

November 15, 2002

**Advice 2303-E  
(Pacific Gas and Electric Company ID U 39 E)**

Public Utilities Commission of the State of California

**Subject: Transitional Procurement Contracts - Renewables**

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, Appendix B, contracts for the procurement of renewable energy during the period of 2003 through 2007.<sup>1</sup> Until PG&E regains its investment-grade credit rating and is able to assume all rights and obligations as specified under each contract, the California Department of Water Resources (DWR) will serve as the creditworthy purchaser for the products received under these contracts and the costs of these contracts will be included in DWR's revenue requirement.<sup>2</sup>

All attachments to this advice letter comprise Confidential Protected Material, in accordance with the May 1, 2002, Protective Order issued in Rulemaking (R.) 01-10-024, and pursuant to Public Utilities Code Section 583.

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 contract extensions for certain Qualifying Facilities under Standard Offer 1 (SO1) through a separate advice letter pursuant to D. 02-08-071.

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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> The Conditions Subsequent of each contract provide for DWR to sign separate contracts for these products with the suppliers.

## **Purpose**

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 contracts and finding that the contracts in Confidential Appendix A 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. The enclosed contracts represent approximately 826 gigawatt-hours (gWh) of energy annually, or approximately 1.1 percent of annual energy sales.

## **Background**

On August 22, 2002, the Commission issued D. 02-08-071 which, among other things, addressed the extent to which, if at all, PG&E and Southern California Edison (SCE) should be permitted to immediately contract for a portion of their residual net short (RNS) in partnership with DWR.<sup>3</sup> The Commission directed PG&E to procure at least 1 percent of its annual electricity sales through a set-aside competitive procurement process for renewable (“renewables”).

As part of D. 02-08-071, the Commission also adopted a procedural process for the review and approval of these transitional procurement contracts for renewables. 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, as well as in contract development and negotiations.

## **Description of the Renewables Request for Offer (RFO) Solicitation Process**

PG&E’s RFO was designed to attract the largest possible number of bids in the transitional procurement process. To develop its list of potential bidders, PG&E sought out all parties that it thought might be interested in participating in the

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<sup>3</sup> The residual net short is the amount of energy needed to serve a utility customers’ needs net of existing resources, including those supplied by DWR.

RFO. PG&E contacted parties that are currently participating in the California market, as well as other potential participants. PG&E developed an initial list based on suppliers with whom it had contracted in the past. In addition, PG&E supplemented that list by contacting suppliers that had contracts with DWR, and also contacted suppliers that were listed as members of Western States Power Pool. In addition, certain suppliers contacted PG&E after the issuance of D. 02-08-071 to express interest, and were subsequently added to the list of RFO recipients. PG&E also contacted industry groups including Independent Energy Producers (IEP), California Biomass Energy Alliance (CBEA), CEERT, and the California Wind Energy Association (CalWEA). PG&E asked each of these groups to notify their members and have them contact PG&E if they wanted to be added to our bid list. PG&E also solicited potential bidders from the CEC and California Power Authority (CPA).

Prior to issuing the RFO, PG&E contacted suppliers and industry groups to solicit feedback on the products it was including in the RFO, and modified those products to incorporate the feedback received.

PG&E e-mailed the general and renewables RFO to 151 market participants. Thirty-three parties eventually submitted bids in the renewables RFO. PG&E received and evaluated 77 bids in the renewables RFO, totaling approximately 8,900 gWh, or more than 10 percent of its annual sales.

### **Bid Evaluation Process**

PG&E received 77 bids for renewables resources. PG&E reviewed each of the confirmations and eliminated certain proposals, which did not comply with the RFO (e.g., offers to negotiate, projects outside California with interconnections outside California, projects with on-line dates after December 31, 2003). These proposals and the reasons for elimination are included in Confidential Appendix B. The remaining 44 transactions went through an economic evaluation, which is also presented in Confidential Appendix B – Evaluation Process for the RFO - Renewables. Following that, and after further review and discussions with bidders, additional proposals were eliminated for non-compliance with the RFO.

The market-to-market value (MTM) of each transaction was determined on a total dollar basis and on a dollars per megawatt-hour (\$/mWh) basis. This calculation was performed for each year, and then discounted at a 5.4 percent rate. Transactions were ranked in order of their \$MTM/mWh value.

A short list of contracts, which had the highest market values, was selected. Those results demonstrate that the proposed renewables contracts meet the 1 percent portfolio requirement, at the lowest cost. PG&E's negotiations with the short list resulted in the contracts proposed in Confidential Appendix A. All of these contracts are for energy deliveries at a cost less than the 5.37 cents per kilowatt-hour (kWh) deemed per se reasonable in D. 02-08-071.

**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 first discussed the draft RFO products and sought PRG feedback before issuing the RFO. After issuing the RFO, PG&E discussed its residual net short, the types of products that could meet PG&E's RNS needs, and different ways to evaluate the benefits of the products that were bid. At PG&E's most recent PRG meeting on October 25, 2002, PG&E presented its short list of renewables offers it might accept and presented its cost/ benefit analysis. The minutes of the October 25 2002 meeting are included in Confidential Attachment C. The cost-effectiveness results, included in Confidential Attachment B were presented to the PRG. Electronic files containing the data used to analyze these contracts were provided with in Confidential Appendix B of Advice 2293-E.

PG&E shared its final recommendations with the PRG on October 25, 2002, and provided PRG members 15 days to provide written comments. No party provided written comments.

**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 Appendix A - Renewable Transitional Procurement Contracts for which PG&E Seeks Commission Approval
- Confidential Appendix B - Responses to Adopted Master Data Request in Appendix C of D. 02-08-071
  - Briefing Package provided to ultimate decision maker
  - Decision-Making Process for Selection of Renewables Contracts
    - Evaluation Process
    - Quantitative Assessment (relative cost-effectiveness of the offer)
    - Transaction Short List
    - Detailed Results
    - Break-Even Analysis
  - Relative cost-effectiveness of offers
- Confidential Appendix C - Procurement Review Group Minutes