

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



January 30, 2006

Advice Letter 2715-E

Rose de la Torre
Pacific Gas & Electric
77 Beale Street, Room 1088
Mail Code B10C
San Francisco, CA 94105

Subject: TIN, Inc. power purchase agreement restructuring

Dear Ms de la Torre:

Advice Letter 2715-E is effective December 15, 2005. A copy of the advice letter is returned herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "S. H. Gallagher".

Sean H. Gallagher, Director
Energy Division

RECEIVED
REGULATORY RELATIONS DEPARTMENT

FEB 3 2006



**Pacific Gas and
Electric Company®**

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
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September 22, 2005

**Advice 2715-E
(Pacific Gas and Electric Company ID U 39 E)**

Public Utilities Commission of the State of California

**SUBJECT: TIN, Inc. Power Purchase Agreement Restructuring Advice Letter
Filing¹**

Pursuant to the Restructuring Advice Letter filing ("RALF") procedure adopted in Decision (D.) 98-12-066, Pacific Gas and Electric Company ("PG&E") submits the attached Termination and Settlement Agreement ("Agreement") which terminates the amended power purchase agreement ("PPA") between PG&E and TIN, Inc. ("TIN") (the PPA and all amendments and agreements are included in Confidential Appendix B and hereinafter collectively referred to as the "PPA"). Additionally, the Agreement settles a dispute between PG&E and TIN regarding PG&E's de-rating of the firm capacity level in the PPA due to TIN's deliveries in June 2004 (the "Claims"). The Agreement is contingent on receipt of a CPUC resolution acceptable to both parties no later than January 31, 2006. If the CPUC approves the Agreement as proposed herein, ratepayers may expect to receive significant savings as compared to the operation of the Facility under the PPA.

PURPOSE

PG&E requests a Commission resolution approving as reasonable the Agreement. On May 18, 2005, PG&E presented details of the proposed transaction to its Procurement Review Group (PRG). PRG Members were generally supportive, or expressed no concerns with the agreement. In Confidential Appendix C, PG&E provides the minutes from the May 18, 2005 PRG meeting. PG&E has submitted a draft of this advice letter, the Agreement (Confidential Appendix A), PPA (Confidential Appendix B), PRG Minutes (Confidential Appendix C) and PG&E's supporting analyses (Confidential Appendices E through H) to the Office of Ratepayer Advocates ("ORA"). After review, the ORA issued the attached letter (Confidential Appendix D), which states ORA's conditional support for this filing.

PG&E requests the Commission to adopt a resolution that:

1. Approves the Agreement as reasonable; and

¹ TIN, Inc. is successor-in-interest to Crown Zellerbach Corporation and Gaylord Container Corporation.

2. Authorizes the recovery of [REDACTED] as a shareholder incentive associated with this PPA restructuring, as authorized by the Commission in D.95-12-063 as modified by D.96-01-009.

BACKGROUND

The PPA

On [REDACTED], TIN's predecessor, Crown Zellerbach Corporation, and PG&E entered into a [REDACTED]-year PPA. The PPA required PG&E to purchase energy and capacity generated by a 49,670 kilowatt (kW) natural gas-fueled cogeneration facility located at 2301 Wilbur Avenue in the City of Antioch, California (the "Facility"), identified as PG&E log No. 01C104. The Facility's initial energy delivery date and firm capacity availability date under the PPA was [REDACTED]. The PPA expires [REDACTED].

The Facility

The Facility is a combined cycle cogeneration plant consisting of one combustion turbine generator (CTG), one heat recovery steam generator (HRSG), and one steam turbine generator. Additional support equipment includes: water treatment facilities with associated chemical and water storage tanks, turbine exhaust steam condenser, deaerator, electrical equipment, a central control room, maintenance facilities, main office facilities, and other plant equipment. The Facility was constructed to provide power and steam to a nearby paper container production mill and to sell excess power to PG&E. The mill served as the steam host for the Facility. In 2002, the mill shut down and the Facility lost its steam host.

More detailed information about the Facility is contained in the Operational Viability Assessment contained in Confidential Appendix E.

Project Ownership

The Facility has been through several ownership changes in its operational history. The Facility is currently owned by TIN Inc. TIN Inc. is successor to Gaylord Container Corporation and a subsidiary of Temple Inland Corporation.

PG&E Corporation and its affiliate, Pacific Gas and Electric Company, are not and have never been affiliated in any way with any of the foregoing companies.

HISTORIC PERFORMANCE OPERATION AND COMPLIANCE WITH EFFICIENCY STANDARDS

The Project's Historical Performance

The Project's historical generation prior to losing the steam host ranged from [REDACTED] gigawatt-hours (GWh) to [REDACTED] GWh per year (including six months from of reduced

generation during the energy crisis). The average generation from 1996 through 2002 was [REDACTED] GWh. Historical deliveries are provided in Confidential Appendix F. Absent the [REDACTED] mega-watt (MW) load of the paper mill, forecasted annual generation is expected to increase to [REDACTED] GWh and assumes installation of a water distillation facility sufficient to meet QF efficiency standards.

Prior to losing the steam host, the Facility delivered its firm capacity to PG&E pursuant to the PPA terms. [REDACTED]. A dispute arose after the firm capacity was derated by [REDACTED] MW following a forced outage in [REDACTED]. Based on an Operational Viability Assessment (Attached as Confidential Appendix E), PG&E believes the plant could continue to meet its current firm capacity level throughout the remaining term of the PPA following installation of a new steam host.

Historic Performance Bonus Factors

The Project's historic firm capacity performance bonus factors are set at a maximum of [REDACTED].

Compliance with Performance and Efficiency Standards

To PG&E's knowledge, the Facility met the operating and efficiency standards of the Federal Energy Regulatory Commission (FERC) until 2003. Following the loss of the steam host, the Facility was granted a waiver of its QF operating efficiency standards in 2003 and 2004 [REDACTED].

SUMMARY OF THE TERMINATION AND SETTLEMENT AGREEMENT

Because the QF agreed to provide firm capacity until [REDACTED], early termination of the PPA requires repayment of approximately [REDACTED] in prior capacity overpayments (including interest) since the QF has not met its contractual requirement to provide capacity for 30 years. However, the PPA prices are above market and avoiding these payments provides benefits to PG&E's ratepayers.

Terms of the Termination and Settlement Agreement

The parties agree to terminate TIN's PPA in exchange for a one-time payment by TIN to PG&E of [REDACTED] which represents approximately [REDACTED] of the termination payment due under the minimum damages provision in Section D-3 of the PPA. The Agreement settles the Claims regarding the operation of the Facility in [REDACTED].

The Agreement also preserves PG&E's right to [REDACTED]
[REDACTED]

TIN waives the right to sell power to PG&E under PURPA from the Facility or any subsequent facility built on the same parcel of land. TIN can participate in non-PURPA,

market based sales to PG&E. Therefore, under the Agreement, PG&E's ratepayers will not be exposed to future above-market prices for generation sold by TIN.



RATEPAYER BENEFITS AND SHAREHOLDER INCENTIVE

By terminating the PPA seven years early, PG&E estimates significant savings for ratepayers (see Confidential Appendix G). PG&E calculates ratepayer benefits as the difference between the expected payments avoided in the final seven years of the PPA and the cost of replacing the same amount of power at lower market prices.

PG&E's analysis compares the price of replacement power using forward market curves for power sold at NP-15 to payments under the PPA. Future short-run avoided costs (SRAC) prices are estimated by using gas forward curves for the same period and the transition formula SRAC methodology contained in D. 01-03-067 to generate expected future SRAC prices. Ratepayer savings result from the difference between expected future replacement power costs at market prices and the expected sum of future SRAC and Capacity Payments. The net present value (NPV) of the savings is [REDACTED]. As provided for in D.95-12-063, as modified by D.96-01-009, PG&E's initial request was for a shareholder incentive of 10 percent of that amount, or [REDACTED]. However, based upon ORA's sensitivity analysis as presented on page 3 of Confidential Appendix D, PG&E revises its request to reflect ORA's recommendation that PG&E "receive a 10% incentive reward based on [ORA's] estimated [REDACTED] of expected savings," or [REDACTED].

The NPV dollars mentioned above are based on January 1, 2005 dollars. PG&E used an annual discount rate of [REDACTED], PG&E's interim authorized weighted average after-tax cost of capital authorized in D.04-12-047.

TIN'S PROJECTED ECONOMIC AND OPERATIONAL VIABILITY

An operational viability study (Confidential Appendix E) determined that it is reasonable to expect the Facility to continue operating in a baseload mode throughout the remaining PPA term. Sufficient fuel is available and the plant is well maintained. Although the plant currently does not have a steam host, TIN contends that it could install a distilled water facility as a replacement steam host to fulfill its PURPA cogeneration requirements if the parties did not enter into the Agreement.

An economic viability study (Confidential Appendix H) showed that the plant's energy revenues were sufficient to cover operational costs even after allowing for the

installation cost of a steam host. The contribution to margin is about [REDACTED] million over the remaining life of the PPA. To be conservative PG&E [REDACTED]

Based on the viability assessment, PG&E would expect the plant to operate in a base load mode and receive capacity and gas-indexed SRAC energy payments averaging about [REDACTED] over the remaining PPA term. Further, while PG&E anticipates that the plant would operate at baseload, the PPA offers TIN significant operational flexibility; reducing the value of the resource to PG&E. Terminating the PPA would also reduce settlement costs, scheduling uncertainty, and imbalance charges by an unquantifiable amount. Although PG&E believes the Facility to be viable, if it does not operate, the costs and probability of PG&E's collecting minimum damages are uncertain.

ORA LETTER

As required by the RALF procedure established in D.98-12-066, PG&E has sought a letter of support or neutrality from the ORA. In response to this request, Scott Cauchois, Senior Manager of the Electricity Rates and Pricing Branch of ORA, provided a letter dated September 20, 2005 to Frank De Rosa, PG&E's Director of Power Contracts (see Confidential Appendix D). The letter notes that PG&E seeks Commission approval of the Settlement Agreement as reasonable and requests a ten percent award based on the total expected ratepayer savings associated with the PPA restructuring. The letter states, "ORA concludes that the proposed Termination and Settlement agreement between PG&E and TIN provides benefits to ratepayers" and that ORA "supports a finding of reasonableness for the proposed restructuring advice letter filing." However, ORA concludes, based on its sensitivity analysis, that expected total ratepayer benefits amount to [REDACTED] rather than the [REDACTED] calculated by PG&E. Accordingly, ORA "recommends that PG&E receive a 10% incentive reward based on the estimated [REDACTED] of expected savings."

PROTESTS

Anyone wishing to protest this filing may do so by sending a letter by **October 12, 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.

Pursuant to D.98-12-066, this RALF may be protested on one or more of the following grounds:

- a. PG&E did not properly serve or give notice of the advice letter;
- b. The relief requested in the advice letter would violate statute or Commission order;

- c. The advice letter contains material errors, or it does not follow the Commission's approved methodology, if any; or
- d. The proposed restructuring is unjust, unreasonable, or discriminatory, provided, however, that this advice letter is not subject to protest on these grounds if such protest would require re-litigating a prior order of the Commission.

Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and jni@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

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: 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

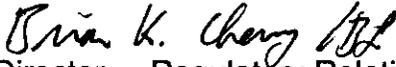
PG&E requests that this advice filing become effective on **October 24, 2005**, which is 32 days after the end of the protest period.

NOTICE

D.98-12-066 provides that RALFs should be served on the Consumer Service & Information Division (CSID), the ORA, and on PG&E's restructuring advice letter service list and any other third parties as specified by the Energy Division or other Commission order or statute. PG&E has served copies on CSID and ORA. However, D.03-01-034 closed the restructuring dockets effective January 16, 2003. Therefore, in accordance with Section III, Paragraph G, of General Order No. 96-A, PG&E is sending a copy of this advice letter excluding the confidential appendices electronically and via U.S. mail

to parties shown on the attached list. 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 Appendices by overnight mail.

The portions of this advice letter so marked Confidential Protected Material are submitted in confidence under section 583 of the Public Utilities Code and General Order 66-C.


Director – Regulatory Relations

Index of Appendices

Confidential Appendix A –	Termination and Settlement Agreement
Confidential Appendix B –	Current Power Purchase Agreement (including all prior amendments and agreements)
Confidential Appendix C –	Procurement Review Group Minutes, May 18, 2005
Confidential Appendix D –	ORA Letter of Conditional Support
Confidential Appendix E –	Operational Viability Assessment
Confidential Appendix F –	Historical Output of Project
Confidential Appendix G –	Ratepayer Benefits Analysis
Confidential Appendix H –	Economic Viability Study

cc:

Pacific Gas and Electric Company's Procurement Review Group
Scott Cauchois (ORA)
Teresa Hortanela (ORA)
Linda Serizawa (CSID)

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: Bernard Lam

Phone #: (415) 973-4878

E-mail: bxlc@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) #: **2715-E**

Subject of AL: TIN, Inc. Power Purchase Agreement Restructuring Advice Letter Filing

Keywords (choose from CPUC listing): Agreements, Procurement

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

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

Decision 98-12-066

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

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

Resolution Required? Yes No

Requested effective date: 10/24/2005, or resolution no later than 1/31/2006 No. of tariff sheets: 0

Estimated system annual revenue effect (%): Described in advice

Estimated system average rate effect (%): N/A

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.

**PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Bartle Wells Associates
Blue Ridge Gas
Bohannon Development Co
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Commerce Energy
Constellation New Energy
Cooperative Community Energy
CPUC
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army

Department of Water & Power City
DGS Natural Gas Services
DMM Customer Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynergy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton,
Heeg, Peggy A.
Hitachi Global Storage Technologies
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
J. R. Wood, Inc
JTM, Inc
Kaiser Cement Corp
Korea Elec Power Corp
Luce, Forward, Hamilton, & Scripps
Manatt, Phelps & Phillips
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates

North Coast Solar Resources
Northern California Power Agency
Office of Energy Assessments
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Praxair, Inc.
Price, Roy
Product Development Dept
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Semptra
Semptra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
Transcanada
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Cost Management LLC
Utility Resource Network
Wellhead Electric Company
Western Hub Properties, LLC
White & Case
WMA