

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 19, 2008

Advice Letter 3322-E

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: Contract for Procurement of Renewable Energy Resources
Resulting from PG&E's Power Purchase Agreement with
Klondike Wind Power III LLC, and Firming and Shaping
Agreement with Bonneville Power Administration**

Dear Mr. Cherry:

Advice Letter 3322-E is effective December 18, 2008 per Resolution E-4216.

Sincerely,

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

Kenneth Lewis, Acting Director
Energy Division



Brian K. Cherry
Vice President
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August 21, 2008

Advice 3322-E

(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

**Subject: Contract for Procurement of Renewable Energy Resources
Resulting from PG&E's Power Purchase Agreement with
Klondike Wind Power III LLC, and Firming and Shaping
Agreement with Bonneville Power Administration**

I. PURPOSE AND OVERVIEW

Pacific Gas and Electric Company ("PG&E") seeks California Public Utilities Commission ("Commission" or "CPUC") approval of a power purchase agreement ("PPA") that PG&E has executed with Klondike Wind Power III LLC ("Klondike"), a subsidiary of Iberdrola Renewables, Inc. ("Iberdrola"), and a separate firming and shaping agreement ("Exchange Agreement") with Bonneville Power Administration ("BPA") (collectively, the "Agreements"). PG&E submits the Agreements for CPUC review and approval to establish PG&E's ability to recover the cost of payments made pursuant to the Agreements through its Energy Resource Recovery Account ("ERRA").

The Commission's approval of the Agreements will authorize PG&E to accept deliveries of RPS-eligible energy from a portion of the existing 221.3 megawatt ("MW") Klondike wind facility, and from a 76.5 MW expansion of that facility (collectively, the "Project"), located in Sherman County, Oregon. The total installed capacity of the Project will be 90 MW. PG&E will purchase a small percentage (6.09 percent) of the output from the existing facility, and will purchase 100 percent of the output from the expansion, with expected total deliveries of 263 gigawatt hours ("GWh") per year for a term of 10 years. Deliveries are anticipated to begin on December 31, 2008. These deliveries will contribute to PG&E's 20 percent portfolio goal and to PG&E's RPS goals in the years beyond 2010. The

combined price under the Agreements is below the 10-year 2007 Market Price Referent (“MPR”).

Under the PPA, PG&E will pay a fixed price for the purchase of a product consisting of energy and Green Attributes from Klondike, which Klondike will deliver to PG&E at the Project’s busbar in Oregon. Under the Exchange Agreement, BPA will accept the energy from PG&E at the Project’s busbar and deliver firmed and shaped energy to PG&E at the California-Oregon Border (“COB”) during a subsequent off-peak period. PG&E will pay BPA a service charge for the firming, shaping and delivery of the energy. The Agreements must each receive final and non-appealable approval from the Commission for either one of them to become effective.

The Agreements resulted from bilateral negotiations. Consistent with the protocol used for review of RPS contracts resulting from the 2007 RPS Solicitation, PG&E has included Confidential Appendices A through H, which address the reasonableness of the Agreements. As is discussed below under the section entitled “Request for Confidential Treatment,” PG&E is seeking confidential treatment of the information contained in these appendices.

PG&E requests that the Commission issue a resolution no later than November 21, 2008 approving the Agreements and payments to be made by PG&E under the Agreements, and containing the findings required by the definition of CPUC Approval adopted by D.07-11-025 and D.08-04-009 and incorporated in the PPA so that the PPA will remain in effect.¹

II. DETAILED DESCRIPTION OF THE PROJECT

PG&E seeks to purchase energy from Klondike’s existing wind facility in Sherman County, Oregon and from new units being added to that facility. The Klondike expansion is currently operational. The expanded project will utilize existing network transmission and substation facilities.

The following table summarizes the substantive features of the PPA:

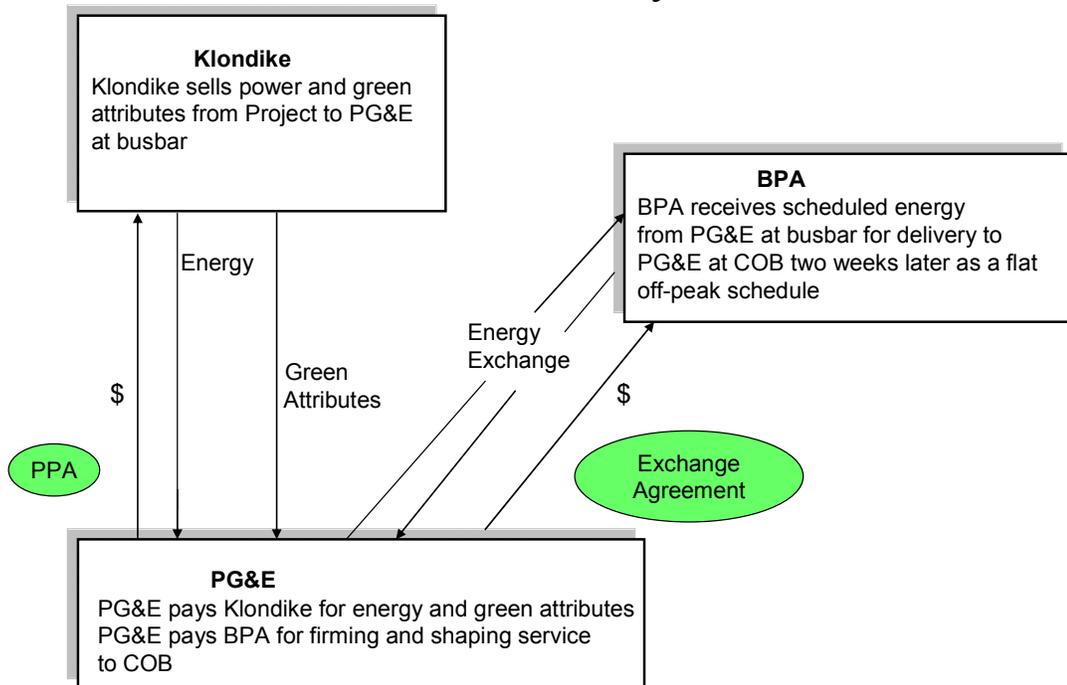
¹ As provided by D.07-11-025 and D.08-04-009, the Commission must approve the PPA and payments to be made thereunder, and find that the procurement will count toward PG&E’s RPS procurement obligations.

Generating Facility	Type	Term Years	MW Capacity	Annual Deliveries	Commercial Operation Date	Project Location
Klondike	Wind	10 years	90 MW	263 GWh	December 31, 2008	Sherman County, Oregon

Copies of the Agreements are provided in Confidential Appendix G and a contract analysis is provided in Confidential Appendix D.

Pursuant to the PPA, PG&E will pay a fixed price for a product consisting of energy and Green Attributes from Klondike, which Klondike will deliver to PG&E at the Project's busbar in Oregon. As described above, PG&E has contracted separately and directly with BPA through the Exchange Agreement for the firming and shaping services associated with the energy delivered from Klondike. Specifically, in exchange for a service fee paid by PG&E, BPA will accept the energy from PG&E at the Project's busbar and deliver firmed and shaped energy to PG&E at COB during a subsequent off-peak period. PG&E will then schedule the energy with the California Independent System Operator ("CAISO") at COB.

Klondike-BPA Delivery Structure



As part of the arrangement with BPA to provide the firming and shaping services, PG&E has agreed, with Klondike's consent, to allow BPA the option to purchase 50 percent of the Project's output for the last five years of the ten-year term. Should BPA exercise this option under the Exchange Agreement, it would then enter into a separate power purchase agreement with Klondike to purchase the assigned output. Accordingly, PG&E's renewable energy delivered from the Project would be reduced by 50 percent during the remaining five years of the term.

The Exchange Agreement is governed by federal law. BPA is a federal governmental agency whose authority to enter into the Exchange Agreement is conferred by federal statute.² Accordingly, the Exchange Agreement must be governed by federal law, and not by California law.³

² 16 U.S.C. §§ 832 *et seq.*, §§ 837 *et seq.*

³ See *United States v. Seckinger*, 397 U.S. 203, 209-210 (1970) (where the federal government enters into a contract "pursuant to authority conferred by federal statute and, ultimately, by the Constitution," "federal law controls the interpretation of the contract"); *Boyle v. United Technologies Corp.*, 487 U.S. 500, 504 (1988) ("obligations to and rights of the United States

The existing Klondike wind facility and the expanded project have been pre-certified by the California Energy Commission (“CEC”) as eligible renewable energy resources. The final certification of the existing Klondike facility is pending before the CEC. The transactions under the PPA and Exchange Agreement comply with the CEC’s RPS eligibility requirements for firming and shaped deliveries of out of state power where deliveries occur at a different time than generation.⁴ Relevant portions of the CEC’s RPS Eligibility Guidebook are reproduced below.

Electricity may be delivered into California at a different time than when the RPS-certified facility generated electricity, pursuant to Public Resources Code Section 25741, Subdivision (a). Further, the electricity delivered into California may be generated at a different location than that of the RPS-certified facility. In practical terms, out-of-state energy may be “firming” or “shaped” within the calendar year. Firming and shaping refers to the process by which resources with variable delivery schedules may be backed up or supplemented with delivery from another source to meet customer load. . . .

To count generation from out-of-state facilities for RPS compliance, the RPS-certified facility must enter a power purchase agreement with a retail seller, procurement entity or third party, and a matching quantity of electricity must be delivered to an in-state market hub (also referred to as “zone”) or in-state point of delivery (also referred to as “node”) located within California. . . . The retail seller or procurement entity and seller may negotiate which party is responsible for securing transmission, as necessary, at any point along the delivery path as long as the energy is delivered into California.

The retail seller or procurement entity may document delivery of electricity from any control area operator (also referred to as “balancing authority”) in the WECC transmission system outside California, and the delivered electricity may originate from a control

under its contracts are governed exclusively by federal law”); *S.R.A., Inc. v. Minnesota*, 327 U.S. 558, 564 (1946) (“[i]n determining the meaning and effect of contracts to which the United States is a party, the governing rules of law must be finally declared by [the Supreme Court of the United States]”).

⁴ See California Energy Commission Renewables Portfolio Standard Eligibility Guidebook (“RPS Eligibility Guidebook”), Third Edition, CEC-300-2007-006-ED3-CMF, adopted December 19, 2007.

area that is different from that in which the RPS-certified facility is located. The electricity delivery may occur through typical delivery arrangements, such as through wheeling across multiple control areas, and the delivery may occur at any delivery point into California.

The Energy Commission will compare the amount of RPS-eligible electricity generated by the RPS-eligible facility per calendar year with the amount of electricity delivered into California for the same calendar year and the lesser of the two amounts may be counted as RPS-eligible procurement (for more discussion see “verification of delivery”). The electricity generated and associated RECs from the RPS-certified facility must be procured through a power purchase agreement with the retail seller or procurement entity. The delivery of electricity to an in-state market hub or in-state point of delivery located within California must be made consistent with North American Electric Reliability Corporation (NERC) rules and documented with a NERC E-tag as described below.⁵

III. PRG PARTICIPATION AND FEEDBACK

PG&E informed its Procurement Review Group (“PRG”) of the proposed transaction on March 14, 2008, April 11, 2008 and July 25, 2008. The PRG voiced no objections to the proposed Agreements.

IV. THE AGREEMENTS ARE CONSISTENT WITH THE COMMISSION’S RPS-RELATED DECISIONS

A. Consistency with PG&E’s Adopted RPS and Long-Term Procurement Plans

1. Fit with Identified Renewable Resource Needs

PG&E’s 2007 renewable procurement plan (“Plan”) was approved in D.07-02-011 on February 15, 2007. As required by statute, the Plan includes an assessment of supply and demand to determine the optimal mix of renewable generation resources, consideration of compliance flexibility mechanisms established by the

⁵ RPS Eligibility Guidebook at 23-24 (footnotes omitted).

Commission, and a bid solicitation setting forth the need for renewable generation of various operational characteristics.⁶

The goal of PG&E's approved Plan was to procure approximately one to two percent of its retail sales volume, or between 750 GWh and 1,500 GWh per year, with delivery terms of 10, 15 or 20 years. Projects capable of providing actual deliveries with only a short or no delay are especially valuable to PG&E.

With expected RPS-eligible energy deliveries of approximately 263 GWh per year for a term of 10 years beginning in 2009, the PPA will contribute to PG&E's 2010 RPS target and to PG&E's RPS goals in the years beyond 2010.

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

PG&E's 2006 long-term procurement plan ("LTPP") stated that PG&E would aggressively pursue procurement of RPS-eligible renewable resources. In approving PG&E's 2006 LTPP, the Commission noted that development of renewable energy is "of great importance to the Governor, the State of California, and the Commission."⁷ The PPA is consistent with PG&E's 2006 LTPP and with Commission policy regarding renewable energy expressed in the decision approving PG&E's 2006 LTPP.

B. Consistency of Bid Evaluation Process with Least-Cost Best Fit Decision

The RPS statute requires the "least cost, best fit" ("LCBF") eligible renewable resources to be procured.⁸ The LCBF decision directs the utilities to use certain criteria in their bid ranking.⁹ 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 negotiations. The renewables bid evaluation process focuses on four primary areas:

⁶ Pub. Util. Code § 399.14(a)(3).

⁷ D.07-12-052 at 73.

⁸ Pub. Util. Code § 399.14(a)(2)(B).

⁹ D.04-07-029.

1. Determination of market value of bid,
2. Calculation of transmission adders and integration costs,
3. Evaluation of portfolio fit, and
4. Consideration of non-price factors.

Since the Agreements are the result of bilateral negotiations, PG&E did not evaluate the Agreements using the same protocol that it used to evaluate bids received in the 2007 RPS Solicitation. However, the reasonableness of the Agreements was examined using the same market value comparison tools used with other RPS transactions received in the 2007 RPS Solicitation. The general finding is that this opportunity is highly competitive with other offers received in the 2007 RPS Solicitation, and with other RPS opportunities recently executed or under negotiation. A more detailed discussion of PG&E's evaluation of the Agreements is provided in Confidential Appendix D.

1. **Market Valuation**

In a "mark-to-market analysis," 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. This analysis includes evaluation of the bid price and indirect costs, such as transmission and integration costs. PG&E's analysis of the market value of the PPA is addressed in Confidential Appendix D.

2. **Portfolio Fit**

Portfolio fit considers how well an offer's features match PG&E's portfolio needs. The Agreements fit PG&E's portfolio in a satisfactory manner.

3. **Consistency with the Transmission Ranking Cost Decision**

Under the transmission ranking cost decision, the customer's potential cost of accepting energy deliveries from a project must be considered when determining the project's value. The decision also allows for alternative delivery points/commercial arrangements to effect delivery of renewable energy. In this transaction, an alternative commercial arrangement is utilized rather than assigning a transmission adder to reflect the cost of potential transmission upgrades to import power into the CAISO. This alternative commercial arrangement reflects the potential for congestion south of COB based upon the transaction's valuation against COB forward prices.

4. **Consistent Application of TODs**

Time of Delivery (“TOD”) factors are addressed in Confidential Appendix D.

5. **Qualitative Factors**

PG&E considered qualitative factors as required by D.04-07-029 and D.07-02-011 when evaluating the PPA.

C. Consistency with Adopted Standard Terms and Conditions

The Commission set forth standard terms and conditions to be incorporated into contracts for the purchase of electricity from eligible renewable energy resources in D.04-06-014, D.07-02-011 as modified by D.07-05-057, and D.07-11-025. These terms and conditions were compiled and published by D.08-04-009. The non-modifiable terms in the PPA conform exactly to the non-modifiable terms set forth in Attachment A of D.07-11-025 and Appendix A of D.08-04-009.

Modifications have been made to terms in the PPA designated as modifiable in D.07-11-025 and D.08-04-009 based upon mutual agreement reached during negotiations. A comparison of the modifiable terms in the PPA against the modifiable terms in PG&E’s 2007 RPS As-Available PPA form in the Solicitation Protocol issued on March 12, 2007 is provided in Confidential Appendix H.

Each provision in the PPA is essential to the negotiated agreement between the parties and the Commission should therefore not modify any of the provisions. The Commission should consider the PPA as a whole, in terms of its ultimate effect on utility customers. PG&E submits that the PPA protects the interests of its customers while achieving the Commission’s goal of increasing procurement from eligible renewable resources.

The RPS legislation and D.07-11-025 do not require the CPUC’s standard terms and conditions to be included in firming and shaping agreements that accompany contracts for the purchase of renewable energy. The standard terms and conditions must be incorporated into contracts for the purchase of electricity generated by an eligible renewable energy resource.¹⁰ The Exchange Agreement is not, however, a

¹⁰ Cal. Pub. Util. Code § 399.14(a)(2)(D) (“The commission shall adopt, by rulemaking . . . [s]tandard terms and conditions to be used by all electrical corporations in contracting for eligible renewable energy resources”), (referring to contracts “for the purchase of electricity generated by an eligible renewable energy resource” and “electricity purchase agreement[s]”) in the context of

contract for the purchase of electricity generated by an eligible renewable energy resource. It is a contract for the purchase of a service at a fixed price to facilitate the scheduling and delivery of the renewable energy procured under the PPA into California. Even absent the Exchange Agreement, the energy purchased under the PPA could still be used for RPS compliance provided that PG&E demonstrates delivery of such energy into California consistent with CEC requirements. The CPUC's non-modifiable terms and conditions do not, therefore, apply to the Exchange Agreement.

The content of the non-modifiable terms and conditions further demonstrates that they were intended to apply to contracts for the procurement of renewable electricity and not to agreements to provide firming and shaping services. For example, the non-modifiable "Eligibility" term requires the RPS seller to represent and warrant that the project is an eligible renewable energy resource throughout the delivery term of the agreement, and that the project's output qualifies under the RPS requirements. This term has no application to a firming and shaping agreement such as the Exchange Agreement, as there is no procurement of renewable energy from a resource and thus no representation to be made regarding RPS eligibility. Similarly, the term for the conveyance of Green Attributes is inapplicable where, as here, the firming and shaping service provider is not selling renewable power, but is instead providing a service to arrange for the scheduling and delivery of energy purchased under a separate contract.

D. Consistency with Minimum Quantity Decision

In D.07-05-028, the Commission determined that in order to count energy deliveries from short-term contracts with existing facilities toward RPS goals, RPS-obligated load-serving entities must contract for deliveries equal to at least 0.25 percent of their prior year's retail sales through long-term contracts or through short-term contracts with new facilities.

The PPA is a long-term contract and thus counts toward PG&E's procurement obligation for 2008 under D.07-05-028. With the exception of one contract, all of the RPS contracts that PG&E has executed in 2008 are long-term and/or with new facilities.

the standard terms and conditions); D.07-11-025 at 2 ("In 2004, the Commission adopted 14 standard terms and conditions (STCs) to be used in contracts executed to procure electricity pursuant to" the RPS Program), 4 ("The RPS legislation requires that the Commission shall adopt STCs to be used by all electrical corporations in contracting for eligible renewable energy resources.").

V. MPR

The actual prices under the PPA and the Exchange Agreement are confidential, market sensitive information. The all-in price for the energy and the firming and shaping service is below the 2007 MPR for a project with a 10-year delivery term beginning in 2009.

VI. PROJECT VIABILITY

The existing Klondike facility is operational with the exception of one turbine which is being replaced, and the entire Klondike expansion is currently operational. The Project has a guaranteed commercial operation date of December 31, 2008, and is being operated by a viable and experienced project operator. Klondike's parent, Iberdrola, is a leading provider of wind power with more than 8,000 MW of wind power currently in operation globally. As evidenced by two currently operating wind projects that PG&E has with Iberdrola affiliates, Iberdrola has a strong track record of bringing projects online and within the terms of an agreement.

The Exchange Agreement with BPA is expected to result in reliable deliveries, as BPA has a strong financial position and extensive transmission capabilities.

There is a very good likelihood that the Project will be completed as required by the PPA and will be available to deliver energy by the guaranteed commercial operation date. PG&E has reviewed the credit-related information provided by Klondike and is satisfied that it possesses the necessary credit and experience to perform as required by the PPA. Klondike's obligation to meet milestones is supported by significant performance assurance securities.

The likelihood that the Project will generate renewable power as described in the PPA is further evaluated in Confidential Appendix E, "Project Viability."

VII. CONTINGENCIES AND PROJECT MILESTONES

The PPA identifies the commercial operation date as a guaranteed project milestone. Other contingencies and milestones are addressed in Confidential Appendix D.

VIII. TERMS AND CONDITIONS OF DELIVERY

Before and after implementation of the CAISO's Market Redesign and Technology Upgrade ("MRTU"), the point of delivery will be COB.¹¹

IX. REGULATORY PROCESS

A. Requested Effective Date

PG&E requests that the Commission issue a resolution approving this advice filing no later than November 21, 2008.

B. Earmarking

PG&E reserves the right to earmark the PPA.

C. RPS-Eligibility Certification

The PPA includes the non-modifiable representation and warranty that during the delivery period, the Project will constitute an eligible renewable energy resource certified by the CEC. As noted above, both the existing Klondike wind facility and the expansion have been pre-certified by the CEC as eligible renewable energy resources.

D. Request for Confidential Treatment

In support of this Advice Letter, PG&E has provided the following confidential information, including the PPA and other information that more specifically describes the rights and obligations of the parties. This information is being submitted in the manner directed by D.08-04-023 and the August 22, 2006 Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with D.06-06-066 to demonstrate the confidentiality of the material and to invoke the protection of confidential utility information provided under either the terms of the IOU Matrix, Appendix 1 of D.06-06-066 and Appendix C of D.08-04-023, or General Order 66-C. A separate Declaration Seeking Confidential Treatment is being filed concurrently with this Advice Letter.

¹¹ PG&E's receipt point for shaped and firm energy to support out-of-state renewables has been COB (including with this transaction). However, over the term of this agreement, the import energy actually associated with generation from the Project could be at other CAISO import points.

Confidential Attachments:**Appendix A – Overview of 2004 – 2007 Solicitation Bids****Appendix B – 2007 Bid Evaluations****Appendix C – Intentionally Omitted as Not Applicable****Appendix D – Contract Terms and Conditions Explained****Appendix E – Project Viability****Appendix F – Project’s Contribution Toward RPS Goals****Appendix G1 – Power Purchase Agreement****Appendix G2 – Exchange Agreement****Appendix H – Standard Terms and Conditions Comparison – Modifiables****E. Compliance with the Greenhouse Gas Emissions Performance Standard**

In D.07-01-039, the Commission adopted an Emissions Performance Standard (“EPS”) that applies to contracts for a term of five or more years for baseload generation with an annualized plant capacity factor of at least 60 percent.

The EPS explicitly permits the use of substitute energy from unspecified resources (or system energy) to firm and shape deliveries of intermittent renewable power provided that the following requirements are satisfied: (1) the contract must be with a specified EPS-compliant power plant; (2) the substitute energy delivered into California must be from unspecified resources; and (3) the volume of substitute system energy is limited such that total purchases under the contract do not exceed the total expected output of the renewable power plant over the contract term.¹² The Agreements satisfy each of these requirements.

¹² D.07-01-039, Attachment 7 at 6-7. *See also* D.07-01-039 at 150-151, Conclusion of Law (“COL”) 40.

Because the PPA is linked to a specific generating source, it is a contract with a specified renewable power plant. As a wind facility, the Project is pre-approved as EPS-compliant.¹³ The PPA therefore satisfies the first requirement for EPS compliance, that the contract must be with a specified EPS-compliant power plant.

The Project's generation is intermittent and located outside the CAISO. Firm energy deliveries will be delivered to COB by BPA. As described above, generation from Klondike will enter the local grid whenever it is generated, but energy will be delivered to PG&E's customers via COB in accordance with the Exchange Agreement. The substitute energy delivered into California will be from unspecified resources, and the volume of substitute system energy, which reflects the full volume of firm energy deliveries provided at COB, is not expected to exceed the total expected output of the Project over the term of the PPA. The second and third requirements for EPS compliance are therefore satisfied.

Notification of compliance with D.07-01-039 is provided through this Advice Letter, which has been served on the service list in the RPS rulemaking, R.06-05-027.

X. REQUEST FOR COMMISSION APPROVAL

The continued effectiveness of the PPA and Exchange Agreement is conditioned on the occurrence of "CPUC Approval," as that term is defined in each of the Agreements. Time is of the essence in the Commission's consideration and approval of this Advice Letter. With an anticipated commercial operation date of December 31, 2008, this Project could contribute almost immediately to PG&E's 2010 RPS target.

Therefore, PG&E requests that the Commission issue a resolution no later than **November 21, 2008** that:

1. Approves the Agreements in their entireties, including payments to be made by PG&E pursuant to the Agreements, subject to the Commission's review of PG&E's administration of the Agreements.

¹³ D.07-01-039, Attachment 7 at 4 (providing that wind facilities are pre-approved as EPS compliant). *See also* D.07-01-039 at 118-119, COL 35.

2. Finds that any procurement pursuant to the PPA 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.) ("RPS"), Decision ("D.") 03-06-071 and D.06-10-050, or other applicable law.
3. Finds that all procurement and administrative costs, as provided by Public Utilities Code section 399.14(g), associated with the PPA shall be recovered in rates.
4. Adopts the following finding of fact and conclusion of law in support of CPUC Approval:
 - a. The PPA is consistent with PG&E's approved 2007 RPS procurement plan.
 - b. The terms of the Agreements, including the price of delivered energy, are reasonable.
5. Adopts the following finding of fact and conclusion of law in support of cost recovery for the Agreements:
 - a. The utility's costs under the Agreements shall be recovered through PG&E's Energy Resource Recovery Account.
 - b. 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 ("R.") 06-02-013.
6. Adopts the following findings with respect to resource compliance with the Emissions Performance Standard ("EPS") adopted in R.06-04-009:
 - a. Klondike's renewable generating facility is an intermittent renewable energy resource, for purposes of compliance with the EPS.
 - b. The generating facility employs wind technology.

- c. The renewable resource is pre-approved as compliant with the EPS.
- d. The use of system energy to deliver electricity under the terms of the Agreements is consistent with the Commission's adopted EPS.

Protests:

Anyone wishing to protest this filing may do so by sending a letter by **September 10, 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 impact, and should be submitted expeditiously. 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 jnj@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Honesto Gatshalian, 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 the Commission issue a resolution approving this advice filing no later than November 21, 2008.

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.06-02-012, R.06-02-013 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.06-02-013
Service List for R.06-02-012
Paul Douglas - Energy Division

Attachments

Limited Access to Confidential Material:

The portions of this Advice Letter marked Confidential Protected Material are submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C. This material is protected from public disclosure because it consists of, among other items, the contract itself, price information, and analysis of the proposed RPS contract, which are protected pursuant to D.06-06-066 and D.08-04-023. A separate Declaration Seeking Confidential Treatment regarding the confidential information is filed concurrently herewith.

Confidential Attachments:

Appendix A – Overview of 2004 – 2007 Solicitation Bids

Appendix B – 2007 Bid Evaluations

Appendix C – Intentionally Omitted as Not Applicable

Appendix D – Contract Terms and Conditions Explained

Appendix E – Project Viability

Appendix F – Project’s Contribution Toward RPS Goals

Appendix G1 – Power Purchase Agreement

Appendix G2 – Exchange Agreement

Appendix H – Standard Terms and Conditions Comparison – Modifiables

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) #: **3322-E**

Tier: [3]

Subject of AL: **Contract for Procurement of Renewable Energy Resources Resulting from PG&E's Power Purchase Agreement with Klondike Wind Power III LLC, and Firming and Shaping Agreement with Bonneville Power Administration**

Keywords (choose from CPUC listing): RPS

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: Gary Jeung, (415)-973-5481

Resolution Required? Yes No

Requested effective date: November 21, 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: 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
jnj@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 GARRETT P. JEUNG
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3322-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Garrett P. Jeung, declare:

1. I am presently employed by Pacific Gas and Electric Company (“PG&E”), and have been an employee at PG&E since 2003. My current title is Senior Director within PG&E’s Energy Procurement organization. In this position, my responsibilities include managing a department that negotiates power purchase agreements and manages electric portfolio risk. In carrying out these responsibilities, I have acquired knowledge of PG&E’s contracts with numerous counterparties and have also gained knowledge of the operations of electricity sellers in general. Through this experience, I have become familiar with the type of information that would affect the negotiating positions of electricity sellers with respect to price and other terms, as well as with the type of information that such sellers consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with Decision (“D.”) 08-04-023 and the August 22, 2006 “Administrative Law Judge’s Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066,” I make this declaration seeking confidential treatment of Appendices A, B, D, E, F, G-1, G-2, and H to Advice Letter 3322-E, submitted on August 21, 2008. By this Advice Letter, PG&E is seeking this Commission’s approval of a power purchase agreement that PG&E has executed with Klondike Wind Power III LLC and a firming and shaping Exchange Agreement that PG&E has executed with Bonneville Power Administration.

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 of D.06-06-066 and Appendix C of D.08-04-023 (the "IOU Matrix"), or constitutes information that should be protected under General Order 66-C. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds (where applicable), 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 (where applicable); (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 to the best of my knowledge the foregoing is true and correct. Executed on August 21, 2008 at San Francisco, California.


Garrett P. Jeung

PACIFIC GAS AND ELECTRIC COMPANY Advice Letter 3322-E August 21, 2008		IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066 AND DECISION 08-04-023				PG&E's Justification for Confidential Treatment	Length of Time
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 and Appendix C to D.08-04-023 (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)		
1 Document: Advice Letter 3322-E	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2004, 2005, 2006 and 2007 solicitations. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006 and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under item VIII A), remain confidential until after final contracts submitted to CPUC for approval For information covered under item VIII B), remain confidential for three years after winning bidders selected
2 Appendix A	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2007 solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006, and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under item VIII A), remain confidential until after final contracts submitted to CPUC for approval For information covered under item VIII B), remain confidential for three years after winning bidders selected
3 Appendix B	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs. Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. General Order 66-C.	Y	Y	Y	This Appendix contains information regarding the terms of the PPA and Exchange Agreement, and analyses and evaluations of the project. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparties to the PPA and Exchange Agreement have an expectation that the terms of the PPA and Exchange Agreement will remain confidential pursuant to confidentiality provisions in the PPA and Exchange Agreement. I am informed and believe that General Order 66-C provides a 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 if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	For information covered under item VII G) and item VII (un-numbered category following VII G), remain confidential for three years For information covered by General Order 66-C, remain confidential
4 Appendix D	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs. Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. General Order 66-C.	Y	Y	Y	This Appendix contains information regarding the terms of the PPA and Exchange Agreement, and analyses and evaluations of the project. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparties to the PPA and Exchange Agreement have an expectation that the terms of the PPA and Exchange Agreement will remain confidential pursuant to confidentiality provisions in the PPA and Exchange Agreement. I am informed and believe that General Order 66-C provides a 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 if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	For information covered under item VII G) and item VII (un-numbered category following VII G), remain confidential for three years For information covered by General Order 66-C, remain confidential

	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (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
Appendix E	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This Appendix contains information concerning and analyses and evaluations of project viability. If made public, this information could harm the counterparty and adversely affect project viability.	Remain confidential for three years
Appendix F	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VI B) Utility Bundled Net Open Position for Energy (MWh).	Y	Y	Y	This Appendix contains information that, if disclosed, would provide valuable market sensitive information to competitors and allow them to see PG&E's remaining RPS net open energy position. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years.	Remain confidential for three years
Appendix G-1	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs.	Y	Y	Y	This Appendix contains the PPA. Disclosure of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years. Release of this information would be damaging to negotiations. Furthermore, the counterparty to the PPA 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 also provides a 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 if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	Remain confidential for three years
Appendix G-2	N	The information contained in this Appendix is not identified in the Matrix, but should be protected under General Order 66-C.	N/A	Y	Y	This Appendix contains the Exchange Agreement. Although this information is not identified in the Matrix, it should be protected under General Order 66-C. 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). Disclosure of the Exchange Agreement would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential. It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers. Furthermore, the counterparty to the Exchange Agreement has an expectation of confidentiality with respect to this information pursuant to confidentiality provisions in the Exchange Agreement.	Remain confidential

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 and Appendix C to D.08-04-023 (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
9 Appendix H	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs.	Y	Y	Y	<p>This Appendix contains certain terms of the PPA. Disclosure of certain terms of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years. Release of this information would be damaging to negotiations. Furthermore, the counterparty to the PPA 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 also provides a 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 if such information were made public, it could have a damaging effect on current and future negotiations with other offers.</p>	Remain confidential for three years

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

Aglet	Department of the Army	Northern California Power Association
Agnews Developmental Center	Dept of General Services	Occidental Energy Marketing, Inc.
Alcantar & Kahl	Division of Business Advisory Services	OnGrid Solar
Ancillary Services Coalition	Douglas & Liddell	PITCO
Anderson & Poole	Douglass & Liddell	PPL EnergyPlus, LLC
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California League of Food Processors	Hanna & Morton	Sequoia Union HS Dist
California Public Utilities Commission	Heeg, Peggy A.	Sierra Pacific Power Company
California Water Company	Hitachi	Silicon Valley Power
Calpine	Hogan Manufacturing, Inc.	Smurfit Stone Container Corp
Cameron McKenna	Imperial Irrigation District	Southern California Edison Company
Cardinal Cogen	Innercite	St. Paul Assoc.
Casner, Steve	International Power Technology	Sunshine Design
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Chris, King	Los Angeles Dept of Water & Power	Tecogen, Inc.
City of Glendale	Luce, Forward, Hamilton & Scripps LLP	TransCanada
City of Palo Alto	MBMC, Inc.	Turlock Irrigation District
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Clean Energy Fuels	Manatt Phelps Phillips	United Cogen
Coast Economic Consulting	Matthew V. Brady & Associates	Utility Cost Management
Commerce Energy	McKenzie & Associates	Utility Resource Network
Commercial Energy	Meek, Daniel W.	Utility Specialists
Constellation	Merced Irrigation District	Vandenberg Air Force
Constellation New Energy	Mirant	Verizon
Consumer Federation of California	Modesto Irrigation District	Wellhead Electric Company
Crossborder Energy	Morgan Stanley	Western Manufactured Housing Communities Association (WMA)
Davis Wright Tremaine LLP	Morrison & Foerster	White & Case
Day Carter Murphy	New United Motor Mfg., Inc.	eMeter Corporation
Defense Energy Support Center	Norris & Wong Associates	
Department of Water Resources	North Coast SolarResources	