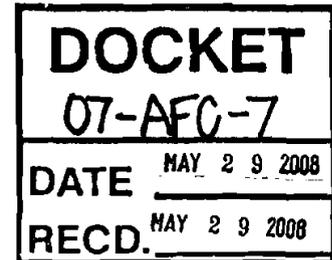


May 29, 2008

Ms. Angela Hockaday
California Energy Commission
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

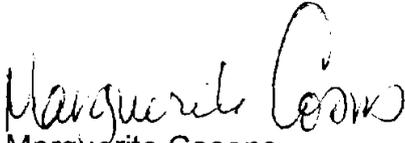


Re: **KINGS RIVER CONSERVATION DISTRICT'S
COMMUNITY POWER PROJECT
STATUS REPORT NUMBER 2
DOCKET NO. 07-AFC-7**

Dear Ms. Hockaday,

Enclosed for filing with the California Energy Commission are one (1) original and twelve (12) copies of the **KINGS RIVER CONSERVATION DISTRICT'S (KRCD) COMMUNITY POWER PROJECT STATUS REPORT NUMBER 2**, for the Kings River Conservation District (07-AFC-7).

Sincerely,


Marguerite Cosens
Administrative Assistant
GalatiBlek

Scott A. Galati
David L. Wiseman
GALATIBLEK, LLP
555 Capitol Mall
Suite 600
Sacramento, CA 95814
(916) 441-6575

STATE OF CALIFORNIA

Energy Resources
Conservation and Development Commission

In the Matter of:

Application for Certification for the
Community Power Project

DOCKET NO. 07-AFC-7

**KRCD's COMMUNITY POWER
PROJECT STATUS REPORT
NUMBER 2**

Pursuant to the AFC Committee Scheduling Order dated January 18, 2008, the Kings River Conservation District (KRCD) submits this Status Report Number 2 to update the Committee on progress related to the processing of its Community Power Plant (CPP).

SCHEDULE

The critical path in the Committee's Schedule is the issuance of the Preliminary Determination of Compliance (PDOC) by the San Joaquin Air Pollution Control District (District). KRCD has had several meetings with the District to understand and respond to information requests from the District necessary to its evaluation and issuance of the PDOC. One issue has been difficult to resolve and KRCD appreciates the District's creative ideas in our discussions.

The issue relates the desire for KRCD to utilize new, real-time emissions reductions to offset emissions from the CPP. As discussed in the AFC and in presentations and at public workshops, KRCD is committed to using these new emission reductions that are very close to the site of the CPP with the goal of making a real-time net air quality improvement. By definition, these emission reductions¹ have not yet been created,

¹ The emission reduction strategy including identification of the source of the emission reductions is contained in KRCD's Confidential Offset Strategy document, which has been deemed by the Executive Director to be eligible for confidential treatment under the Commission's regulations.

although the equipment modification necessary to achieve the reductions is on schedule. The District will need to conduct source tests after the equipment modifications in accordance with its rules in order to verify the reductions and issue Emission Reduction Credit certificates (ERCs) which can be deposited in the District ERC bank. The District has allowed a conservative estimate of the ERCs that would be achieved by the modification of the equipment and has agreed to issue a Preliminary Determination of Compliance (PDOC) based on this estimate and additionally required ERC's. This conservative estimate may be significantly lower than the actual source test data. In order for the District to issue the PDOC, KRCD would need to purchase existing banked ERCs for the difference between this conservative estimate and the offset amounts required for the CPP. In order to meet the District's request, KRCD has been pursuing the purchase of these additional ERCs even though it believes these purchases would result in the acquisition of more ERCs than required for the project.

At the same time, the District is undergoing its annual NOx equivalency review in order to meet US EPA requirements. In previous years the District has been able to demonstrate that the requirements of its NOx ERC program are effectively equivalent to the US EPA's ERC requirements. While the District is working to develop one or more approaches that will satisfy this year's NOx ERC equivalency criteria, if the District is unable to do so, some of the ERCs currently in the District's bank will be made invalid and will not be able to be used by the CPP or other new sources. This possibility has injected uncertainty and price volatility into the ERC market.

As a public agency, KRCD has decided that the use of public funds to purchase these additional ERCs at this time is an unacceptable risk. Therefore, KRCD has decided to wait until the real time emission reduction source produces valid bankable ERCs before purchasing any additional ERCs. This will likely be in the late fall of this year and should be at the same time that the NOx equivalency issue is officially resolved.

Therefore it is not likely that the District will be able to produce a PDOC until late fall. During the interim, KRCD will continue to pursue the transmission system impact studies and other additional information responsive to Staff's data requests along with further engineering, development and procurement. KRCD is committed to the development of the CPP but considering Staff's current workload wanted inform the Commission so that it could allocate resources for the summer accordingly. KRCD proposes to update the Committee by Status Reports every six weeks and as the fall approaches will inform the Committee of the likely date of issuance of the PDOC, so that the Committee Schedule can be adjusted accordingly.

Dated: May 28, 2008



Scott A. Galati
Counsel to KRCD

BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION OF THE
STATE OF CALIFORNIA

APPLICATION FOR CERTIFICATION
for the KINGS RIVER CONSERVATION
DISTRICT COMMUNITY POWER
PROJECT

Docket No. 07-AFC-7

PROOF OF SERVICE
(REVISED 3/21/08)

INSTRUCTIONS: All parties shall either (1) send an original signed document plus 12 copies or (2) mail one original signed copy AND e-mail the document to the address for the Docket as shown below, AND (3) all parties shall also send a printed or electronic copy of the document, which includes a proof of service declaration to each of the individuals on the proof of service list shown below:

CALIFORNIA ENERGY COMMISSION
Attn: Docket No. 07-AFC-7
1516 Ninth Street, MS-14
Sacramento, CA 95814-5512
docket@energy.state.ca.us

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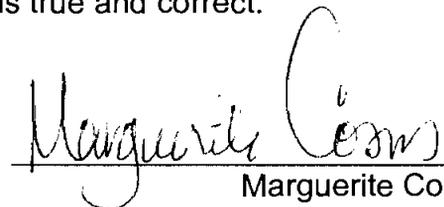
Public Adviser's Office
pao@energy.state.ca.us

DECLARATION OF SERVICE

I, Marguerite Cosens, declare that on May 29, 2008, I deposited copies of the attached **KINGS RIVER CONSERVATION DISTRICT'S (KRCD) COMMUNITY POWER PROJECT STATUS REPORT NUMBER 2**, in the United States mail at Sacramento, CA with first-class postage thereon fully prepaid and addressed to those identified on the Proof of Service list above.

OR

Transmission via electronic mail was consistent with the requirements of California Code of Regulations, title 20, sections 1209, 1209.5, and 1210. All electronic copies were sent to all those identified on the Proof of Service list above.
I declare under penalty of perjury that the foregoing is true and correct.



Marguerite Cosens