the orders don't.

14 So I would suggest that you and Mr.
15 Chamberlain get your heads together and determine
16 how we can get this important collaboration the
17 two staff engage in, on a track that doesn't tie
18 us in a bunch of legal knots.

19 And I'd encourage you to place a
20 priority on it because we've got at least one ALJ
21 that's waiting for comments by 3:00.

22 EXECUTIVE DIRECTOR BLEVINS: Mr.
23 Chamberlain and I will discuss the issue for sure.
24 There's also -- I mean I'm having a bit of a
25 growing frustration relative to just the process,

1 and what definition of collaborative we're using
2 at any given moment in time.

3 And then also the Executive Director of
4 the PUC will be in my office on another matter
5 tomorrow afternoon, and I intend to take an
6 opportunity at that time to sort of chat this
7 through with them.

8 But Mr. Chamberlain and I will discuss
9 it. Thank you very much.

10 COMMISSIONER GEESMAN: Thank you.

11 CHAIRPERSON PFANNENSTIEL: Thank you.

12 Before we leave the Executive Director's report,
13 I'd also like to note, and it was noted a minute
14 ago by Commissioner Geesman, the report that went
15 to the Governor yesterday, the report on the
16 spring gasoline price spike in California, while
17 there are clearly always going to be remaining
18 questions of that kind of incident, the work done
19 by staff was really remarkable.

20 They produced a really excellent report
21 in a much shorter period of time than they had
22 originally contemplated. Uncovered all of the
23 rocks that they were allowed to uncover. And I
24 think brought a great deal of very valuable
25 analysis to bear on the question.

1 I think there's more work to be done. I
2 kept resisting calling it a final report because I
3 kept thinking that this is a step in the process.
4 But I'm sorry Gordon left, because I know he was
5 instrumental in pulling a lot of it together, as
6 were many other people in the transportation fuels
7 area, Rosella included.

8 So, I just wanted to give my thanks to
9 them, and you know, kudos for work well done.

10 EXECUTIVE DIRECTOR BLEVINS: Those
11 comments coming from the dais formally are very
12 much appreciated. And I know that everyone sees
13 Gordon because he's Gordon, but the truth is that
14 there were a lot of people that put in excessive
15 amount of time to deliver this. People tend to
16 forget that we were on one time schedule and that
17 time schedule got accelerated beyond what anyone
18 would expect. And I think the staff performed
19 beyond expectations, my own expectations in terms
20 of what they could do.

21 And I probably would add one other thing
22 because it should be mentioned. We had a
23 remarkable interrelationship with the Board of
24 Equalization in order to make this happen, in that
25 they provided staff 24/7, as it turned out, in the

1 final analysis. And that staff went at it with
2 all sincerity in terms of culling through their
3 records and forms and trying to pull out data that
4 was going to help us better understand what was
5 going on.

6 And I know that you know that that went
7 on. But for the record I think we owe the Board
8 of Equalization a huge debt of gratitude in
9 helping us get down that path.

10 CHAIRPERSON PFANNENSTIEL: Thank you,
11 B.B.

12 COMMISSIONER BOYD: Perhaps you can
13 express the Board's appreciation to the Board of
14 Equalization.

15 EXECUTIVE DIRECTOR BLEVINS: I think we
16 have an intention maybe to do that formally at a
17 Board meeting, because this was a remarkable
18 thing.

19 CHAIRPERSON PFANNENSTIEL: Good.

20 EXECUTIVE DIRECTOR BLEVINS: And we'll
21 definitely make sure that they know that our
22 Commission is very appreciative of their staff
23 work.

24 COMMISSIONER GEESMAN: We are still
25 working with the Attorney General's Staff, are we

1 not?

2 CHAIRPERSON PFANNENSTIEL: Yes.

3 EXECUTIVE DIRECTOR BLEVINS: Yes, we
4 are.

5 CHAIRPERSON PFANNENSTIEL: Thank you.
6 Leg Director report. Mr. Smith.

7 MR. SMITH: Morning, Chairman,
8 Commissioners. Just have a few things I want to
9 bring you up to speed on. But first I do want to
10 tell you that the Legislature clearly is back in
11 session. They've been back at work for a couple
12 weeks now, and will continue to be back at work
13 until the end of August, as I understand it.

14 My staff has been working feverishly to
15 keep up with the rapid amendments and changes to
16 bills and key bills that affect us in our
17 operations.

18 I do want to express gratitude to you,
19 and to your Advisors, in the quick response and
20 the involvement that you've shown in working with
21 us in keeping the amendments moving forward and
22 our analyses moving forward.

23 I also want to thank the Deputy
24 Directors and their staff for the rapid and often
25 thoughtful responses to issues that have been

1 raised by the amendments and by legislative staff.
2 And I think those actions have proven to be, and
3 have had some degree of effect over at the Capitol
4 in changing law and having some positive effect on
5 key bills in our direction. So, I do want to
6 express my gratitude for that.

7 Very quickly, a couple of things that
8 have happened this week, and are happening right
9 now. Yesterday SB-107 was passed out of
10 committee, Assembly Appropriations Committee --
11 excuse me, the Assembly Utilities and Commerce
12 Committee, and is now on its way to Assembly
13 Appropriations.

14 In the Senate Appropriations, AB-457,
15 which is the Speaker's price-gouging bill, was
16 actually passed over, as best I can describe it,
17 passed over the Appropriations Committee; it's on
18 its way to the floor. An odd technical action
19 that I'm --

20 CHAIRPERSON PFANNENSTIEL: Does that
21 mean it was not heard at Appropriations?

22 MR. SMITH: Correct. Correct. They
23 call it the -- it was a 28.8 measure. And I'm not
24 quite sure what that is. I was given this
25 information as I came down here. So it's a

1 mystery to me, but it is, because of its fiscal
2 impact, it was withdrawn from committee and goes
3 straight to the floor. So.

4 Happening right now is the Assembly
5 Appropriations, and the key bills involved there
6 are SB-1250, our PIER and renewables
7 reauthorization bill; SB-1059, the transmission
8 corridor planning bill; SB-1368, which is the
9 greenhouse gas performance standard bill; SB-757,
10 which is a, I can't recall the title exactly, but
11 it's a bill by Kehoe that addresses some
12 analytical functions relating to alternative
13 fuels; and SB-1675, which is the renewable diesel
14 requirement bill which would place a 2 percent and
15 a 5 percent renewable content requirement on
16 diesel sold in California. Those are being heard
17 in Appropriations today.

18 AB-32, the Global Warming Solutions Act,
19 I always like to say, we are still awaiting some
20 sort of word or indication from either the
21 Speaker's Office or the Governor's Office, on the
22 status of negotiations between them on the
23 Governor's proposed amendments to the bill.

24 There is a conference, a press
25 conference, that is happening today. In fact,

1 began at 11:00, that the Speaker and Assemblywoman
2 Pavley have put on regarding AB-32. So we're
3 hopeful that there may be some indication coming
4 out of that as to the direction that the bill may
5 take.

6 Moving away from legislation and then
7 just to sort of wrap up my report, a couple weeks
8 ago I let you folks know that I was going to be
9 attending a -- kind of hard pressed as to exactly
10 what to call it -- a legislative hearing in Santa
11 Monica that was being sponsored by Assemblywoman
12 Pavley and Senator Kuehl on the future of
13 alternative fuels in California.

14 I gave a presentation there; and just a
15 couple of quick observations. It was an all-too-
16 short hearing as they typically are for the
17 expansive nature of the issues involved. It was
18 very tightly run; each speaker was only given
19 about three minutes to speak. So not a great deal
20 of depth in the presentations, although there were
21 many presentations, some of which we've seen in
22 the past and some presenting some new information
23 in the area of alternative fuels.

24 One observation that I will take away,
25 particularly in the context of the presentation

1 this morning by Gordon, and the completion of the
2 pricing report that Chairman Pfannenstiel
3 mentioned, is the continuing need to educate
4 policymakers and consumers on the reasons why
5 we're in the situation we're in with petroleum
6 fuels; why we, as an agency and state government,
7 are trying to develop policies that intelligently
8 transition away from petroleum fuels to
9 alternative fuels and greater efficiency in
10 vehicles.

11 I just, I have the sense that there's
12 this continuing desire for the silver bullet, and
13 the continuing desire for immediate transformation
14 of the market to something that is less reliant on
15 petroleum. But I think this agency, in
16 particular, has a continuing responsibility in its
17 analytical work and its educational work to keep
18 consumers and policymakers informed about the need
19 to pay attention to our current infrastructure,
20 petroleum-based infrastructure. And the need to
21 find ways to move away from that and to bring more
22 diverse fuels into the marketplace.

23 So, it was an interesting point to walk
24 away with. Anyway, that's all I really have to
25 say. I'll answer any questions if you folks have

1 any.

2 CHAIRPERSON PFANNENSTIEL: Questions?

3 COMMISSIONER GEESMAN: Has the Assembly
4 Appropriations Committee been scheduled for next
5 week?

6 MR. SMITH: Not to my knowledge. I will
7 double check and get back with you.

8 COMMISSIONER GEESMAN: Do they
9 ordinarily meet on a particular day, or is it more
10 random than that?

11 MR. SMITH: Typically it's on
12 Wednesdays.

13 COMMISSIONER GEESMAN: Okay.

14 CHAIRPERSON PFANNENSTIEL: Anything
15 else?

16 MR. SMITH: Or Tuesdays and Wednesdays,
17 I beg your pardon. Although this week the
18 schedule shows that it may be carrying over to
19 Thursday, just from the volume of the bills.

20 CHAIRPERSON PFANNENSTIEL: Thanks, Mike.

21 Public Adviser's report. I see Ms. Kim
22 has left -- the Public Adviser report.

23 Public comment. Is there any member of
24 the public who wishes to address the Commission?

25 Hearing none, we will close the public

1 session and convene in my office for a very brief
2 closed session.

3 Thank you.

4 (Whereupon, at 11:54 a.m., the business
5 meeting was adjourned into closed
6 session.)

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CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Business Meeting; that it was thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 30th day of August, 2006.

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