

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



November 6, 2008

**Advice Letters 3193-E/E-A/E-B**

Brian K. Cherry  
Vice President, Regulatory Relations  
Pacific Gas and Electric Company  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, CA 94177

**Subject: Amendment to Standard Offer No. 1 Power Purchase Agreement between PG&E Company and The Pacific Lumber Company and Supplemental Filings**

Dear Mr. Cherry:

Advice Letters 3193-E/E-A/E-B are effective November 20, 2008 by Resolution E-4212.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Lewis".

Kenneth Lewis, Acting Director  
Energy Division



January 11, 2008

**Advice 3193-E**

(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

**Subject: Amendment to Standard Offer No. 1 Power Purchase Agreement  
between Pacific Gas and Electric Company and The Pacific  
Lumber Company**

**I. PURPOSE**

Pacific Gas and Electric Company (PG&E) requests that the California Public Utilities Commission (Commission) approve an amendment to the Standard Offer No. 1 (SO1) power purchase and sale agreement (PPA) between The Pacific Lumber Company (PALCO) and PG&E (Amendment). The Amendment would suspend for eight years PALCO's ability to terminate the PPA unilaterally. In addition, the Amendment would increase the PPA's expected average price through September 2011 and the estimated average price through April 2016 to a fixed price for the entire term of the eight-year Amendment.

**II. BACKGROUND**

PALCO currently sells renewable power to PG&E from its 32.5 MW biomass facility in Scotia, California. PALCO's original PPA is dated January 17, 1986, and has been previously amended.

The July 5, 1988 First Amendment set the delivery limit to 20 MW. In the July 14, 2001 Second Amendment, PALCO accepted the 5.37 c/kwh energy price offered to all QFs during the energy crisis. (See Decision (D.)01-06-015.)

A January 10, 2003 Letter Agreement revised the delivery limit to 22 MW. A May 5, 2006 Letter Agreement raised the delivery limit to 28.8 MW.

In a May 8, 2006 Amendment to the PPA, PALCO accepted the terms of the "IEP Settlement," which the Commission approved in D.06-07-032.

The current SO1 PPA, as amended, has no specified termination date, and gives PALCO the unilateral right to terminate the PPA on 30 days notice.

Although PALCO has delivered renewable power from its facility for the past 21 years and continues to do so, it sought protection under Chapter 11 of the U.S. Bankruptcy Code on January 18, 2007, and is now operating as a Debtor in Possession. According to pleadings filed in the bankruptcy proceeding, the Chapter 11 proceeding was precipitated when PALCO's wholly-owned company, Scotia Pacific Company LLC (SCOPAC) was unable to make a scheduled payment on certain notes secured by SCOPAC's timberland and timber harvest rights. SCOPAC owns approximately 200,000 acres of timberland; SCOPAC's business consists of harvesting of timber from its timberlands and selling the timber to PALCO, which converts the logs into marketable lumber in sawmills it owns. PALCO uses the wood waste from its lumber business to fuel the facility that generates power for sale to PG&E.

The timber industry in general and SCOPAC's operations specifically have become increasingly unpredictable and negatively affected by substantial and expanding regulatory constraints, ongoing litigation challenges, additional legislative effects, negative judicial decisions, weather patterns, and low lumber or log prices.

PALCO informed PG&E of the foregoing situation and the parties began to explore means by which PALCO could continue to supply renewable power to PG&E given the challenges PALCO's fuel supplier faces as described above. From PG&E's perspective, there was a risk that PALCO might elect to terminate its contract with PG&E.

The parties concluded that the Amendment was the best solution. It should enable PG&E to retain PALCO in its renewable portfolio and give PALCO more revenue to sustain its operations.

### **III. PRINCIPAL TERMS**

In return for PALCO's commitment not to terminate its PPA for eight years, beginning on April 1, 2008, PG&E has agreed to pay a flat, all-in price as stated in paragraph 3.B. of the Amendment provided in confidential Attachment A. As described in Confidential Attachment B, renewable energy under the terms of the amended PALCO PPA is attractive relative to existing and recently executed Renewable Portfolio Standard (RPS) contract alternatives and is below the 2007 Market Price Referent (MPR) for 10-year term contracts. Continued deliveries from PALCO amount to approximately 0.2% of PG&E's 20% Renewables Portfolio Standard (RPS) requirement in 2010.

The Amendment is subject to satisfactory approval obtained from both this Commission and the Bankruptcy Court. As described in paragraph 4.A. of the Amendment, if this Commission does not approve this Amendment by April 1, 2008, PG&E will continue to pay PALCO the current PPA prices, but will track the difference between those payments and the amounts PG&E would have paid had the Commission approved the Amendment by April 1, 2008. If, ultimately, the Commission does approve the Amendment to the satisfaction of both parties, PG&E will pay PALCO the accrued difference. If satisfactory approval is not obtained within 12 months after PG&E has submitted this Amendment to the Commission, the Amendment will terminate and PG&E will retain the accrued difference in payments.

If the Commission approves the Amendment, PALCO will seek Bankruptcy Court approval of the transaction. If the Bankruptcy Court does not approve, the Amendment will terminate and PG&E will retain the differential payments.

Except for the pricing terms and PALCO's ability to terminate the PPA, the Amendment modifies no other provisions of the PPA. The foregoing discussion of the Amendment terms is intended to be descriptive only. The rights and obligation of the parties to the Amendment are governed solely by the Amendment.

In support of this Advice Letter, the following confidential information is being submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C. Pursuant to the Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066, issued August 22, 2006, in Rulemaking 05-06-040, a separate Declaration of Confidential Treatment regarding the confidential information is being filed concurrently with this Advice Letter.

**Confidential Attachments:**

Attachment A – Amendment to the January 17, 1986 PPA

Attachment B – Pricing Comparison Table

**IV. REQUEST FOR COMMISSION APPROVAL**

As discussed above, one of the conditions of the Amendment is satisfactory commission approval. Therefore, PG&E requests that the Commission issues a resolution no later than May 15, 2008 that:

1. Adopts the Amendment without change; and

2. Approves the Amendment in its entirety, including payments to be made by PG&E pursuant to the Amendment, subject to the Commission's review of PG&E's administration of the Amendment.
3. Finds that any stranded costs that may arise from the PPA are subject to the provisions of D.04-12-048 that authorize recovery of stranded renewables procurement costs over the life of the contract. The implementation of the D.04-12-048 stranded cost recovery mechanism is being addressed in Rulemaking 06-02-013.
4. The Amendment will have no effect upon the RPS eligibility of the project.

### **Protests**

Anyone wishing to protest this filing may do so by sending a letter by January 31, 2008, 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 effect, and should be submitted expeditiously. Protests should be mailed to:

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

Facsimile: (415) 703-2200  
E-mail: [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov) and [jinj@cpuc.ca.gov](mailto:jinj@cpuc.ca.gov)

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Honesto Gatchalian, Energy Division, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission.

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 **May 15, 2008**. PG&E submits this as a Tier 3 advice filing.

**Notice:**

In accordance with General Order 96-B, Section IV, 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 lists for R.01-10-024 and R.06-05-027. 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  
Vice President - Regulatory Relations

cc: Service List for R.06-05-027  
Service List for R.01-10-024  
Paul Douglass - Energy Division

Attachments

# 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 M)**

Utility type:

ELC       GAS  
 PLC       HEAT       WATER

Contact Person: David Poster

Phone #: (415) 973-1082

E-mail: DXPU@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) #: **3193-E**

Tier: **[3]**

Subject of AL: Amendment to Standard Offer No. 1 Power Purchase Agreement between Pacific Gas and Electric Company and The Pacific Lumber Company

Keywords (choose from CPUC listing): PPA

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: No

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

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: Yes. See the attached matrix that identifies all of the confidential information.

Confidential information will be made available to those who have executed a nondisclosure agreement: All members of PG&E's Procurement Review Group who have signed nondisclosure agreements will receive the confidential information.

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: Janos Lazlo, (415)-973-2736.

Resolution Required?  Yes  No

Requested effective date: **05/15/2008**

No. of tariff sheets: N/A

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<sup>1</sup>: N/A

Protests, dispositions, 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**

**Tariff Files, Room 4005**

**DMS Branch**

**505 Van Ness Ave., San Francisco, CA 94102**

**jn@cpuc.ca.gov and mas@cpuc.ca.gov**

**Pacific Gas and Electric Company**

**Attn: Brian K. Cherry, Vice President, Regulatory Relations**

**77 Beale Street, Mail Code B10C**

**P.O. Box 770000**

**San Francisco, CA 94177**

**E-mail: PGETariffs@pge.com**

**DECLARATION OF JANOS LASZLO  
SEEKING CONFIDENTIAL TREATMENT  
FOR CERTAIN DATA AND INFORMATION  
CONTAINED IN ADVICE LETTER 3193-E  
(PACIFIC GAS AND ELECTRIC COMPANY ID U 39 E)**

I, Janos Laszlo, declare:

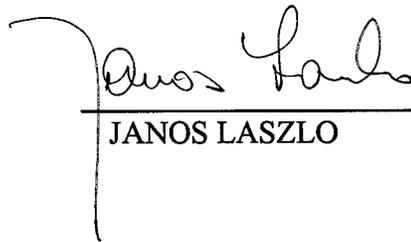
1. I am presently employed by Pacific Gas and Electric Company (“PG&E”), and have been an employee at PG&E since 1970. My current title is Principal in PG&E’s Energy Supply Department. In this position, my responsibilities include negotiating power purchase agreements (PPAs) with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E’s contracts with such sellers and the negotiation of such transactions. I have also gained knowledge of the operations of such sellers in general and, based on my experience in dealing with facility owners and operators, I am familiar with the types of data and information about their operations that such owners and operators consider confidential and proprietary.

2. Based on my knowledge, experience, information and belief, and in accordance with the “Administrative Law Judge’s Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066,” issued August 22, 2006, I make this declaration seeking confidential treatment of “Appendix A and B to Advice 3193-E,” submitted on January 11, 2008. By this Advice Letter, PG&E is seeking this Commission’s approval of an Amendment to an existing Standard Offer No. 1 (SO1) PPA that PG&E has executed with The Pacific Lumber Company.

3. Attached to this declaration is a matrix identifying the data and information for which PG&E is seeking confidential treatment. The matrix specifies that the material PG&E is seeking to protect constitutes the particular type of data and information listed in Appendix 1 (the “IOU Matrix”) of Decision 06-06-066. The matrix also specifies the category or categories

in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix that is pertinent to this filing.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on January 8, 2008, at San Francisco, California.

  
\_\_\_\_\_  
JANOS LASZLO

Pacific Gas and Electric Company Advice Letter 3193-E January 11, 2008							
Identification of Confidential Information per Decision 06-06-066							
Redaction Reference	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
<b>Document: Advice Letter 3193-E</b>							
1	Appendix A - Amendment to the PPA	Item VII B	Y	Y	Y	This appendix consists of actual pages of the contract. The contract document is protected from public disclosure under Item VII B in the Matrix. Furthermore, counterparties have an expectation that the terms of their PPAs will remain confidential under the provisions of PG&E's Commission-approved RPS Solicitation Protocol. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because disclosure can impact how counterparties position their negotiations to their favor.	Remain confidential for three years
	Appendix B - Contract Pricing Comparison	Item VII B	Y	Y	Y	This appendix contains contract price information. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from recent RPS solicitations, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparty has an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because disclosure can impact how counterparties position their negotiations to their favor.	Remain confidential for three years

**PG&E Gas and Electric  
Advice Filing List  
General Order 96-B, Section IV**

ABAG Power Pool	Douglass & Liddell	PG&E National Energy Group
Accent Energy	Downey, Brand, Seymour & Rohwer	Pinnacle CNG Company
Aglet Consumer Alliance	Duke Energy	PITCO
Agnews Developmental Center	Duke Energy North America	Plurimi, Inc.
Ahmed, Ali	Duncan, Virgil E.	PPL EnergyPlus, LLC
Alcantar & Kahl	Dutcher, John	Praxair, Inc.
Ancillary Services Coalition	Dynergy Inc.	Price, Roy
Anderson Donovan & Poole P.C.	Ellison Schneider	Product Development Dept
Applied Power Technologies	Energy Law Group LLP	R. M. Hairston & Company
APS Energy Services Co Inc	Energy Management Services, LLC	R. W. Beck & Associates
Arter & Hadden LLP	Exelon Energy Ohio, Inc	Recon Research
Avista Corp	Exeter Associates	Regional Cogeneration Service
Barkovich & Yap, Inc.	Foster Farms	RMC Lonestar
BART	Foster, Wheeler, Martinez	Sacramento Municipal Utility District
Bartle Wells Associates	Franciscan Mobilehome	SCD Energy Solutions
Blue Ridge Gas	Future Resources Associates, Inc	Seattle City Light
Bohannon Development Co	G. A. Krause & Assoc	Sempra
BP Energy Company	Gas Transmission Northwest Corporation	Sempra Energy
Braun & Associates	GLJ Energy Publications	Sequoia Union HS Dist
C & H Sugar Co.	Goodin, MacBride, Squeri, Schlotz &	SESCO
CA Bldg Industry Association	Hanna & Morton	Sierra Pacific Power Company
CA Cotton Ginners & Growers Assoc.	Heeg, Peggy A.	Silicon Valley Power
CA League of Food Processors	Hitachi Global Storage Technologies	Smurfit Stone Container Corp
CA Water Service Group	Hogan Manufacturing, Inc	Southern California Edison
California Energy Commission	House, Lon	SPURR
California Farm Bureau Federation	Imperial Irrigation District	St. Paul Assoc
California Gas Acquisition Svcs	Integrated Utility Consulting Group	Sutherland, Asbill & Brennan
California ISO	International Power Technology	Tabors Caramanis & Associates
Calpine	Interstate Gas Services, Inc.	Tecogen, Inc
Calpine Corp	IUCG/Sunshine Design LLC	TFS Energy
Calpine Gilroy Cogen	J. R. Wood, Inc	Transcanada
Cambridge Energy Research Assoc	JTM, Inc	Turlock Irrigation District
Cameron McKenna	Luce, Forward, Hamilton & Scripps	U S Borax, Inc
Cardinal Cogen	Manatt, Phelps & Phillips	United Cogen Inc.
Cellnet Data Systems	Marcus, David	URM Groups
Chevron Texaco	Matthew V. Brady & Associates	Utility Resource Network
Chevron USA Production Co.	Maynor, Donald H.	Wellhead Electric Company
City of Glendale	MBMC, Inc.	White & Case
City of Healdsburg	McKenzie & Assoc	WMA
City of Palo Alto	McKenzie & Associates	
City of Redding	Meek, Daniel W.	
CLECA Law Office	Mirant California, LLC	
Commerce Energy	Modesto Irrigation Dist	
Constellation New Energy	Morrison & Foerster	
CPUC	Morse Richard Weisenmiller & Assoc.	
Cross Border Inc	Navigant Consulting	
Crossborder Inc	New United Motor Mfg, Inc	
CSC Energy Services	Norris & Wong Associates	
Davis, Wright, Tremaine LLP	North Coast Solar Resources	
Defense Fuel Support Center	Northern California Power Agency	
Department of the Army	Office of Energy Assessments	
Department of Water & Power City	OnGrid Solar	
DGS Natural Gas Services	Palo Alto Muni Utilities	