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August 8, 2006

Advice 2872-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: **Fresno Cogen Restructuring Advice Letter Filing**

Pursuant to the Restructuring Advice Letter filing ("RALF") procedure the California Public Utilities Commission ("CPUC" or "Commission") adopted in Decision (D.) 98-12-066, Pacific Gas and Electric Company ("PG&E") submits the attached amended and restated power purchase agreement ("Amended and Restated PPA") between PG&E and Fresno Cogeneration Partners, L.P. ("Fresno"). The Amended and Restated PPA and other appendices are submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C.

As discussed in detail below, the Parties have agreed to restructure two existing Qualifying Facility ("QF") agreements totaling 33 megawatts ("MW") from a "must-take" delivery profile – under which PG&E is required to purchase all power regardless of customer demand and market alternatives – to an economic, "as-needed" profile. The Amended and Restated PPA will allow PG&E to dispatch the Fresno Project when power is needed and economical, resulting in lower power procurement costs for PG&E's customers.

Moreover, the Parties have agreed to terminate the Santa Maria Cogen, Inc. ("Santa Maria") PPA. The Fresno and Santa Maria Projects have the same majority beneficial owner, Harold E. Dittmer ("HED"). Independent of the PPA restructuring, the Fresno Project has been repowered with a larger combustion turbine capable of meeting the operational requirements of the combined PPAs.

Along with the Amended and Restated PPA, PG&E is submitting two companion agreements: the Santa Maria Dispatch Agreement and the Consent to Assignment Agreement. Together these three agreements accomplish the restructuring of two PPAs into one, while preserving PG&E's rights to dispatch generation capacity equal to the combined capacity for both plants.

The effectiveness of the Amended and Restated PPA is contingent on receipt of a CPUC resolution acceptable to PG&E. If the CPUC approves as reasonable the Amended and Restated PPA as amended and proposed herein, ratepayers may expect to receive significant benefits.

PURPOSE

PG&E seeks a Commission resolution approving as reasonable the Amended and Restated PPA. Pursuant to the requirements of the RALF process, PG&E submitted a draft of this advice letter, the Amended and Restated PPA (Confidential Appendix A) and the supporting data to the Division of Ratepayer Advocates ("DRA"). After review, the DRA issued the attached letter dated August 1, 2006 (Partially Redacted Appendix D), which states DRA's support for Commission approval of PG&E's requests.

Accordingly, PG&E asks that the Commission adopt a resolution that:

Approves the Amended and Restated PPA as reasonable;

Authorizes recovery of all payments under the Amended and Restated PPA in PG&E's Energy Resource Recovery Account ("ERRA") including an above-market portion in the Ongoing Competition Transition Charge ("Ongoing CTC"), or any other cost recovery mechanism subsequently authorized by the Commission, subject only to PG&E's prudent administration of the Amended and Restated PPA; and

Authorizes the recovery of $[redacted] as the 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

Fresno Cogeneration Corporation ("Fresno")

On September 29, 1986, Fresno's predecessor-in-interest and PG&E entered into a SO2 PPA for a 25,000 kW cogeneration project. Under the PPA, PG&E agreed to purchase energy and capacity generated by the natural gas fueled cogeneration facility located in San Joaquin ("Fresno Project"). The PPA included a 30-year term for firm capacity deliveries. On December 27, 1989, the Fresno Project began deliveries of energy to PG&E. The Fresno Project successfully demonstrated its ability to reliably deliver firm capacity to PG&E on March 25, 1990. The term of the PPA extends through March 24, 2020.

For energy payments under the PPA, Fresno began receiving monthly-posted full short-run avoided costs (“SRAC”) upon its initial energy deliveries on December 27, 1989. From September 1999 through April 2005, the Fresno Project was the subject of a series of curtailment agreements. The project did not deliver energy to PG&E during this time period. Starting in May 2005 and ending on November 1, 2005, output from Fresno and Santa Maria were combined and provided by Fresno on a dispatchable basis. The dispatchable arrangement for both plants allowed PG&E to take the contract energy only when it was economic when compared to market prices on a day-ahead basis.

Fresno and Santa Maria executed five-year amendments specifying fixed SRAC prices (averaging $53.70/MWh) in mid-July of 2001 pursuant to D.01-06-015. After the fixed price period ended on July 15, 2006, energy payments for the more than 13 years of the remaining PPA term (2006 – 2020) are to be made at SRAC. On April 18, 2006, PG&E filed a motion in R.99-11-022, R.04-04-003 and R.04-04-025 that, among other things, sought Commission approval of amendments to the Fresno and Santa Maria PPAs. The Commission granted such approval in D. 06-07-032 issued on July 20, 2006. These amendments specify a fixed heat rate of 8,700 Btu/kWh with a variable O&M payment of $2/MWh. If the Commission does not approve the Amended and Restated PPA that is the subject of this advice letter, the new SRAC energy pricing formula would be applicable until September 30, 2009, after which date SRAC would change to a market price determined by the California Independent System Operator's (CAISO’s), day-ahead price available after implementation of its market redesign and technology upgrade currently planned for implementation by November 2007.

Fresno’s existing SO2 PPA provides for firm capacity payments based on 25,000 kW for 30 years at a price of $209/kW-year. SO2 PPAs do not provide for any as-delivered capacity payments. Firm capacity payments are subject to minimum performance requirements and obligations defined in the PPA.

The Fresno PPA has been amended five times. The first amendment was a “fill-in-the-blanks” amendment (supplying non-pricing information that was not available when the PPA was originally executed) and was executed by PG&E on November 15, 1989. This amendment was not submitted to the CPUC for approval because the amendment did not change any commercial terms of the PPA. Only non-price related information produced by the Fresno Project’s detailed interconnection study was being inserted into their appropriate PPA blanks, which had been footnoted to acknowledge the unavailability of the information when the PPA was originally executed.

The second amendment was negotiated to settle a dispute over the Fresno Project's compliance with Federal Energy Regulatory Commission ("FERC") mandated operating and efficiency standards. In decisions D.91-05-007 and D.91-08-036, the CPUC mandated compliance monitoring programs by investor-owned utilities ("IOUs") in California. Upon implementing its monitoring program, PG&E came to believe that the Fresno Project's original owners were not in compliance with FERC-mandated operating and efficiency standards. Upon notifying Fresno of this conclusion, the Fresno Project was placed into Chapter 11 bankruptcy. The second amendment to the Fresno PPA settled the dispute and provided for repayment of overpayments made to Fresno for years 1989, 1990 and 1991. The second amendment was submitted to the CPUC for advance approval in A. 93-09-023 filed September 10, 1993. CPUC approval of the second amendment was confirmed by D.93-12-038.

The third amendment to the PPA was negotiated following the September 22, 1994 ruling by the Ninth Circuit Court of Appeals that effectively struck down most of the CPUC's QF efficiency monitoring program (Independent Energy Producers, et. al. v. California Public Utilities Commission (9th Cir. 1994) 36 F.3d 848). Among the terms approved by all parties in the second amendment was a provision in paragraph 3 that provided for relief from repayments if the CPUC's monitoring program was altered by a court ruling like the IEP v. CPUC decision. On that basis, Fresno claimed that PG&E was required to repay all of the discounts specified in the second amendment. PG&E disputed this claim and the parties negotiated a resolution of this claim and the third amendment incorporated the parties' agreement to resolve the dispute. PG&E agreed to repay all past discounts and Fresno agreed to discount going forward payments of $500,000. The third amendment was not submitted to the CPUC for advance approval, but was reported in PG&E's 1995 ECAC (A. 96-04-001, section 5 at page 9, discussing the fourth PPA modification executed by PG&E in 1995). PG&E's 1995 ECAC reasonableness case was decided by D.97-07-052 (see conclusion of law 7).

The fourth amendment to the PPA was executed by PG&E on July 14, 2001. In this amendment, Fresno exercised its option to take the fixed SRAC price of $53.70/MWh that the CPUC enabled IOUs to make available to QFs in D.01-06-015. The fixed SRAC price was applicable to deliveries through July 15, 2006. The fourth amendment was not submitted to the CPUC for prior approval in light of the Commission's determinations in D.01-06-015.

The fifth amendment to the Fresno PPA will become effective if and when D.06-07-032 becomes final and unappealable. The fifth amendment contains an energy pricing formula of 8,700 Btu/kWh (annual average), with a $2/MWh O&M adder, as well as other terms governing energy pricing after September 30, 2009 (when the 8,700 Btu/kWh formula will no longer apply). Other terms covered in the fifth amendment include contracting with PG&E after the current PPA expires, and settlement of potential claims PG&E may have had over switching to the PX price in calendar year 2000 and the "QF remand" issue covering gas prices used to compute SRAC during the energy crisis. Neither of the fourth or fifth amendments to the Fresno PPA have any effect on firm capacity payments. The fifth amendment would remain effective only if the CPUC does not issue a resolution acceptable to PG&E approving the Amended and Restated PPA.

The second amendment to the Fresno PPA, which resolved the efficiency compliance dispute, also required that the project be repowered. Subsequent to the second amendment's execution, power production of the facility has been curtailed and the repowering deadline extended pursuant to several pay-for-curtailment ("PFC") agreements that produced ratepayer benefits. PG&E and Fresno executed a short-term PFC agreement and a fifth repowering deadline extension agreement both dated October 1, 1999 so that a long-term PFC agreement could be negotiated to provide time to conduct negotiations on a potential PPA buyout. The long-term PFC agreement was executed on June 2, 2000. All three of these agreements were reported in PG&E's 2000 ATCP report (chapter 5, section 4.a, at the top of page 5-7) in A.00-09-001. The Office of Ratepayer Advocates (DRA's predecessor) issued a reasonableness assessment letter supporting the reasonableness of the agreements and associated shareholder incentive payments to PG&E. D.03-02-047 approved PG&E's 2000 ATCP filing for the January 1, 1999 through June 30, 2000 record period.

The fifth repowering deadline extended the deadline for four years to May 1, 2004. PPA buyout discussions were conducted until the 2000/2001 energy crisis and following bankruptcy of PG&E. In early 2003, Fresno proposed a new arrangement whereby PG&E would agree to combine the Fresno and Santa Maria PPAs in exchange for considerable benefits (reduced pricing and substantial operational flexibility). To facilitate these discussions, which began in earnest in mid-2003, there were four more repowering deadline extensions. The PPA restructuring discussions bore fruit, producing the Amended and Restated PPA that is subject of this advice filing.

There have also been numerous other PFC agreements between PG&E and Fresno during 1995 through 1998. A copy of the PPA, including all amendments and related agreements between Fresno and PG&E are attached (Confidential Appendix A).

Santa Maria Cogen ("Santa Maria")

On April 16, 1985, Santa Maria's predecessor in interest and PG&E entered into an Interim Standard Offer 4 PPA ("SO4") for the Santa Maria cogeneration project. Under the PPA, PG&E agreed to purchase energy and capacity generated by an 8,044 kW generation facility fueled by natural gas located in Santa Maria. The PPA has a 30-year term for firm capacity deliveries. On June 21, 1989, the Santa Maria Project began deliveries of energy to PG&E. The Project successfully demonstrated its ability to reliably deliver firm capacity to PG&E on September 11, 1989.

The Santa Maria PPA has been amended twice: to accept the fixed energy prices offered pursuant to D. 01-06-015 ($53.70/MWh for a period of approximately five years ending July 15, 2006) and again in April 2006 (the second amendment will become effective if and when D.06-07-032 becomes final and unappealable). The first amendment to the Santa Maria PPA was executed by PG&E on July 14, 2001. The first amendment was not submitted to the CPUC for prior approval in light of the Commission's determinations in D.01-06-015.

The second amendment to the Santa Maria PPA contains the terms of the settlement the Commission approved in D.06-07-032. The second amendment contains an energy pricing formula of 8,700 Btu/kWh, with a $2/MWh O&M adder, as well as other terms governing energy pricing after September 30, 2009 (when the 8,700 Btu/kWh formula will no longer apply). Other terms covered in the second amendment address contracting with PG&E after the current PPA expires, and settlement of potential claims PG&E may have over Santa Maria's switching to the PX price in calendar year 2000 and the "QF remand" issue covering gas prices used to compute SRAC during the energy crisis. The second amendment would remain effective only if the CPUC does not issue a resolution acceptable to PG&E approving the Amended and Restated PPA.

For energy payments under the PPA, Santa Maria was initially paid at 20% option 1 (forecasted energy prices, Table B-1) and 80% at SRAC during its fixed price period that began with initial energy deliveries on June 21, 1989. After the fixed price period ended on June 20, 1999, energy payments for the more than 20 years of the remaining PPA term (1999 – 2019) were to be made at SRAC. However, in July 2001 Santa Maria executed the first amendment which fixed its SRAC prices at $53.70/ MWh for 5 years ending July 15, 2006. The term of amended SRAC energy prices pursuant to the pending second amendment will end on September 30, 2009.

Under the existing PPA, firm capacity payments are based on 7,000 kW for 30 years at a price of $184/kW-year. Firm capacity payments are subject to minimum performance requirements and obligations defined in the PPA. The Project is also eligible for firm capacity bonus payments if its generation meets specified performance requirements. Neither the first or second amendments to Santa Maria's PPA have any effect on capacity payments.

Under the existing PPA, the Santa Maria Project is paid for capacity delivered in excess of firm capacity on an as-delivered capacity basis in accordance with as-delivered capacity payment option 2 (option 2 specifies fixed and forecasted capacity prices, in lieu of the current shortage cost that applies to projects that have Standard Offer 1, the last of which becomes a price floor after the project's fixed price period for energy ends) at the fixed forecasted prices set forth in Table D-2 of Appendix A of the PPA.

There have also been numerous PFC agreements between PG&E and Santa Maria for 1996 through 1998. Two more PFC agreements were signed in September 2004, and May 2005. All of the PFC agreements applied for either a month or several months in close proximity to when each was signed. A copy of the Santa Maria PPA, including all amendments and related agreements between Santa Maria and PG&E are attached (Confidential Appendix A).

The Generating Facility

Fresno Project

The Fresno Project initially was a nominally rated 26 MW natural gas-fired combined-cycle cogeneration plant supplying process steam to its thermal host which dries agricultural products. The primary energy cycle was powered by a refurbished FT4 natural gas turbine generator set and waste heat is supplied to a heat recovery steam generator which in turn powers a steam turbine. In December of 2004, Fresno completed a repower of the Facility as required by the Second Amendment by replacing the FT4 with a LM6000 which is nominally rated at 50 MW. The Fresno Project is located at 8105 B South Lassen Avenue, San Joaquin, California.

Santa Maria Project

The Santa Maria Project is a simple cycle gas-fired power plant with one Solar model "Mars 90" gas turbine generator as the prime mover. The unfired Heat Recovery Steam Generator (HRSG) coupled to the exhaust of the gas turbine is strictly for process steam production used to make ice. The Santa Maria Project is located at 802 South Hanson Way, Santa Maria, California.

Project Ownership

Fresno

The Fresno Project is owned by a limited partnership known as Fresno Cogeneration Partners, LP (“FCPLP”), a California limited partnership with Fresno Cogen Inc. as its general partner. FCPLP acquired the Fresno project in 1994 from a subsidiary of Northwest Natural Gas. HED owns a majority beneficial interest in FCPLP or “Fresno.” The FERC originally certified the Fresno Project as a QF on January 26, 1988 (FERC docket number QF88-134-001). At that time the Fresno Project was entirely owned by a subsidiary of Northwest Natural Gas and had no electric utility ownership. Since 1994, it has been owned by Fresno Cogeneration Partners, LP. Since the time of its original FERC certification, the Fresno Project has been recertified once to reflect an ownership change. PG&E Corporation and its affiliate, Pacific Gas and Electric Company, are not affiliated in any way with any of the foregoing companies.

Santa Maria

The Santa Maria Project was developed by Santa Maria Associates, LTD with Bonneville Pacific Corporation as its general partner. FERC originally certified the Santa Maria Project as a QF on February 11, 1986 (FERC docket number QF85-644-000). In December 1994, Santa Maria Associates, LTD sold all of its rights and interest in the project to Santa Maria Cogen, Inc., the current owner. HED owns a majority beneficial interest in the Santa Maria Cogen Inc., or “Santa Maria.” Since the time of its original FERC certification, Santa Maria has been recertified five times to reflect a combination of ownership changes, configuration changes, and the addition of an ice making facility. PG&E Corporation and its affiliate, Pacific Gas and Electric Company, are not affiliated in any way with any of the foregoing companies.

HISTORIC OPERATIONAL PERFORMANCE AND COMPLIANCE WITH EFFICIENCY STANDARDS

Fresno

Under the current PPA the Fresno Project can operate to maximize its profit by operating as a baseload resource (24 hours per day, 7 days per week) when energy prices exceed variable operating costs. When energy prices are less than operating costs, the Fresno project can limit operations to a 13-hours per day, 5 days per week basis (excluding holidays), providing peak electrical generation to PG&E’s local 60 kV transmission system.

The Fresno Project’s generation ranged from [redacted] per year up to 1999. Since 1999 the project has been subject to a continuous series of

PFC agreements. The average monthly generation over the years 1990 through 1999, excluding months when the Fresno Project was under a PFC agreement, was [redacted].

Santa Maria

The Santa Maria Project has the same options to maximize its profit as Fresno. When energy prices exceed variable operating expenses the Santa Maria Project can operate as a baseload resource. When energy prices are less than operating costs, the Santa Maria Project can operate on a 13-hour per day, 5-day per week basis (excluding holidays), providing peak electrical generation to PG&E's local 115 kV transmission system.

The Santa Maria Project's generation ranged from [redacted] per year. The average monthly generation over the years 1989 through 2004, excluding the first month of start-up in 1989 and months when the Santa Maria Project was under a PFC agreement, was [redacted].

Historic Performance Bonus Factors

The Fresno and Santa Maria Projects' historic firm capacity performance bonus factors are shown in the table below.

Effective Date	Firm Capacity Performance Bonus Factors	
	Fresno	Santa Maria
September 2005	[redacted]	[redacted]
September 2004	[redacted]	[redacted]
September 2003	[redacted]	[redacted]
September 2002	[redacted]	[redacted]
September 2001	[redacted]	[redacted]
September 2000	[redacted]	[redacted]
September 1999	[redacted]	[redacted]
September 1998	[redacted]	[redacted]
September 1997	[redacted]	[redacted]
September 1996	[redacted]	[redacted]
September 1995	[redacted]	[redacted]
September 1994	Not available	[redacted]
September 1993	Not available	[redacted]
September 1992	Not available	[redacted]
September 1991 and earlier	Not available	Not available

Compliance with Performance and Efficiency Standards

Fresno

The Fresno Project was the subject of a dispute over compliance with FERC-mandated operating and efficiency standards for the 1989 - 1991 operating years. As discussed above the second and third amendments to the Fresno PPA resolved all disputes relating to compliance with operating and efficiency standards. PG&E has not taken any issue with Fresno's operating and efficiency standards since the current owner purchased the Fresno Project in 1994.

Santa Maria

The Santa Maria Project has never had an issue related to compliance with FERC-mandated operating and efficiency standards. Every compliance check of Santa Maria that PG&E has conducted has demonstrated that the Santa Maria Project is in full compliance with all requirements related to operating and efficiency standards.

SUMMARY OF PPA AMENDMENTS

PG&E requests CPUC approval to modify two existing PPAs totaling 33 MW. The Santa Maria PPA (for 8 MW) would first be assigned to Fresno, then terminated (although Santa Maria would remain obligated to be available for dispatch until some local transmission constraints affecting Fresno are removed). The Fresno PPA would be restructured. The restructured PPA will provide for the purchase of 33 MW of energy and firm capacity (an increase of 8 MW from the current 25 MW) for a term commensurate with that of the remaining terms of the existing Fresno and Santa Maria PPAs. Fresno's PPA will otherwise expire on March 25, 2020, and Santa Maria's on September 10, 2019, while the proposed restructured PPA would expire on February 10, 2020.

The Amended and Restated PPA would also change energy payments to reflect Fresno's actual variable costs and provide PG&E a firm capacity payment discount and daily dispatch rights. In return, Fresno's owners receive energy payments that cover their variable operating costs and would no longer be required to maintain QF status.

PROPOSED AMENDED and RESTATED PPA TERMS

The Amended and Restated PPA would replace many of the existing PPA terms with market-based and dispatchable terms more favorable to PG&E and its customers: In short, the capacity payments are reduced and the must-take obligation of the existing PPAs are replaced with an option for PG&E to dispatch the Fresno facility when Fresno's power is needed and is more economic than other alternatives. Under the Amended and Restated PPA, the firm capacity price is reduced to $[redacted]/kW-year. The reduced capacity payments are estimated to save ratepayers $[redacted] (present value) over the remaining PPA term.

The Amended and Restated PPA is one of three agreements submitted for approval. The other two agreements are: (1) a consent to assignment, which assigns the Santa Maria PPA from Santa Maria to Fresno upon which Fresno agrees to terminate it; and (2) the Santa Maria Dispatch Agreement – which obligates Santa Maria to back up generation from the Fresno project until local transmission constraints are removed (work for which is now under way and is scheduled for completion by November 2006).

Economic Analysis

Under the Amended and Restated PPA, the annual firm capacity payments would be reduced by approximately $[redacted] per year over the remaining 13+ year term – a present value ("PV") reduction of $[redacted] or [redacted]% of capacity payments. Also, PG&E estimates that dispatch rights will add approximately $[redacted] in additional benefits based on the PV of benefits over the term of the restructured PPA when compared to the must-take obligations of the existing PPAs.

PG&E estimated this value using a "spark-spread" option model, which is a transformed variant of the Black option valuation model. This transformed model calculates the value of a European call option on the difference ("spread") between the prices of two different commodities in a future period. In this case, the spread in each future period is the difference in that period between the wholesale market price for electricity, and the sum of the fuel and variable O&M costs that the Fresno project would incur at the given heat rate in producing electricity. In each period with a resulting positive spread (i.e., the cost of procuring a KWh of electricity at the wholesale market price exceeds the variable O&M and fuel costs the plants incurs in producing that KWh), the call option on the Fresno plant for that period ends up "in the money" because it provides an "energy benefit" (i.e., savings from buying the output of the Fresno plant compared to the cost of buying that same power at the wholesale market for electricity). In periods where the wholesale market price for electricity is below the variable O&M and fuels costs for Fresno, PG&E is under no obligation to buy power from the Fresno plant. To obtain this dispatchability right, the project would no longer be required to be a QF. Fresno's and Santa Maria's owners, successors and assignees would also waive all Public Utility Regulatory Policies Act (PURPA) "put" rights (contract and generating equipment). The effectiveness of the Amended and Restated PPA is subject to advance CPUC approval. If CPUC approval is not obtained, the existing PPAs will continue in effect.

RATEPAYER BENEFITS AND SHAREHOLDER INCENTIVE

For the remaining years of the two existing PPAs, PG&E is obligated to pay above-market prices for energy and capacity for the must-take power. The Amended and Restated PPA reduces PG&E's capacity payments and provides for day-ahead operational flexibility allowing PG&E to perform economic dispatch of the Fresno Project and avoiding overpayments when cheaper alternatives are available.

The difference between the Amended and Restated PPA capacity payments compared to the status quo PPAs is $[redacted] (PV). The dispatchability value from the optional take compared to the existing QF put option is calculated to have a PV of $[redacted]. Therefore the total customer benefit from restructuring these two PPAs is a PV of $[redacted]. This benefit is the basis for the $[redacted] shareholder incentive that PG&E is requesting. (See attached spreadsheet, Confidential Appendix F, detailing the calculations.)

The PV dollars mentioned above are based on January 1, 2007 dollars. For computing the PV of capacity payment discounts, PG&E used an annual discount rate of 7.60 percent, which is PG&E's weighted average cost of capital for 2005. For computing the PV of dispatchability, the model used by PG&E used the same interest rate, reflecting the long-term nature of this agreement. Forward gas and electric prices used in PG&E's analysis are obtained through PG&E's Market Data System ("MDS") system (MDS is the approved database of record for electric and natural gas prices, broker quotes, and exchange rates for PG&E. MDS is PG&E's centralized repository and distributor of key market data including broker quotes, forward curves, volatilities and correlations).

LEGAL OR REGULATORY DISPUTES

There are no current or anticipated legal or regulatory disputes between the parties to this proposed PPA restructuring.

PROJECTED ECONOMIC AND OPERATIONAL VIABILITY

The Projects are both economically viable; as the pro forma spreadsheet prepared by PG&E projects positive income from their operation every year to the end of each PPA. PG&E concludes that the Projects are well maintained by examining their operating records over the past more than 15 years. Both projects have long-established records of making reliable firm capacity deliveries under their respective PPAs and have not even been placed on probation under their current ownership because they were not meeting their firm capacity performance requirements.

DRA LETTER

As required by the RALF procedure established in D.98-12-066, PG&E has sought and obtained a letter of support or neutrality from the DRA. In response to this request, Scott Cauchois, Senior Manager of the Electricity Rates and Pricing Branch of the DRA, provided a letter dated August 1, 2006 to Brian Cherry, PG&E's Vice President of Regulatory Relations (see Partially Redacted Appendix D). The letter notes that PG&E seeks Commission approval of the Amended and Restated PPA as reasonable and requests a ten percent award based on the total expected ratepayer savings associated with the PPA restructuring. The letter states, "DRA has determined that the Amended and Restated PPA provides ratepayer benefits, and therefore supports a finding of the reasonableness for the proposed Amended and Restated PPA."

PROTESTS

Anyone wishing to protest this filing may do so by sending a letter by **August, 28, 2006**, 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.

There are no restrictions on who may file a protest or response, but the protest or response shall set forth specifically the grounds upon which it is based and shall 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 restructuring advice letter;

b. The relief requested in the restructuring advice letter would violate a statute or Commission order;

c. The restructuring 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:

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: PGETariffs@pge.com

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.

Pacific Gas and Electric Company
Attention: Brian Cherry
Vice President, 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 **September 21, 2006**.

NOTICE

D.98-12-066 provides that RALFs should be served on the Consumer Services Division (CSD), the DRA, 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 Consumer Services and Information Division (CSID, successor to CSD) and DRA. 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 or via U.S. mail to parties shown on the attached list.

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

Vice President – Regulatory Relations

cc:

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

Index of Appendices

Confidential Appendix A – Amended Power Purchase Agreement including all prior amendments and agreements executed within the last three years
Confidential Appendix B – Santa Maria Consent to Assignment
Confidential Appendix C – Santa Maria Dispatch Agreement
Partially Redacted Appendix D – DRA Letter of Support
Confidential Appendix E – Historical Output of Project
Confidential Appendix F – Detailed Analysis of Ratepayer Benefits
Confidential Appendix G – Detailed Analysis of Projects' Economic Viability
Appendix H - Original Power Purchase Agreements, including all prior amendments and agreements executed at least three years prior

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 U39M

Utility type:	Contact Person: David Poster
☒ ELC ☒ GAS	Phone #: (415) 973-1082
☐ PLC ☐ HEAT ☐ WATER	E-mail: dxpu@pge.com

EXPLANATION OF UTILITY TYPE			(Date Filed/ Received Stamp by CPUC)
ELC = Electric	GAS = Gas		
PLC = Pipeline	HEAT = Heat	WATER = Water	

Advice Letter (AL) #: **2872-E**
Subject of AL: Fresno Cogen Restructuring Advice Letter Filing

Keywords (choose from CPUC listing): QFs

AL filing type: ☐ Monthly ☐Quarterly ☐ Annual ☒One-Time ☐ Other ______________________________

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

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

Resolution Required? ☒Yes ☐ No

Requested effective date: **9-21-06** No. of tariff sheets: 0

Estimated system annual revenue effect: (%): N/A

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 proposed[1]:N/A

Pending advice letters that revise the same tariff sheets:

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

Utility Info (including e-mail)

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

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Imperial Irrigation District
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International Power Technology
Interstate Gas Services, Inc.
IUCG/Sunshine Design LLC
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Luce, Forward, Hamilton & Scripps
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McKenzie & Assoc
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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
OnGrid Solar
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
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SCD Energy Solutions
Seattle City Light
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