



**Pacific Gas and
Electric Company**

April 26, 2005

ADVICE 2655-E

Pacific Gas and Electric Company ID U39 E

Public Utilities Commission of the State of California

**Subject: Contracts for Procurement of Renewable Energy Resources
Resulting from PG&E's 2004 Renewables Portfolio Standard
(RPS) Solicitation**

Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
Internal: 223.4977
Fax: 415.973.7226
Internet: BKC7@pge.com

I. PURPOSE

By this advice letter, Pacific Gas and Electric ("PG&E") seeks CPUC approval of three (3) power purchase agreements (PPAs) that it has executed with developers of eligible renewable energy resources as a result of PG&E's 2004 RPS solicitation. The Commission's approval of the PPAs will authorize PG&E to accept future deliveries of incremental supplies of renewable resources and contribute towards the annual incremental RPS target and the 20 percent renewables procurement goal required by California's RPS statute.¹ The estimated combined annual output of these projects should meet approximately 70 percent of PG&E's 2004 annual incremental RPS target.

These PPAs result from PG&E's July 15, 2004 solicitation for renewable bids, which was authorized by Decision (D.) 04-06-014 and subsequent letter by the Executive Director on June 30, 2004. Additional PPAs may be submitted as a result of PG&E's continuing negotiations with interested participants in the 2004 solicitation. Each PPA contains the standard terms and conditions for RPS contracts adopted by D.04-06-014, and will provide power from renewable resources at the least cost and best fit, as defined by D.04-07-029. Each PPA includes the standard covenant that during the delivery period, the project will constitute an eligible energy resource certified by the California Energy Commission (CEC).

Deliveries from the PPAs are priced below the market price referent (MPR) and thus do not require any supplemental energy payments (SEPs) from the CEC.

The PPAs are being presented for CPUC review and approval as provided by the "RPS Solicitation – Contract Approval Milestones" contained in D.04-07-029. Utilities have been encouraged to submit the PPAs for approval in tranches. Accordingly, this advice letter presents PG&E's agreements concerning three

¹ California Public Utilities Code section 399.11 et seq., as interpreted by D.03-07-061, the "Order Initiating Implementation of the Senate Bill 1078 Renewables Portfolio Standard Program", and subsequent CPUC decisions in Rulemaking (R.) 04-04-026.)

Vista Energy, LLC (Buena Vista), and (3) Pacific Renewable Energy Generation LLC (Pacific Renewable). The PPAs and their corresponding confirmation letters are provided in Confidential Appendix A.

The PPAs contribute significantly towards PG&E's renewables procurement goals. In 2004, the year of this RPS solicitation, PG&E's incremental procurement target (IPT) was 711 gigawatt-hours (GWh). The PPAs will contribute an aggregate 490 GWh per year, of which 472 GWh would be incremental.

On March 1, 2005, PG&E reported its cumulative (2003-2005) IPT for 2005 as 2,266 GWh. Prior to the execution of the PPAs, PG&E had procured 1,141 GWh of that target. With the approval of the PPAs, PG&E will have procured or contracted for deliveries of 1,613 GWh towards that target, or 71 percent of its 2005 IPT.²

PG&E requests the Commission to issue a resolution no later than June 30, 2005 containing the findings required by the definition of "CPUC Approval" in Appendix A of D.04-06-014 and incorporated in each PPA so that each of PG&E's contracts for these renewable resources can remain in effect.³ The requested form of approval is described in more detail under the heading, "Request for Commission Approval", below.

In support of this request, the following confidential information is being submitted under seal. This material is also protected from public disclosure by the May 20, 2003 Protective Order issued in Rulemaking (R.) 01-10-024⁴. PG&E has concurrently filed a Motion for Confidential Treatment of the below-listed material pursuant to Public Utilities Code section 583 and General Order 66-C.

Appendix A – Power Purchase Agreements and Confirmation Letters

Appendix A-1	FPL Energy Montezuma Wind, LLC
Appendix A-2	Buena Vista Energy, LLC
Appendix A-3	Pacific Renewable Energy Generation, LLC

Appendix B -- SEP/MPR worksheet

Appendix C – Procurement Review Group (PRG) materials

² See March 1, 2005 Compliance Filing of Pacific Gas and Electric, page 3

³ As provided by D.04-06-014, the Commission must approve the Agreement and payments to be made thereunder, and find that the procurement will count toward PG&E's RPS procurement obligations, as either incremental procurement or procurement for baseline replenishment in order for an executed RPS PPA to be binding on the parties.

⁴ Treatment of confidential information in the RPS rulemaking is to be consistent with the policies developed in the general procurement proceeding, R.01-10-024, and its successor, R.04-04-003. See, R.04-04-026, mimeo at 12.

Appendix C-1	Overview of PRG presentations
Appendix C-2	09/29/04 PRG meeting
Appendix C-3	12/14/04 PRG meeting
Appendix C-4	03/04/05 PRG meeting

II. DESCRIPTION OF THE PROJECTS

The following table summarizes the substantive features of the PPAs:

Generating Facility	Type	Guaranteed Commercial Operation Date	Term Years	MW Capacity	Location
FPL Montezuma	Wind	Confidential per D.04-06-014 App.A Item 4, "Confidentiality"	20	32.4	Solano
Buena Vista	Wind		15	28 – 43	Altamont Pass NP-15
Pacific Renewable	Wind		20	82.5	Lompoc
Total				142.9-157.9	

Copies of each of the PPAs are provided as Confidential Appendices A-1, A-2, and A-3.

III. CONTRACT ANALYSIS

A. Consistency with PG&E's Adopted RPS Plan.

California's RPS statute requires the Commission to review the results of a renewable energy resource solicitation submitted for approval by a utility. The Commission will then accept or reject proposed PPAs based on their consistency with the utility's approved renewable procurement plan.⁵ PG&E's 2004 RPS plan was approved on June 30, 2004. As required by statute, it includes an assessment of supply and demand to determine the optimal mix of renewable generation resources, consideration of compliance flexibility mechanisms established by the Commission, and a bid solicitation setting forth the need for renewable generation of various operational characteristics.⁶

The stated goal of the 2004 RPS Solicitation was to procure approximately 1 percent of PG&E's retail sales volume or 711 GWh per year with delivery terms

⁵ Public Utilities Code (Pub. Util. Code) section 399.14 subsec. (c).

⁶ Pub. Util. Code sec. 399.14 subsec.(a)(3).

of 10, 15, or 20 years. Participants could submit offers for four specific products – as-available, baseload, peaking, and dispatchable resources.

1. Fit with Identified Renewable Resource Needs

In its approved 2004 RPS Plan, PG&E's portfolio assessment showed a "medium" need for as-available and baseload resources beginning in 2007. The need for baseload resources was high in 2008. In order to meet the 20 percent renewable energy target by 2010, PG&E would require incremental energy deliveries from newly contracted resources at an average rate of approximately 700 to 800 GWh per year. The PPAs under consideration propose to deliver about 490 GWh of as-available renewable generation per year beginning in this timeframe and would contribute significantly toward PG&E's annual RPS target.

2. Consistency with RPS Solicitation Protocol

The proposed PPAs are consistent with the RPS Plan because they were achieved through PG&E's adherence to its Solicitation Protocol, which is the primary component of the 2004 RPS Plan.

PG&E generally followed the RPS Solicitation schedule set forth in its Solicitation Protocol, but ultimately, the schedule for concluding negotiations was necessarily extended. The resulting 2004 Solicitation schedule is shown below:

DATE	EVENT
July 15, 2004	PG&E issued Solicitation
July 26	Participants filed Notice of Intent to bid
August 23	Participants submitted bids
September 29	PG&E selected shortlist of bids; consulted with PRG
October 22	PG&E notified CPUC Executive Director that the shortlist was finalized
December 14 & March 4, 2005	PG&E updated PRG on negotiations with bidders
April 18, 2005	PG&E & participants executed PPAs
April 26, 2005	PG&E submits PPAs for regulatory approval

Using the approved bid solicitation protocol and forms of power purchase agreements, PG&E commenced its solicitation on July 15, 2004. Bids were received until August 23, consistent with the published schedule. All of the accepted bids conformed to the RPS protocol; that is, they offered power from renewable energy resources, they were submitted using the standard forms, and they posted the required bid deposit.

These bids were evaluated and scored in the manner prescribed in the Solicitation Protocol. In particular, evaluation of the offer price took into account

PG&E's published Time of Delivery factors, the potential cost of transmission adders was imputed to the offer, and offers were scored pursuant to a methodology that attributed the proper weight to market valuation, portfolio fit, credit and other non-price factors of the Solicitation Protocol.

A number of the highest-ranked bids, sufficient in number to facilitate the achievement of the 1 percent annual procurement target, were placed on PG&E's "Short List" on September 29, 2004 and were presented to PG&E's PRG. On October 22, PG&E notified the Executive director that it had finalized its shortlist. Negotiations between PG&E and shortlisted developers commenced shortly thereafter. Some common themes emerged over the course of negotiations, such as the term of the agreement, delivery point, mitigation of imbalances caused by intermittent generation, development milestones, and security for performance. The resolution of each issue generally entailed an assumption of risk by one or the other party, and hence, impacted the consideration each party was willing to pay or forego for the power under contract. The interim results of negotiations were presented to the PRG on March 4, 2005. At that meeting, the PRG had no objection to PG&E proceeding to execute certain PPAs, including each of the PPAs presented by this advice letter.

3. Consistency with PG&E's Long Term Procurement Plan

PG&E's long term procurement plan was filed within two weeks of approval of its 2004 RPS Plan and assumed the same moderate need for as-available resources as shown in PG&E's 2004 RPS plan. The projects represented by the PPAs thus contribute to meeting PG&E's long term needs.

B. Consistency of bid evaluation process with Least-Cost Best Fit (LCBF) decision.

The LCBF decision directs the utilities to use certain criteria in their bid ranking. It offers guidance regarding the process by which the utility ranks bids in order to select or "shortlist" the bids with which it will commence serious negotiations. Much of the bid ranking criteria described in the LCFB decision is incorporated in PG&E's Solicitation Protocol and is discussed above.

1. Market Valuation

In its "mark-to-market analysis," which PG&E's analyst described at the Least Cost Best Fit workshop on May 25, 2004, the present value of the bidder's payment stream is compared with the present value of the product's market value to determine the benefit (positive or negative) from the procurement of the resource, irrespective of PG&E's portfolio. PG&E evaluates the bid price and indirect costs, such as the costs to the utility transmission system caused by

interconnection of the resource to the grid or integration of the generation into the system-wide electrical supply.⁷

2. Portfolio Fit

Portfolio fit considers how well an offer variation's features match PG&E's portfolio needs. This analysis includes the anticipated transaction costs involved in any energy remarketing (i.e., the bid-ask spread) if the contract adds to PG&E's net long position. The underlying projects are expected to commence deliveries between 2006 and 2008. PG&E's RPS Plan shows that at that time, there is at least moderate need for generation during all periods of the day. Because these deliveries are anticipated to occur at a time when PG&E is experiencing moderate need, the acceptance of these intermittent deliveries should not result in significant remarketing costs.

3. Consideration of Repowered Projects

The Commission has encouraged the repowering of existing wind facilities by stating that, "the repowering of existing wind facilities in prime locations is a common-sense approach to increasing procurement of renewable energy, with costs that should be lower than for new Greenfield projects." (D.03-06-071). Subsequently, in its decision resolving issues related to the rank ordering and selection of least-cost, best-fit renewable generation resources, the Commission favored utility evaluation methodologies that would recognize the benefits provided as a result of contract restructuring. (D.04-07-029).

PG&E's 2004 RPS solicitation has resulted in one wind repowering project, represented by the Buena Vista PPA. As part of the PPA, the parties have agreed to terminate the current Standard Offer 4 contract between PG&E and the developer. In its place, the current production plus incremental generation will supply additional deliveries of renewable power priced below the MPR. PG&E is pleased to provide this instance of wind generation repowering for the Commission's approval.

C. Consistency with Adopted Standard Terms and Conditions.

The Commission set forth standard terms and conditions to be incorporated into RPS agreements in D. 04-06-014. Standard Terms and Conditions identified in Appendix A of that decision as "may not be modified" have not been modified.

During the course of negotiations, the parties identified a need to modify some of the standard terms in order to reach agreement. These terms had all been designated as subject to modification upon request of the bidder in Appendix A of D.04-06-014.

⁷ PG&E's RPS Renewable Energy Procurement Plan, June 24, 2004, page (p.)6, lines (ll.) 4-18.

Each of the PPAs represents a meeting of the minds by the developer and PG&E, and each term was bargained for in consideration of every other term. Appendix C-1 (confidential) provides a detailed description and comparison of each term that has been materially modified from its form in the 2004 Solicitation. Each provision should be understood by the Commission as essential to the negotiated agreement between the parties and should not be disturbed by regulatory review. The reasonableness of an agreement should be examined as a whole, in terms of its ultimate impact on utility customers. The only reason to disturb a particular term would be if the Commission found that it violated public policy. PG&E submits that each of the agreements protects the interests of ratepayers while achieving the Commission's goal of increasing procurement from eligible renewable resources.

D. Consistency with the Transmission Ranking Cost decision

The RPS statute requires the "least cost, best fit" eligible renewable resources to be procured. Under the RPS program, the potential customer cost to accept energy deliveries from a particular project must be considered when determining a project's value for bid ranking purposes. PG&E's 2004 transmission ranking cost (TRC) report identified the remaining available transmission capacity and upgrade costs for PG&E substations at which renewable resources are expected to interconnect.

PG&E determined the TRC cluster at which each shortlisted project would interconnect to the transmission grid. Except for the clusters at the northern and southern extremities of PG&E's service territory, there was sufficient capacity at each of the clusters for each shortlisted project to deliver into the system. Each of the projects proposing to locate at either Malin or SP-15 was given the option of guaranteeing firm delivery to NP-15 as an alternative to having its bid price increased by the cost of a transmission network upgrade. The developers elected this option. With the exception of Pacific Renewable, no significant transmission upgrades were needed for the shortlisted bids, no additional cost to the consumer was added to the project bid price prior to bid evaluation. For Pacific Renewable, its interconnection costs, as identified through a prior System Impact Study and Facility Study, were imputed to its bid price for purposes of bid evaluation.

E. Terms and conditions of delivery

Each of the projects will be its own scheduling coordinator. The point of delivery will be NP-15. Provision is made for alternate points of delivery if the Independent System Operator's current zonal delivery system is changed from zonal to nodal. No other transmission-related issue required accommodation in the PPAs.

F. Contract Price

The contract price of each PPA is confidential, market sensitive information that will not be publicly revealed. The levelized contract price for each PPA does not exceed the MPR. Furthermore, the contract payments are below the MPR and *per se* reasonable as measured according to the net present value calculations explained in D.04-06-015 and D.04-07-029. The net present value of the sum of payments to be made under each of the PPAs is less than the net present value of payments that would be made at the market price referent for the anticipated delivery. Confidential Appendix B presents a detailed analysis of how the contract payments are below the MPR.

G. Qualitative factors

PG&E considered qualitative factors as required by D.04-07-029. While it was possible to include a diverse mix of renewable technologies in the short list, eventually certain technologies were found to confer significantly greater customer benefits. None of the bids asserted that the proposed project would contribute to local reliability. Only one asserted that it had a plan to provide environmental stewardship. That particular project has been shortlisted.

H. Project Milestones

The PPAs identify the construction start date and the commercial operation date as guaranteed project milestones. For commercial reasons, PG&E cannot publicly disclose this information.

I. Project Viability

1. Financeability of resource.

It is PG&E's belief that the projects selected have a reasonable likelihood of being financed and completed as required by the PPAs and will be available to deliver energy by the guaranteed commercial operation date.

2. Production Tax Credit

The existing federal production tax credit, as provided in Section 45 of the Internal Revenue Code of 1986, as amended, would substantially benefit both the buyer and the seller under the PPAs.

3. Sponsor's creditworthiness and experience

Each bidder was required to provide credit-related information as part of its bid. PG&E has reviewed this information and is satisfied that each of the parties to

the PPAs possesses the necessary credit and experience to perform as required by that party's PPA.

4. Project Status

Each of the PPAs includes a guaranteed construction start date and a guaranteed commercial operation date. The sellers' obligations to meet these milestones are supported by performance assurance securities.

IV. PRG Feedback

PG&E provided its PRG with reports on the progress of its 2004 RPS solicitation on several occasions. The first briefing occurred on September 29, 2004, and focused on the results of PG&E's July 15, 2004 solicitation. At that briefing, PG&E described the process by which it evaluated the Offers and provided its preliminary Shortlist. At the second PRG briefing on December 14, 2004, PG&E provided a status report on the 2004 solicitation. At the March 4, 2005 meeting, PG&E provided the PRG with an overview of the projects it considered most likely to proceed to final agreement. This presentation included the negotiated terms and conditions of the PPAs.

The PRG members have expressed general satisfaction with the manner in which PG&E arrived at its 2004 RPS shortlist and the resulting PPAs. None of the PRG members objected to any of the PPAs in any respect. The PRG supported PG&E moving forward with these PPAs. An overview of the PRG material, the PRG presentations, and minutes of the above-described PRG meetings are provided as Confidential Appendix C.

V. Supplemental Energy Payments

As discussed in Section III.F and shown in Appendix B, the contract payments are below the MPR and no supplemental energy payments are required.

VI. Request for Commission Approval

The continued effectiveness of each of the PPAs is conditioned on the occurrence of "CPUC Approval," as that term is defined in each of the PPAs. Time is of the essence in the Commission's consideration and approval of this advice letter.

Therefore, PG&E requests that the Commission issue a resolution no later than June 30, 2005, that:

1. Approves the PPAs in their entirety, including payments to be made by PG&E, subject to CPUC review of PG&E's administration of the Agreement.

2. Finds that any procurement pursuant to this Agreement is procurement from an eligible renewable energy resource for purposes of determining PG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision 03-06-071, or other applicable law;
3. Finds that any procurement pursuant to this Agreement constitutes incremental procurement or procurement for baseline replenishment by PG&E from an eligible renewable energy resource for purposes of determining PG&E's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, Decision 03-06-071, or other applicable law;
4. Finds that any indirect costs of renewables procurement identified in Section 399.15 (a)(2) shall be recovered in rates.

Protests

Anyone wishing to protest this filing may do so by sending a letter by May XX, 2005, which is 20 days from the date of this filing. 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, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, at the address shown above. It is also requested that a copy of the protest be sent via postal mail and facsimile to Pacific Gas and Electric Company on the same date it is mailed or delivered to the Commission at the address shown below.

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 below.

Pacific Gas and Electric Company

Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-Mail: PGETariffs@pge.com

Effective Date:

PG&E requests that this advice filing become effective on **June 30, 2005**.

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. Address changes should be directed to Rose De La Torre (415) 973-4716. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs>



Brian K. Cherry
Director - Regulatory Relations

cc: R.01-10-024.

Attachments

Limited Access to Confidential Material:

The portions of this advice letter so marked Confidential Protected Material are in accordance with the May 20, 2003 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.

Confidential Attachments:**Appendix A Power Purchase Agreements**

Appendix A-1	FPL Montezuma PPA and Confirmation letter
Appendix A-2	Buena Vista Energy PPA and Confirmation letter
Appendix A-3	Pacific Renewable PPA and Confirmation letter

Appendix B SEP/MPR worksheet**Appendix C PRG materials**

Appendix C-1	Overview of PRG presentations
Appendix C-2	09/29/04 PRG meeting presentation and minutes
Appendix C-3	12/14/04 PRG meeting presentation and minutes
Appendix C-4	03/04/05 PRG meeting presentation and minutes

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Nicole Richardson

Phone #: (415) 973-6721

E-mail: nmr3@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
 PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2655-E

Subject of AL: Contracts for Procurement of Renewable Energy Resources Resulting from PG&E's 2004 Renewables Portfolio Standard (RPS) Solicitation

Keywords (choose from CPUC listing): Contracts, Procurement, Portfolio

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.04-06-014

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL _____

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Resolution

Required? Yes No

Requested effective date: June 30, 2005

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): **No impact expected**

Estimated system average rate effect (%): **No impact expected**

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A _____

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Brian K. Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com

¹ Discuss in AL if more space is needed.

