

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System)
Operator Corporation) Docket No. ER06-615-002

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION JOINT
QUARTERLY SEAMS REPORTS FOR THE
SECOND QUARTER OF 2008**

In compliance with the Federal Energy Regulatory Commission’s (“FERC” or Commission) September 21, 2006, order directing “the CAISO and neighboring control areas to meet as needed to resolve seams between them” and to “jointly report on the progress of these efforts in quarterly status reports filed with the Commission within 30 days of the end of each calendar quarter,”¹ the California Independent System Operator Corporation (“CAISO”) hereby submits joint quarterly reports with Western Area Power Administration (“Western”) and Turlock Irrigation District (“TID”) regarding seams-related discussions that took place during the second quarter of 2008. Below CAISO also provides a joint statement by Imperial Irrigation District (“IID”) and the CAISO regarding their seams efforts. The joint status reports identify and, as appropriate, summarize bilateral discussions between the CAISO and neighboring Balancing Authority Areas regarding seams issues. In addition, the CAISO also reports on additional seams-related activities and discussions facilitated by the Western Electricity Coordinating Council (“WECC”) during the second quarter of 2008.

¹ *California Independent System Operator Corp.* 116 FERC ¶ 61,274 at P 490 (emphasis in original) (“September 21 Order”).

I. INTRODUCTION

In an effort to continue to identify and resolve inter-control area seams issues, during the second quarter of 2008 the CAISO has, through the Integrated Balancing Authority Area (“IBAA”) stakeholder process, met with market participants to discuss specific issues raised by these stakeholders, which included SMUD, Western and TID. The CAISO is submitting joint reports with TID and Western with these parties as provided below in Part III, and related Attachments, of this report. While SMUD and CAISO discussed submitting a joint report as a result of these meetings, no joint report with SMUD is available at this time.

In the second quarter of 2008, representatives of the CAISO also met with representatives of other control areas in the Western Interconnection under the auspices of committees organized by the WECC. The purpose of these meetings is to identify and discuss any issues that might exist today or might arise with the inception of MRTU that could affect the operation of interconnected control areas as well as to discuss general seams issues in the Western Interconnection. A summary of those meetings is provided in Section IV of this report.

In addition, during the second quarter of 2008, the CAISO continued its stakeholder process to address issues related to its modeling and pricing on IBAA's. The CAISO filed its IBAA proposal at the Commission on June 17, 2008, which is being considered in Docket No. ER08-1113-000. Intervenors submitted comments on July 8, 2008, and CAISO submitted reply comments on July 23, 2008, and other intervenors subsequently also submitted additional answers.

II. JOINT QUARTERLY REPORT PROCESS

As described further in this document, since the Commission's September 21 Order requiring the CAISO to meet with neighboring Control Areas to resolve seams issues, the CAISO has been diligently seeking to meet with its neighboring control areas to identify and resolve any seams issues. The CAISO is approaching this in a two-pronged fashion: (1) one-on-one meetings with neighboring Balancing Authority Areas, and (2) participation in WECC committee activities on regional issues.

In an attempt to fulfill the requirement for a joint reporting process on the meetings with neighboring control areas, the CAISO, working with neighboring Balancing Authority Areas, has established what it views as an administratively simple process to ensure that the parties are in mutual agreement on the reports filed with the Commission. This process consists of the following.

- 1) At the time of the meeting the parties discuss the need for a joint report filing with the Commission and agree which party will prepare the first draft of the joint meeting report.
- 2) Within fourteen (14) calendar days following the end of the calendar quarter, the applicable party prepares the first draft of the meeting report and shares this with the meeting participants.
- 3) Within twenty-one (21) calendar days following the close of the calendar quarter the parties submit responsive comments to the entity that prepared the first draft of the meeting summary. Through any required iterations of

modifications, the parties reach consensus that the summary may be filed as a joint report.²

- 4) At least one (1) day prior to filing the report with the Commission the CAISO provide to all counterparties a copy of the full text of the quarterly seams report.
- 5) The CAISO then includes all joint reports in the next quarterly report to the Commission or any supplement to such quarterly report.

With respect to the WECC process, the CAISO continues to work with the chairs of the relevant committees to develop a mutually-agreeable description of WECC activities to be filed with this quarterly status report.

III. JOINT REPORT OF THE CAISO AND OTHER CONTROL AREAS

Attachments A – B of this filing include joint reports of the one-on-one meetings between the CAISO and certain neighboring Balancing Authority Areas. In addition, the CAISO and the Imperial Irrigation District submit that CAISO and IID have agreed to meet to discuss various seams issues. The CAISO has noted that it is particularly interested in entering into a Balancing Authority -to- Balancing Authority agreement with IID. At the time of this second quarterly report, IID and the CAISO have initiated discussions to develop a Balancing Authority -to- Balancing Authority agreement and will report on the progress of those discussions in subsequent quarterly seams reports.

² Should the CAISO and the counter party fail to reach a consensus on the summary, the CAISO shall inform the Commission of this fact in its quarterly report. In such instances, nothing shall limit a party's right to provide additional information, comments or summaries to the Commission regarding seams discussions between the CAISO and neighboring control areas.

IV. WECC SEAMS ACTIVITY

The CAISO continues to work through and with the established WECC committees to identify and discuss potential seams issues. The WECC Seams Issues Subcommittee (“SIS”) of the WECC Market Interface Committee (“MIC”) held meetings on April 30-May 1, 2008, in Las Vegas, Nevada, and on July 8-9, 2008, in San Mateo, California. (The April 30-May 1, 2008, meeting was a joint meeting of the MIC’s Market Issues Subcommittee (“MIS”) and the Seams Issues Subcommittee). A summary of the WECC SIS discussions is provided below. The following summary of seams efforts of WECC committees for the second quarter of 2008 was presented to Jerry Smith, Chair of the WECC SIS and Vice-Chair of the MIC. Although this summary has not been formally adopted by the WECC, Mr. Jerry Smith authorized the CAISO to state that he has reviewed this summary and personally agrees with it.

April 30-May 1, 2008 SIS Meeting

Among other topics, the agenda of the April 30-May 1, 2008, meeting included: 1) a review of earlier work performed by the Western Assessment Group and Seams Steering Committee Western Interconnection; 2) a discussion of intra-hour transactions resulting from schedule curtailments or contingencies; 3) MIS 2008 goals; 4) a CAISO MRTU update; and 5) a discussion of the congestion management work group’s focus and efforts.

As part of the congestion management discussion, the SIS discussed a paper drafted by the WECC Unscheduled Flow Administrative Subcommittee (UFAS). The paper discusses and attempts to clarify the WECC draft IRO-STD-006-WECC-1 Standard (Qualified Path Unscheduled Flow Relief) that is posted for comment. The

SIS members discussed that the UFAS Standards Drafting Team reviewed the standard and noted that at the June, 2007 WECC OC and MIC meetings there was support for a shift of responsibility in the Contributing Schedule curtailment portion of unscheduled flow mitigation. The SIS members noted that, as a result, the SDT decided to implement a change in responsibility for initiating schedule curtailments. The SIS members discussed how the UFAS' efforts relate to the objective of the SIS' congestion management work group and need to be coordinated.

July 8-9, 2008 SIS Meeting

The primary topics discussed at the July 8-9, 2008, SIS meeting included: 1) a discussion of whether the SIS should review and evaluate the CAISO's IBAA proposal that was recently filed at FERC; 2) A discussion of how to improve coordination of ATC (both on a planning and operating timeframe) among and between transmission providers; 3) a discussion of curtailment allocation; 4) an approach to a voluntary "INC & DEC" clearing mechanism; 5) possible formation of a voluntary commercial reserve sharing group; 6) a discussion of intra-hour tagging and the tagging of contingency reserves; and 7) a conceptual discussion regarding a procedure to evaluate delivery of contingency reserves.

Integrated Balancing Authority Area Discussion

The Transmission Agency of Northern California ("TANC") made a request that the SIS review and evaluate the CAISO's IBAA proposal, filed at FERC on June 17, 2008. TANC asserted that the IBAA raised certain "seams" issues that warranted review and examination by the SIS. Specifically, TANC asserted that that the IBAA proposal raised the following five "seams" issues: 1) multiple tie point issues; 2)

inadvertent flow issues; 3) sharing of market data; 4) loss allocation issues; and 5) impact on preexisting agreements. The CAISO represented that since the IBAA proposal is currently pending before FERC, that it is not clear what purpose SIS review of the proposal would serve. Moreover, the CAISO stated that certain of the identified “seams” issues were in fact contractual issues in dispute and that it was inappropriate for the SIS to review these issues. Other SIS members stated that since the IBAA proposal is not yet in effect and no actual adverse impacts had yet been identified, it was premature to review the proposal. The SIS requested that: 1) TANC provide a specific list of “seams” issues raised by the CAISO’s IBAA proposal and provide that to the SIS prior to the SIS’s next scheduled meeting (currently scheduled for September, 2008); and 2) that the CAISO provide a written summary of any FERC order issued on the IBAA proposal and provide that to the SIS for discussion at the next SIS meeting. TANC and the CAISO agreed to provide the requested material.

V. CONCLUSION

Wherefore, the CAISO respectfully requests that the Commission accept this quarterly seams status report.

Respectfully submitted,

/s/Anna A McKenna_____

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Dated: July 30, 2008



CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

**Joint Report on Control Area Meeting between the California ISO and
Turlock Irrigation District**

July 30, 2008

As part of the Federal Energy Regulatory Commission's (FERC) conditional approval of the California Independent System Operator Corporation's (CAISO) Market Redesign Technology Upgrade (MRTU) initiative, FERC directed the CAISO, Turlock Irrigation District (TID), as well as other adjacent control areas (now referred to as Balancing Authority Areas or BAAs) to file joint quarterly reports which identify MRTU-related implementation issues and the progress that the parties are making to resolve such issues in a timely and effective manner. Since the filing of the April 30, 2008, joint report, the CAISO and TID met on a few occasions to discuss our respective positions on a number of outstanding issues. Thereafter, on June 17, 2008, the CAISO filed its "Amendment to MRTU Tariff Provisions in FERC Docket No. ER08-1113-000 (June 17th Filing).

1. Integrated Balancing Authority Area Initiative (IBAA)

In response to the June 17th Filing, TID filed a Motion to Intervene and protest setting forth TID's concerns regarding the CAISO's filing. On July 23, 2008, the CAISO filed an Answer that responded to the concerns raised by TID. Based on these filings, it is apparent that the parties have substantially differing views of the IBAA proposal filed by the CAISO and will require FERC action to resolve these issues.

2. MRTU Readiness Issues

TID continues to believe that it is a good decision to delay the start up date of MRTU. TID believes that there must be additional time for all parties to robustly undertake and complete the testing of business processes and software applications associated with the MRTU market design before going "live". As it pertains to MRTU readiness requirements, the CAISO requests that TID continue to participate in the readiness process implemented to assess MRTU readiness as a general matter and notes that this proceeding is limited to reports on seams issues and not MRTU readiness as a whole.



CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

**Joint Report on Control Area Meeting between the California ISO and
Western Area Power Administration**

July 30, 2008

As part of the Federal Energy Regulatory Commission's (FERC) conditional approval of the California Independent System Operator Corporation's (CAISO) Market Redesign Technology Upgrade (MRTU) initiative, FERC directed the CAISO, Western Area Power Administration (Western), as well as other adjacent control areas (now referred to as Balancing Authority Areas or BAAs) to file joint quarterly reports which identify MRTU-related implementation issues and the progress that the parties are making to resolve such issues in a timely and effective manner.

Although the CAISO and Western have met only once (May 8th meeting between CAISO, Western, and the Transmission Agency of Northern California to discuss Western's alternative proposal to the CAISO's IBAA proposal (see issue 1 below)) since the filing of the April 30, 2008, joint report, Western believes it is necessary to update FERC as to the status of a number of MRTU-related implementation activities. CAISO does not object to this update and notes that in its opinion not all issues identified herein constitute seams issues -- rather, in the CAISO's opinion these items are issues that Western has previously identified for resolution with CAISO for MRTU readiness as a general matter.

1. Integrated Balancing Authority Area Initiative (IBAA)

The CAISO filed its proposed tariff amendment on its IBAA proposal on June 17, 2008, requesting an August 12, 2008, effective date. Western filed its protest on July 8, 2008. The CAISO filed its answer on July 23, 2008. Both the CAISO and Western are awaiting FERC's decision. The CAISO's and Western's positions are fully identified in that filing and will not be listed here. Western, other IBAA entities, and the CAISO, plan to meet on August 13 to discuss the issues and concerns raised in the CAISO's May 30, 2008, letter to the IBAA entities.

2. MRTU Readiness Issues

Western continues to believe that sufficient time must be built into the overall schedule to assure that both the CAISO and market participants have thoroughly and robustly completed end-to-end testing of critical MRTU-related business processes and applications. As of trade date July 14, 2008, the CAISO has been able to

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successfully test only 15 of 53 scenarios, and Western has been able to independently verify that 8 of the 127 proposed cost charges are working as expected. Western believes that the continued inability of the CAISO to produce validated settlement statements remains a major concern and Western is concerned that the CAISO may prematurely deploy MRTU resulting in many unanticipated risks and impacts on the MRTU initiative Western continues to participate in CAISO-sponsored market simulation testing activities to assure that Western's applications and business processes will be ready when MRTU goes live. Although Western remains hopeful that the CAISO will be able to successfully deploy MRTU, Western remains deeply concerned that many of the promised new changes and updates (e.g., master file, Transmission Rights Transmission Curtailments instructions, Transmission Exchange Agreement, and ancillary services from the Boulder Canyon Project) will either not be implemented early enough during the next round of market simulation activities or if deployed, will continue to fail during the testing phase and not allow Western to robustly test and confirm the accuracy of these modifications before MRTU goes live. Consistent with Western's June 20, 2008, letter to the CAISO where they identified several areas of concern, Western notes that as of the date of this filing, significant progress continues to lag in a number of key areas. Western represents that many of these unresolved issues materially affect Western's ability to undertake integrated end-to-end testing of its interrelated MRTU scheduling, settlements, and power billing systems. For example, Western notes that the following areas continue to remain unresolved.

The CAISO notes that the above information and representations regarding MRTU readiness are Western's account of events and status of the MRTU systems and the CAISO does not provide this joint report as an actual assessment of MRTU readiness. Rather, CAISO's assessment is appropriately provided in its monthly MRTU reports filed with the FERC. Also, the CAISO has represented to Western that it is and will address the issues raised by Western through the appropriate MRTU implementation and readiness support forums. The CAISO is currently working on a formal response to the issues raised by Western.

A. Ability to self-provide losses as stated in the Transmission Exchange Agreement (TEA): Western Statement - Western has made repeated requests for solutions and examples since the summer of 2007 and through weekly CAISO Quick Response Team meetings. The CAISO and Western have exchanged emails on the subject. While both Western and the CAISO agree Western may self-provide losses, the technical accommodation continues to be unresolved. CAISO Statement - The CAISO believes that it has represented to Western a technical solution (means) to self-provide losses under the TEA, the CAISO intends to reiterate and clarify that solution in its upcoming planned response to Western's June 20, and July 25, 2008, correspondence to the CAISO.

B. Ability to use multiple Contract Reference Numbers as provided for under the TEA:

Western Statement - This is another issue which Western has made repeated requests to the CAISO for resolution since late 2007. While both Western and the CAISO agree Western may have multiple CRNs for the TEA, to date, the CAISO has yet to provide a solution. The CAISO represents that it is finalizing the details on how to accommodate Western's use of multiple CRNs for the TEA. The CAISO represents that this is a multi-faceted issue and requires further input from Western. For example, while Western previously represented to the CAISO that it intends to exercise its rights under the TEA to resell its TEA-related transmission rights to third parties, Western also previously stated that it *may* not want the Congestion Cost hedge associated with such rights to transfer to third parties. Western's position is that since the TEA does not allow any congestion charges to be assessed against Western, if the CAISO tries to either pass through any congestion cost revenues, Western cannot accept it or pass it through to one of our counter parties. The lack of resolution on this issue prevented the CAISO from finalizing the implementation details on this issue. CAISO Statement - It is planned upcoming response to Western's June 20, and July 25, 2008, correspondence to the CAISO, the CAISO intends to clarify what implementation options are still viable and its proposed approach for accommodating the use of multiple CRNs under the TEA.

C. Confirmation that no charges or credits for certain products will be shown on the settlements statements under the TEA:

Western Statement - The only charges under the TEA that may be imposed by either party is for ancillary services or losses and only to the extent they are not self-provided. While both Western and the CAISO agree the TEA provides either party with a limited ability to "charge" the other, there appears to be either confusion or disagreement over the meaning of this term. Western believes that the term requires that the CAISO not include any charge other than losses or ancillary services (if not self-provided) on its CAISO invoice, even if such charges are netted out to zero. On the other hand, the CAISO believes that such charges can be appropriately included on the CAISO invoice so long as the charges are, when appropriate, netted to zero. CAISO Statement - The CAISO and Western will continue to try to resolve this issue but recognize that these contractual interpretation issues may have to be resolved through other appropriate means.

D. Modeling of TEA rights in CAISO's Scheduling Interface Business Rules (SIBR) system: Western Statement - Western understands the CAISO will modify its business procedures and will submit a tariff amendment recognizing the TEA's treatment similar to a transmission ownership right (TOR). On July 7th, Western observed that the CAISO had modeled these rights in SIBR, i.e., consistent with a TOR. However, during market simulation testing on July 9-10, when Western attempted to schedule in both the day ahead and real-time markets, the SIBR system prevented Western from scheduling these rights when CAISO Market Simulation scenario 25j was being run. As a result, Western was unable to shadow settle the scenario. Western has requested the CAISO Market Simulation team re-run scenario 25j after our issues have been resolved. CAISO Statement - The CAISO is committed to working with Western to ensure that it will be able to fully test its rights in the ongoing and upcoming market simulation activities.

E. Existing transmission rights for New Melones Project (8-07-20-P0004): Western Statement - Western's recent review of settlement statements for the New Melones pseudo-tie have uncovered a significant variance between the charges identified and assessed by the CAISO for inclusion into settlement statements during market simulation and the actual terms and conditions as authorized under contract. Western represents that since this is an existing transmission contract, Western should be protected against any congestion charges and similarly, not assigned any energy credits. Under the contract terms, Western should receive charges only for losses. Western has reported this anomaly to the CAISO and awaits a solution. Finally, Western has only recently discovered that the CAISO has begun assessing GMC forward scheduling charges. This is a new charge that has never appeared on our statements and one which under the terms of our existing transmission contract, one for which Western is not responsible.

CAISO Statement - The CAISO has only recently been made aware of Western's concerns regarding this matter and consistent with the CAISO Tariff will ensure that any ETC rights are implemented consistent with the TRTC Instructions submitted by applicable Participating TO for the ETC.

F. Incomplete testing of settlement charge types during market simulation: Western Statement – Western represents that to date, the CAISO has acknowledged that 44 of the 127 settlement charge codes have been released to market participants. Of this total, Western has been able to independently verify only a limited number through our own bid-to-bill processes. Western is concerned that all of settlement charge types must be appropriately reconciled before deploying MRTU to avoid significant issues with settlements. CAISO Statement - The CAISO is committed to working with Western and all market participants to ensure that an appropriate number of settlement charge codes are validated prior to MRTU go live. An update of these charges will be provided in the upcoming MRTU monthly report to be submitted to the Commission on August 4, 2008.

G. Lack of settlement statements and invoices during market simulation: Western Statement - Western represents that the continued lack of complete settlement statements during market simulation activities hampers the ability of Western to accurately assess the financial impacts of MRTU as well as its proposed new business strategies in the post-MRTU environment. CAISO Statement - As noted above, the CAISO is committed to working with Western and all market participants to ensure that market participants can appropriately test and evaluate the CAISO settlement systems and statements.

H. Potential modeling errors: Western Statement - Western identified and reported a modeling error which allowed participants to schedule energy in amounts using the SIBR system which exceeded existing physical parameters. Western is concerned that there may be other inadvertent and unknown physical anomalies with the CAISO's model. To date, Western has not heard back from the CAISO as to what steps, if any, it plans to undertake to assure modeling integrity. CAISO Statement - The CAISO represents that it is continuously testing and monitoring its systems and models to detect any anomalies or errors. The CAISO will work with Western to address the purported error identified by Western.

3. Update from the April 30, 2008 Joint Report

In reviewing our past joint reports, Western has identified several other outstanding issues still requiring resolution.

- *MRTU Curtailment of Firm Exports from the CAISO Control Area.* In the October 2007 and April 30, 2008, Joint Reports, the CAISO stated that firm exports would have the same priority as its own firm load. As a result, firm exports would only be cut as a last resort consistent with Western Electricity Coordinating Council policies and procedures. Based on these assurances Western believed that its concern regarding the potential curtailment of firm exports during real-time was resolved. As was identified in the January 2008, report, Western now understands that under certain constrained transmission conditions, the CAISO will establish and enforce export priorities. Under the CAISO's proposed new rules, the following export priorities will be enforced:
 1. Transmission Ownership/Existing Transmission rights
 2. Price Taker
 3. Lower Price Taker
 4. Economic

Although Western believes that the CAISO has explained how the proposed new rules would work, in light of the changing MRTU processes, Western will continue to evaluate whether this business rule will change Western's previous understanding of how the CAISO proposes to address Western's concern as it relates to the potential curtailment of firm exports from the CAISO balancing authority. In the event that the business rule changes the resolution of this issue, Western reserves the right to bring the issue to the attention of the CAISO again.

Self-Providing Ancillary Services (AS) from Boulder Canyon Project. Western understands that the CAISO and Southern California Edison Company have resolved the outstanding issues related to scheduling AS from the Boulder Canyon Project. Although Western understands that this proposed resolution was to be tested by SCE and Western's Desert Southwest Region during market simulation activities in April 2008, to the extent that this issue continues to remain unresolved, Western seeks its timely and effective resolution. Western remains hopeful that the CAISO will successfully resolve it during the next several weeks to avoid testing this functionality during production.

- *Development of a data sharing agreement governing the terms and conditions under which Western would provide real-time information to CAISO.* Western believes the data sharing issues are now intertwined with the IBAA proceeding. Western was disappointed that the CAISO chose to disengage from the original approach where CAISO and Western were sharing internal real-time information under an approach which emphasized bilateral relationships, reciprocity, and safeguarding the data from being used for

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market purposes. While Western will continue to work with the CAISO to share data that is necessary for the reliable operation of the transmission system, for the reasons identified in Western's protest in the IBAA docket, Western has no intentions of executing a Market Efficiency Enhancement Agreement.

As stated in the CAISO's June 17, 2008, IBAA filing and the CAISO's answer to comments, the CAISO represents that it performs its day-ahead scheduling and market functions and its real time operation and market functions to reliably operate the system. The CAISO does not agree with Western that there is a meaningful difference between operating the CAISO's markets and real time CAISO operations – both functions are performed to reliably serve load on the CAISO system. Moreover, consistent with the CAISO's Commission-approved LMP methodology, the CAISO believes that it is appropriate and necessary to compensate market participants for their energy on a basis consistent with their actual production and delivery of energy. It is the CAISO's position that, while Western may, at its discretion, decline to provide the CAISO with the information necessary to validate its energy production and deliveries, Western will be subject to the default pricing rules proposed by the CAISO in its IBAA filing.

Timely Progress and Success on Market Simulation Activities: Western remains hopeful that many of the anticipated software and application changes and modifications promised by the CAISO will be made available to market participants so that the new changes may be tested and verified before MRTU goes live. Western's reiterates its support of any approach which will ensure that all new MRTU-related business processes and systems, as well as applications are robustly tested by both the CAISO and market participants before going live.

Western and the CAISO agree that the issues identified as open above need further and prompt consideration and require at a minimum conceptual resolution prior to the start up of MRTU. The CAISO and Western are committed, if possible, to resolving these issues prior to the MRTU implementation date so that the appropriate business process changes and any associated programming/coding changes, if any, may be designed, implemented, and tested prior to the start of MRTU. The MRTU implementation efforts must not create any adverse impacts on Western and its customers' transmission systems.

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 30th day of July, 2008 at Folsom in the State of California.

/s/ Susan L. Montana

Susan L. Montana