

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



April 3, 2009

Advice Letters 3368-E/3368-E-A

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: Third Extension of Three Biomass Generation Power Purchase
Agreements Resulting from PG&E's Interim Renewable Energy
Solicitation and Supplemental Filing**

Dear Mr. Cherry:

Advice Letters 3368-E and 3368-E-A are effective February 20, 2009 per
Resolution E-4223.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

November 24, 2008

Advice 3368-E
(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

Subject: Third Extension of Three Biomass Generation Power Purchase Agreements Resulting from PG&E's Interim Renewable Energy Solicitation

I. PURPOSE AND OVERVIEW

Pacific Gas and Electric Company ("PG&E") seeks authorization from the California Public Utilities Commission ("Commission" or "CPUC") to extend the terms of power purchase agreements ("PPAs") between PG&E and three biomass generators of electricity, Madera Power, LLC ("Madera"), Community Renewable Energy Services, Inc. ("CRES"), and Sierra Power Corporation ("Sierra") (collectively, the "Sellers") pursuant to the Renewables Portfolio Standard (RPS).

The original PPAs were submitted for Commission approval on September 18, 2003¹ and were approved on October 9, 2003.² On July 8, 2004, the Commission granted PG&E's request to extend the terms of these PPAs.³ PG&E and the Sellers subsequently agreed to amend the terms of the PPAs and submitted the amended PPAs for review.⁴ The Commission approved the amended PPAs on January 11, 2007 by Resolution E-4058.

The PPAs will terminate in 2009 unless PG&E exercises its contractual right to extend the PPAs for 5 more years. PG&E intends to exercise this option because of its continuing renewables procurement obligation and the purchase price would be competitive in terms of currently foreseeable market alternatives. Upon Commission approval, as provided in the contracts, the extension to Period 3 will be accomplished by a notification letter by PG&E to contract counterparties.

¹ PG&E Advice Letter 2423-E.

² Resolution E-3853.

³ PG&E Advice Letter 2506-E, Resolution E-3877.

⁴ PG&E Advice Letter 2911-E, submitted October 6, 2006.

PG&E seeks CPUC authorization to recover costs incurred under the extended PPAs through its Energy Resource Recovery Account (“ERRA”) for the full term of the contract extensions. PG&E is seeking confidential treatment of the information contained in the appendices attached to this Advice Letter.

PG&E requests the Commission to issue a resolution no later than February 20, 2009 that approves this advice letter and the payments to be made by PG&E under the PPAs and contains findings in accordance with the definition of CPUC Approval contained in the PPAs. The need for approval by February 20, 2009 is explained in more detail in Confidential Appendix A.

II. DESCRIPTION OF THE PROJECTS

A. Generating Facilities

The Sellers currently deliver approximately 330 GigaWatt hours (“GWh”) of generation per year, which is about 0.004 percent of PG&E’s annual retail sales, from the RPS-eligible biomass generating facilities described below:

Generating Facility	Type	Term Years	Capacity (MW)	Annual Deliveries (GWh)	Commercial Operation Date	Project Location
Madera	Biomass	Additional 5 years	24.0	~184	October 16, 2003	Firebaugh
CRES	Biomass	Additional 5 years	12.0	~92	October 16, 2003	Reedley (Dinuba)
Sierra	Biomass	Additional 5 years	7.0	~54	October 16, 2003	Terra Bella

B. Contract History

The terms of these existing PPAs consist of three consecutive contractual periods:

Period 1: Initial term.

The Commission approved the first term of these PPAs in Resolution E-3853 on October 16, 2003 and directed PG&E to seek approval of subsequent terms by advice letter filing.

Period 2: PG&E option to extend the contract for five years.

The Commission approved the second term of PPAs (Period 2) in Resolution E-3877 on July 8, 2004.

Period 3: PG&E option to extend the contract for five years.

PG&E filed this Advice Letter as directed by Resolution E-3858 to seek approval before exercising its Period 3 option.

The contractual relationships between PG&E and the Sellers arose in 2003. In response to the Assigned Commissioner's Ruling ("ACR") of Commissioner Peevey dated August 13, 2003, PG&E negotiated bilateral contracts with each of the Sellers in advance of the formal initiation of the RPS program established by Senate Bill (SB) 1078.

The original PPAs were approved by the Commission on October 16, 2003, which initiated Period 1 of the PPAs. The Commission found that "PG&E made a sufficient showing that the contracts were mutually agreeable to the parties, the evaluation methodology was reasonable, and the selected contracts meet PG&E's renewables procurement requirements at reasonable cost."⁵

On July 8, 2004, Resolution E-3877 authorized PG&E to extend the PPAs for 5 years or enter Period 2 of the PPA. The commission noted that Energy Division had recommended approval "due to the continued benefits for ratepayers in the form of renewable procurement t a price below the interim benchmark" and found that PG&E had sufficiently shown that the contracts continued to meet the Commission's RPS selection criteria.⁶

On October 6, 2006, PG&E filed AL 2911-E for approval of amendments to the PPAs. The amendments addressed a dispute over the interpretation of revisions to contract capacity, allowed the Sellers to retain the rights to federal Production Tax Credits ("PTC") consistent with other existing Qualifying Facilities, increased the contract price, and increased the Seller performance security amount. AL 2911-E was approved on January 11, 2007 by Resolution E-4058.

C. Benefits of PPA Extensions

The first five-year extension period will expire in April 2009. It would be reasonable to extend these contracts for the second five-year period and initiate Period 3 for several reasons, including their existing contribution to PG&E's renewables resource portfolio, the reasonable price of these deliveries, and the continuation of a stable contractual relationship with reliable generators.

⁵ Res. 3853, Finding of Fact 6.

⁶ Res. E-3877, Finding of Fact 6.

The three biomass generating facilities contribute approximately 330 GWh of renewable generation per year, which is 40% of PG&E's 1% incremental procurement target. These are proven deliveries from viable facilities and should be retained in PG&E's resource mix.

Customers will also benefit financially from the extension because contract prices under the extension option in the PPAs are lower than both the 2007 market price referent ("MPR") and the 2008 MPR proposed in Draft Resolution E-4214. This price benefit is explained in more detail in Confidential Appendix A.

Extension of the PPA term for five more years will not affect any of the terms and conditions of the last-amended PPAs. The PPAs, which were approved by the Commission, are specifically identified under "Additional Supporting Documents", below. None of the other PPA terms will be changed, so the extended PPAs will be as reasonable as the existing PPAs.

D. Compliance with the Emissions Performance Standard (EPS)

The three PPA extensions would commit PG&E to purchase baseload generation for a term of five or more years and thus constitute procurement covered by SB 1368.⁷ PG&E is required by Decision (D.) 07-01-039 to demonstrate compliance with the Emissions Performance Standard (EPS) adopted by that decision when it seeks Commission approval of covered RPS procurement. In this case, PG&E has determined that each of the facilities uses biomass for electric generation that would otherwise be disposed of utilizing open burning, forest accumulation, landfill, spreading or composting. Under these circumstances, the Commission should find that these PPA extensions meet the Interim EPS.

III. PRG PARTICIPATION AND FEEDBACK

PG&E informed its Procurement Review Group ("PRG") of the proposed transaction on July 18, 2008. No PRG member objected to the proposed PPA extensions.

IV. REGULATORY PROCESS

A. Requested Effective Date

⁷ Stats 2007, Ch. 598.

PG&E requests the Commission to issue a resolution approving this advice filing no later than February 20, 2009. The need for approval by February 20, 2009 is explained in more detail in Confidential Appendix A.

B. Additional Supporting Documentation

In support of this Advice Letter, PG&E provides confidential information in the below-listed attachments and refers to the underlying PPAs that were previously approved by this Commission.

1. Request for Official Notice

PG&E requests the Commission to take official notice of the following documents within its files to avoid the unnecessary use of resources:

- The original PPAs, consisting of a Master Agreement and Confirm for each of the Sellers, which were submitted as “Confidential Appendix A, “Renewable Transitional Procurement Contracts for which PG&E Seeks Commission Approval”, Advice 2423-E, filed September 18, 2003.
- The Amendments to the PPAs, filed as “Appendix A, Amendments to Master Power Purchase and Sale Agreement Between PG&E and (each of the Sellers), Confidential Protected Material”, Advice 2911-E, filed October 6, 2006.

2. Confidential Attachments

The Period 3 price term of the PPAs, the reasonableness of the price term, and the contractual requirements for PG&E’s exercise of its option to extend the PPAs are explained in the following confidential attachments:

- **Appendix A – Confidential PPA Price, Comparison, and Extension**
- **Appendix B – Confidential PPA Extension Letters**

The confidential attachments are 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.

V. REQUEST FOR COMMISSION APPROVAL

The continued effectiveness of the PPA is conditioned on the occurrence of “CPUC Approval,” as that term is defined in the PPA. Time is of the essence in the Commission’s consideration and approval of this Advice Letter.

Therefore, PG&E requests that the Commission issue a resolution no later than February 20, 2009 that:

1. Approves the PPAs in their entirety, including payments to be made by PG&E pursuant to the PPAs, subject to the Commission’s review of PG&E’s administration of the PPAs.
2. Finds that any procurement pursuant to the PPAs constitutes procurement from eligible renewable energy resources 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 associated with the PPAs shall be recovered in rates.
4. Adopts the following findings of fact and conclusions of law in support of cost recovery for the PPAs:
 - a. The PPAs are consistent with PG&E’s approved 2008 RPS procurement plan.
 - b. The terms of the PPAs, including the price of delivered electricity, are reasonable.
 - c. The utility’s costs under the PPAs shall be recovered through PG&E’s Energy Resource Recovery Account.
 - d. Any stranded costs that may arise from the PPAs are subject to the provisions of D.04-12-048 that authorize recovery of stranded renewables procurement costs over the life of the contracts. The implementation of the D.04-12-048 stranded cost recovery mechanism is addressed in D.08-09-012.

5. Adopts the following findings with respect to resource compliance with the Emissions Performance Standard (EPS) adopted in R.06-04-009:
 - a. PG&E has requested pre-approval of RPS-eligible procurement covered by SB 1368 as required by D.07-01-039.
 - b. The biomass used by the facilities for electric generation would otherwise be disposed of utilizing open burning, forest accumulation, landfill, spreading or composting.
 - c. The renewable resources are approved as compliant with the Interim EPS adopted by D.07-01-039.

Protests

Anyone wishing to protest this filing may do so by sending a letter by **December 15, 2008**, which is **21 days** from the date of this filing.⁸ 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: mas@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 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

⁸ The 20 day end of protest period falls on a Sunday.

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 **February 20, 2009**.

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.08-08-009. 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.08-08-009
Service List for R.06-02-012
Service List for R.06-02-013
Paul Douglas - Energy Division

Notice Regarding Limited Access to Confidential Material

The portions of this Advice Letter marked Confidential Protected Material are submitted under the confidentiality protections 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 – Confidential PPA Price, Comparison, and Extension

Appendix B – Confidential PPA Extension Letters

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) #: **3368-E**

Tier: **[3]**

Subject of AL: **Third Extension of Three Biomass Generation Power Purchase Agreements Resulting from PG&E's Interim Renewable Energy Solicitation**

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: John Stephens, (415)-973-3136

Resolution Required? Yes No

Requested effective date: February 20, 2009

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

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 JOHN STEPHENS
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3368-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, John Stephens, declare:

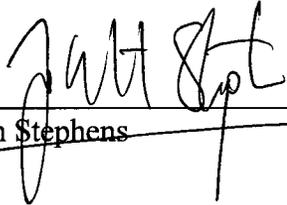
1. I am a senior analyst in the Structured Transactions Group in the Energy Procurement department within Pacific Gas and Electric Company (PG&E). I am responsible for negotiating power purchase agreements (PPAs) for PG&E's Structured Transactions group to help manage electric portfolio physical and financial positions. In carrying out these responsibilities, I have acquired knowledge 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 and experience, and in accordance with Decision ("D.") 08-04-023 and the August 22, 2006 the "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 and B to Advice Letter 3368-E submitted on November 24, 2008. By this Advice Letter, PG&E is seeking this Commission's approval of PG&E exercising its option to extend the three CPUC approved power purchase agreements (PPAs) between PG&E and Madera Power, LLC, Community Renewable Energy Services, Inc., and Sierra Power Corporation.

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) that PG&E is

complying with the limitations specified in the IOU Matrix for that type of data or information (where applicable); (2) that the information is not already public; and (3) that 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 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 November 24, 2008 at San Francisco, California.



John Stephens

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
1	Document: Advice Letter 3368-E						
Appendix A	Y	Item VII G and Item following G, "Score sheets, analyses, evaluations of proposed RPS projects."	Y	Y	Y	This Appendix contains bid information from current and previous solicitations and contract pricing details for the PPAs that would provide valuable market sensitive information to competitors. Counterparties have an expectation that the terms of their PPA will remain confidential under the provisions of PG&E's Commission-approved RPS Solicitation Protocol. This information should remain confidential for three years.	Remain confidential for three years
Appendix B	Y	Item VII G Renewable Resource Contracts under RPS program - Contracts without SEPs	Y	Y	Y	This Appendix contains the actual contract extension letters. Disclosure of this information would provide valuable market sensitive information to competitors.	

**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	PPL EnergyPlus, LLC
Anderson & Poole	Douglass & Liddell	Pinnacle CNG Company
Arizona Public Service Company	Downey & Brand	Praxair
BART	Duke Energy	R. W. Beck & Associates
BP Energy Company	Duncan, Virgil E.	RCS, Inc.
Barkovich & Yap, Inc.	Dutcher, John	RMC Lonestar
Bartle Wells Associates	Ellison Schneider & Harris LLP	Recon Research
Blue Ridge Gas	Energy Management Services, LLC	SCD Energy Solutions
Braun & Associates	FPL Energy Project Management, Inc.	SCE
C & H Sugar Co.	Foster Farms	SESCO
CA Bldg Industry Association	Foster, Wheeler, Martinez	SMUD
CAISO	Franciscan Mobilehome	SPURR
CLECA Law Office	G. A. Krause & Assoc.	Santa Fe Jets
CSC Energy Services	GLJ Publications	Seattle City Light
	Goodin, MacBride, Squeri, Schlotz & Ritchie	Sempra Utilities
California Cotton Ginners & Growers Assn	Green Power Institute	Sequoia Union HS Dist
California Energy Commission	Hanna & Morton	Sierra Pacific Power Company
California League of Food Processors	Heeg, Peggy A.	Silicon Valley Power
California Public Utilities Commission	Hitachi	Smurfit Stone Container Corp
Calpine	Hogan Manufacturing, Inc.	Southern California Edison Company
Cameron McKenna	Imperial Irrigation District	St. Paul Assoc.
Cardinal Cogen	Innercite	Sunshine Design
Casner, Steve	International Power Technology	Sutherland, Asbill & Brennan
Cerox	Intestate Gas Services, Inc.	TFS Energy
Chamberlain, Eric	J. R. Wood, Inc.	Tabors Caramanis & Associates
Chevron Company	JTM, Inc.	Tecogen, Inc.
Chris, King	Los Angeles Dept of Water & Power	Tiger Natural Gas, Inc.
City of Glendale	Luce, Forward, Hamilton & Scripps LLP	Tioga Energy
City of Palo Alto	MBMC, Inc.	TransCanada
City of San Jose	MRW & Associates	Turlock Irrigation District
Clean Energy Fuels	Manatt Phelps Phillips	U S Borax, Inc.
Coast Economic Consulting	Matthew V. Brady & Associates	United Cogen
Commerce Energy	McKenzie & Associates	Utility Cost Management
Commercial Energy	Meek, Daniel W.	Utility Resource Network
Constellation	Merced Irrigation District	Utility Specialists
Constellation New Energy	Mirant	Vandenberg Air Force
Consumer Federation of California	Modesto Irrigation District	Verizon
Crossborder Energy	Morgan Stanley	Wellhead Electric Company
Davis Wright Tremaine LLP	Morrison & Foerster	Western Manufactured Housing Communities Association (WMA)
		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	