

November 15, 2002

**Advice 2302-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Standard Offer 1 – Contract Extension**

Pacific Gas and Electric Company (PG&E) hereby submits for Commission review and approval, through the advice letter process outlined in Decision (D.) 02-08-071, several extensions of Qualifying Facilities (QF) Standard Offer 1 (SO1) contracts.<sup>1</sup> PG&E is undertaking financial responsibility for payments under these contract extensions without the credit support of the Department of Water Resources (DWR).<sup>2</sup>

On October 22, 2002, PG&E submitted an advice letter for the Commission's review and approval of contracts selected as part of its General Request for Offers (RFO). PG&E will be submitting its proposed renewables contracts through a separate advice letter.

**Purpose**

Ordering Paragraph (OP) 7 of D. 02-08-071 requires PG&E to offer Standard Offer 1 contract extensions to QFs, which meet certain criteria. Ordering Paragraphs (OP) 3 and 4 of D. 02-08-071 require PG&E to submit any contract under which it is seeking pre-approval under the decision to be filed by advice letter within 30 days of signing or selection. Under the accelerated advice letter process set forth in Appendix B of D. 02-08-071, PG&E asks that the Commission issue a resolution no later than December 17, 2002, approving the proposed contract extensions and finding that the contract are reasonable and prudent for purposes of recovery in full in retail rates under the Public Utilities Code for the full term of the contract(s) without further Commission review.

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<sup>1</sup> PG&E reserves all legal rights to challenge the decisions or statutes under which it has been required to make this filing, and nothing in this filing constitutes a waiver of such rights, including its rights to seek relief in federal court for violations of federal law or the U.S. Constitution. See *England v. Louisiana State Board of Medical Examiners*, 375 U.S. 411 (1964). In addition, PG&E reserves any additional legal rights by reason of its status as a debtor under Chapter 11 of the U.S. Bankruptcy Code, and nothing in this filing constitutes a waiver of such rights.

<sup>2</sup> PG&E filed a motion requesting Bankruptcy Court approval of the contract extensions on October 25, 2002.

**Background**

On August 22, 2002, the Commission issued D. 02-08-071, which, among other things, directed PG&E to extend certain QF contracts. The Commission directed PG&E to offer SO1 contracts, whose term ends at the time that PG&E fully implements its long-term procurement plan approved by the Commission, or on December 31, 2003, whichever occurs first, to any QF meeting the following conditions:

- The QF must have been in operation and under contract to provide power with an IOU at any point between January 1, 1998, and the effective date of Decision 02-08-071
- The QF contract must be set to expire before January 1, 2004, or have already expired, or have been terminated.

As part of D. 02-08-071, the Commission also adopted a procedural process for the review and approval of transitional procurement contracts. That decision noted that QF procurement conducted during the transitional procurement period would be subject to the same procedural processes used for transitional procurement contracts. That procedural process is based on an accelerated advice letter process of approximately 30 days and includes upfront review of the utility's overall transitional procurement strategy and specific proposed transitional procurement contracts and procurement process prior to the submission of the advice letter to the Commission. The upfront review is performed by the Procurement Review Group (PRG), whose membership comprises non-market participants who have executed non-disclosure certificates. Participants in PG&E's PRG include members of the Commission's Energy Division (ED) and Office of Ratepayer Advocates (ORA) staff, The Utility Reform Network (TURN), Natural Resources Defense Council (NRDC), California Energy Commission (CEC), Consumers' Union (CU), Aglet and California Utility Employees (CUE). DWR also participated in the PRG meetings.

**Description of the QF Contract Extension Process**

PG&E took an inventory of its existing, expired and terminated QF contracts to identify all contracts that were expired, set to expire by January 1, 2004, or terminated. PG&E identified 18 contracts. PG&E contacted those 18 QFs and inquired whether they were interested in the D. 02-08-071 SO1 extension. PG&E also placed a notice on its website to notify other QFs that believe they might be eligible.

As a result of these efforts, 12 QFs responded that they were interested in a contract extension. Two responded that they were not interested in this program. The remaining QFs did not respond. No additional inquiries resulted from the website notice. PG&E prepared 12 Power Purchase Agreement (PPA) amendments to facilitate the extension. Nine QFs executed the contract

amendments. A list of the QFs, and the nine contract amendments are included in Confidential Attachment A.

### **Involvement of the Procurement Review Group (PRG)**

PG&E's PRG met five times prior to the submission of this advice letter. The specific dates and minutes of the first four meetings were provided in Confidential Appendix E of Advice Letter 2293-E. PG&E discussed the QF contract extensions, and presented a summary of the MW and costs at the October 25, 2002, PRG meeting. The minutes of the October 25, 2002 meeting are included in Confidential Attachment B.

Based on discussions at the PRG, it is PG&E's understanding that no members of the PRG oppose Commission approval of the SO1 contract extensions.

### **Protests**

Appendix B of D. 02-08-071 requires that protests to this advice letter be made within seven days of its filing. Accordingly, protests are due on or before **November 22, 2002**. Replies to protests should be filed within three days of the protest, or November 25, 2002. Because of the accelerated timeline provided for protests, PG&E asks that all protests be mailed electronically to RxDd@pge.com and the service list for Rulemaking (R.) 01-10-024.

The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, 4<sup>th</sup> Floor  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company  
Attention: Les Guliasi  
Director, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177  
Facsimile: (415) 973-7226  
E-mail: RxDd@pge.com

**Effective Date**

PG&E requests that this advice filing become effective on **December 17, 2002**.

**Notice**

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter excluding the confidential appendices is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for R. 01-10-024. Non-market participants who are members of PG&E's Procurement Review Group and have signed appropriate Non-Disclosure Certificates will also receive the advice letter and accompanying confidential attachments by overnight mail.

The portions of this advice letter so marked Confidential Protected Material are in accordance with the May 1, 2002, Protective Order in R. 01-10-024 Regarding Confidentiality of Pacific Gas and Electric Company (PG&E) Power Procurement Information. As required by that Order, reviewing representatives of Market Participating Parties will not be granted access to Protected Material, but will instead be limited to reviewing redacted versions of documents that contain Protected Material.

Vice President – Regulatory Relations

Attachments ---

Confidential Attachment A QF Contract Extensions for which PG&E Seeks  
Commission Approval

Confidential Appendix B Procurement Review Group Minutes