

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



August 7, 2009

**Advice Letter 3489-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: Request for Extension and Modification of Mt. Poso  
Cogeneration Company Qualifying Facility Contract  
to Support Potential Conversion of the Mt. Poso  
Facility to Biomass**

Dear Mr. Cherry:

Advice Letter 3489-E is effective May 15, 2009.

Sincerely,

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

Julie A. Fitch, Director  
Energy Division

July 3, 2009

**Advice 3489-E**  
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Request for Extension and Modification of Mt. Poso Cogeneration Company Qualifying Facility Contract to Support Potential Conversion of the Mt. Poso Facility to Biomass**

**Introduction**

Pacific Gas and Electric Company (PG&E) submits this advice letter to request that the California Public Utilities Commission (Commission) approve a 24-month contract extension (Extension Agreement)<sup>1</sup> and related contract modifications for an existing Qualifying Facility (QF) contract between PG&E and Mt. Poso Cogeneration Company (Mt. Poso).<sup>2</sup> In particular, the 24-month contract extension includes a temporary price increase that will act as a bridge to support Mt. Poso's efforts to convert its existing coal-fueled facility into a 100% biomass generation facility. Complete 100% biomass firing of the Mt. Poso facility will allow baseload generation delivery of approximately 44 MW of renewable power. PG&E requests that the price increase in the Extension Agreement be made retroactive to May 15, 2009. This advice letter is similar to Advice Letter filing 3456-E recently filed and approved by this Commission for the conversion of the Stockton Cogen facility from coal to biomass, similar to the conversion proposed here for Mt. Poso.

PG&E supports California's goals to increase the amount of renewable energy provided to California citizens. PG&E has moved aggressively in the past years to identify reasonably priced and reasonably viable opportunities to provide its customers with incremental renewable power in an effort to meet the state's current and prospective goals for renewable power. The potential conversion of the Mt. Poso facility presents a unique opportunity to convert a high greenhouse gas (GHG) emitting facility into a renewable generating resource. The 24-month Extension Agreement is consistent with the Commission's renewable and GHG policies. Thus, the Commission should approve the Extension Agreement.

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<sup>1</sup> The Extension Agreement is attached to this advice letter as Attachment A.

<sup>2</sup> Mt. Poso is jointly owned by Northern Star Generation LLC, National Petroleum Associates and Red Hawk Energy, with each partner owning one-third.

This advice letter is submitted in compliance with the procedures set forth in Decision (D.) 06-12-009 allowing modifications and amendments to QF contracts for transactions of less than 5 years.<sup>3</sup>

### **Background**

PG&E had a long-term Standard Offer Contract No. 4 (Contract) with Mt. Poso that expired on May 14, 2009. The bridging Extension Agreement was executed on May 12, 2009. Mt. Poso is a solid fuels-fired combined heat and power facility utilizing circulating fluid bed technology. It has supplied 49.5 megawatts (MW) of reliable power to PG&E along with power and steam to West Mt. Poso Oil Field (Oil Field), the steam host, for over 20 years. Mt. Poso was built to provide steam for thermally enhanced oil recovery to the adjacent Oil Field.

Mt. Poso has operated as a QF since 1989, and is currently firing a blend of coal, petroleum coke and tire derived fuel and biomass to produce both electricity and steam.

There is no irrigable or potable underground water within miles of the site. Mt. Poso receives water from the nearby Oil Field which is produced with the oil from the Oil Field's dewatering wells. The Oil Field produced water goes through an existing water treatment system that cleans and purifies the water for use in the plant makeup systems. The water is then returned to the Oil Field where it is blended with the excess water. Mt. Poso's reliable supply of energy allows the Oil Field to remain competitive and operational.

### **Contract Extensions**

The original Contract between PG&E and Mt. Poso expired on May 14, 2009. In 2009, Mt. Poso approached PG&E and indicated that it wanted an extension of the Contract so that it could pursue a complete biomass conversion of the Mt. Poso facility from mixed fuel use to woody biomass use. However, Mt. Poso indicated that the approved QF short-run avoided cost (SRAC) rate under the Market Index Formula (MIF) was not sufficient to continue operation of its facility, or would the MIF prices support potential conversion to biomass.

PG&E and Mt. Poso entered into an extension from May 15, 2009 through May 14, 2011 using a hybrid calculation based on a QF pricing average and a weighted average price on coal based generated energy and RPS eligible and deliverable energy. This allows for Mt. Poso to continue receiving payments under an effective contract while it remains operational as it initiates conversion of its facility to biomass fuel. The Extension Agreement is conditioned on Commission approval pursuant to this advice letter and execution of a long-term RPS Power Purchase Agreement. Payments under the Extension Agreement will be retroactive to May 15, 2009. Under the Extension Agreement, Mt. Poso can continue with its biomass conversion plans which are integral to a long-term RPS contract extension for the facility.

In Confidential Attachment B, Mt. Poso explains the economics of its facility, and why the

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<sup>3</sup> See D.06-12-009 at 7.

hybrid price is necessary for it to be able to continue to operate the facility while it explores a potential fuel conversion. Under the available SRAC pricing, Mt. Poso would be operating at a deficit and could not invest to test the biomass plan. Mt. Poso has committed to dedicating a portion of the rate increase toward the biomass conversion.

### **Mt. Poso has secured an independent analysis to support a 100% Biomass Conversion in 2011**

In 2008, Mt. Poso conducted several test burns of biomass at the facility and commissioned a biomass co-firing conversion study using computer modeling conducted by an independent consultant to examine the capability to combust agriculturally-derived fuel to generate a significant quantity of renewable power from the Mt. Poso facility. Mt. Poso is currently operating at a 20% biomass capacity. Over the next two years, Mt. Poso intends to implement design, permit, purchase, and install equipment to receive and feed biomass fuels to the existing boiler. Mt. Poso is planning to purchase Fuel Handling Equipment in order to feed up to 100% biomass. The anticipated completion date is in mid-2011.

Mt. Poso is an operating facility with a valid Title V air permit, and a USEPA Prevention of Significant Deterioration (PSD) air permit. It will be necessary to modify both of these permits to allow utilization of biomass in place of most or all of the current fossil fuels that are currently permitted. Expected biomass emissions are likely to be substantially lower than current coal emissions. In anticipation of this conversion, Mt. Poso has secured contracts for the next five years to secure woody biomass. Additionally, Mt. Poso is securing additional storage and biomass size reduction equipment, and incorporating various feeding systems to allow for the different flow characteristics of the diverse fuel slate the facility intends to use.

### **Conversion of the Mt. Poso Facility will have long-term benefits to the ratepayers**

1. **The biomass conversion will improve air quality.** As a result of Assembly Bill 32 (AB32) and Senate Bill 1368 (SB1368) passed by the California legislature, Mt. Poso has been formulating long term plans to convert a significant portion of its solid fuel input to biomass in order to better comply with these state statutes. Diversion of woody biomass that would have been burned in the open will be subject to controlled combustion and use of emissions control equipment thereby reducing GHG emissions.

2. **The Extension Agreement allows Mt. Poso to maintain viability for the impacted companies.** At the moment, two companies rely on the continued operations of the steam host and adjacent facility in a manner that allows both to remain competitive. By granting this short-term extension, this price increase may preserve short operational stability, thus assisting in California's short-term economic stability. Additionally new jobs will be created as a direct result of this project associated with fuels collection, processing and transport activities.

### **PRG Participation and Feedback**

On May 15, 2009, PG&E provided the Procurement Review Group (PRG) with a general

presentation. This Confidential presentation is attached to this advice letter as Attachment C.

### **Conclusion**

PG&E views Mt. Poso's conversion project as an opportunity to continue its relationship with an energy provider that is pursuing biomass plans. PG&E supports this request for a short term price increase in an effort to assist in cleaning up the environment in Bakersfield and to pursue potential incremental renewable power. Therefore, PG&E requests approval of the Extension Agreement retroactive to May 15, 2009.

### **Compliance Items**

In support of this advice letter, PG&E encloses the following Confidential supporting documentation:

- Attachment A - 2009 Extension Agreement
- Attachment B - Affidavit of Mike Hawkins, Partner, Mt. Poso Cogeneration Company.
- Attachment C - PRG Presentation Regarding Mt. Poso

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically any of which must be received no later than **July 23, 2009**, which is twenty (20) days from the date of this filing. Protests should be mailed to:

CPUC Energy Division  
Tariff Files, Room 4005  
DMS Branch  
505 Van Ness Avenue  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: [jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)

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

The protest 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:

July 3, 2009

Brian K. Cherry  
Vice President, Regulatory Relations  
Pacific Gas and Electric Company  
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 letter be approved no later than August 3, 2009, with an effective date of **May 15, 2009**. PG&E submits this request as a Tier 2 advice letter.

**Notice**

In accordance with General Order 96-B, Section IV, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list. Address changes should be directed to San Heng at 415/973-2640. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.

*Brian K. Cherry /sc*

Brian K. Cherry  
Vice President – Regulatory Relations

cc: PG&E's Procurement Review Group  
Melissa Semcer, Energy Division, CPUC

Related Confidential Attachments A through C

# 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 and Sally Cuaresma

Phone #: (415) 973-1082; (415) 973-5012

E-mail: DXPU@pge.com; A2C7@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) #: **3489-E**

**Tier: [2]**

Subject of AL: **Request for Extension and Modification of Mt. Poso Cogeneration Company Qualifying Facility Contract to Support Potential Conversion of the Mt. Poso Facility to Biomass**

Keywords (choose from CPUC listing): Qualifying Facility, Contracts, Cogeneration

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: Confidential treatment is requested for Attachments A through C.

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 agreement 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: Garrett P. Jeung, (415) 973-5481

Resolution Required?  Yes  No

Requested effective date: **May 15, 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**

**PACIFIC GAS AND ELECTRIC COMPANY  
DECLARATION OF GARRETT P. JEUNG IN SUPPORT OF THE CONFIDENTIAL  
TREATMENT OF MARKET-SENSITIVE INFORMATION APPEARING IN  
ADVICE 3489-E, CONFIDENTIAL ATTACHMENTS A THROUGH C**

I, Garrett P. Jeung, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 2003. My current title is Senior Director within PG&E's Energy Procurement (Energy Supply) 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 the August 22, 2006 "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued in Rulemaking 05-06-040, I make this declaration seeking confidential treatment for certain data and information related to PG&E's Advice 3489-E, Attachments A through C, which has been submitted to the Energy Division on July 3, 2009.

3. Attached to this declaration is a matrix that identifies 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 the "IOU Matrix" attached as Appendix 1 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.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct to the best of my knowledge. Executed on July 3, 2009, at San Francisco, California.

*/s/*

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GARRETT P. JEUNG

**PACIFIC GAS AND ELECTRIC COMPANY**  
**Document: ADVICE 3489-E, CONFIDENTIAL ATTACHMENTS A THROUGH C**  
**IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066**

Date: July 3, 2009

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	Attachment A	Item VII - Bilateral Contract Terms and Conditions - Electric, Section B (Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)) and Public Utilities Code sections 454.5(g) and 583	Y	Y	Y	Specific contract between the IOU and counterparty. Information includes the capacity, timing and pricing terms of the contract.	3
2	Attachment B	Item II - Cost Forecast Data--Electric, Section B.3 (Generation Cost Forecasts, QF Contracts) and Public Utilities Code sections 454.5(g) and 583	Y	Y	Y	Information includes forecast of QF contract costs.	3
3	Attachment C	Item VIII - Competitive Solicitation (Bidding) Information--Electric, Section B (Specific quantitative analysis involved in scoring and evaluation of participating bids) and Public Utilities Code 583 and General Order 66-C	Y	Y	Y	Confidential PRG presentation includes bid evaluation criteria, forecast gas burns and current, confidential contract information.	3

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

Aglet	Day Carter Murphy	North Coast SolarResources
Alcantar & Kahl	Defense Energy Support Center	Northern California Power Association
Ameresco	Department of Water Resources	Occidental Energy Marketing, Inc.
Anderson & Poole	Department of the Army	OnGrid Solar
Arizona Public Service Company	Dept of General Services	Praxair
BART	Division of Business Advisory Services	R. W. Beck & Associates
BP Energy Company	Douglas & Liddell	RCS, Inc.
Barkovich & Yap, Inc.	Douglass & Liddell	Recon Research
Bartle Wells Associates	Downey & Brand	SCD Energy Solutions
C & H Sugar Co.	Duke Energy	SCE
CA Bldg Industry Association	Dutcher, John	SMUD
CAISO	Ellison Schneider & Harris LLP	SPURR
CLECA Law Office	FPL Energy Project Management, Inc.	Santa Fe Jets
CSC Energy Services	Foster Farms	Seattle City Light
California Cotton Ginners & Growers Assn	G. A. Krause & Assoc.	Sempra Utilities
California Energy Commission	GLJ Publications	Sierra Pacific Power Company
California League of Food Processors	Goodin, MacBride, Squeri, Schlotz & Ritchie	Silicon Valley Power
California Public Utilities Commission	Green Power Institute	Southern California Edison Company
Calpine	Hanna & Morton	Sunshine Design
Cameron McKenna	Hitachi	Sutherland, Asbill & Brennan
Cardinal Cogen	International Power Technology	Tabors Caramanis & Associates
Casner, Steve	Intestate Gas Services, Inc.	Tecogen, Inc.
Chamberlain, Eric	Los Angeles Dept of Water & Power	Tiger Natural Gas, Inc.
Chevron Company	Luce, Forward, Hamilton & Scripps LLP	Tioga Energy
Chris, King	MBMC, Inc.	TransCanada
City of Glendale	MRW & Associates	Turlock Irrigation District
City of Palo Alto	Manatt Phelps Phillips	U S Borax, Inc.
City of San Jose	Matthew V. Brady & Associates	United Cogen
Clean Energy Fuels	McKenzie & Associates	Utility Cost Management
Coast Economic Consulting	Merced Irrigation District	Utility Specialists
Commerce Energy	Mirant	Verizon
Commercial Energy	Modesto Irrigation District	Wellhead Electric Company
Consumer Federation of California	Morgan Stanley	Western Manufactured Housing Communities Association (WMA)
Crossborder Energy	Morrison & Foerster	eMeter Corporation
Davis Wright Tremaine LLP	New United Motor Mfg., Inc.	
	Norris & Wong Associates	