

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



August 9, 2010

**Advice Letter 3660-E**

Jane K. Yura  
Vice President, Regulation and Rates  
Pacific Gas and Electric Company  
77 Beale Street, Mail Code B10B  
P.O. Box 770000  
San Francisco, CA 94177

**Subject: Two-Year Request for Extension and Modification of Stockton Cogeneration Company Qualifying Facility Contract to Support Partial Conversion of the Stockton Facility to Biomass**

Dear Ms. Yura:

Advice Letter 3660-E is effective March 20, 2010 per Resolution E-4349.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director  
Energy Division

**May 4, 2010****Advice 3660-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Two-Year Request for Extension and Modification of Stockton Cogeneration Company Qualifying Facility Contract to Support Partial Conversion of the Stockton Facility to Biomass**

**Introduction**

Pacific Gas and Electric Company (“PG&E”) seeks California Public Utilities Commission (“Commission”) approval of a two-year contract extension (“Alternate 2010 Extension Agreement”)<sup>1</sup> and related contract modifications for an existing Qualifying Facility (“QF”) contract between PG&E and Air Products Manufacturing Corporation, as a successor-in-interest to Stockton CoGen Company (“Stockton CoGen”). In particular, the Alternate 2010 Extension Agreement includes continued use of the 2009 fixed energy price for firm capacity of 44.75 megawatt (“MW”) and a temporary price increase for delivered RPS-eligible renewable energy. This Alternate 2010 Extension Agreement will act as a bridge to continue to support Stockton CoGen’s efforts to convert its existing coal-fueled facility into a biomass or hybrid biomass/coal generation facility. PG&E supports California’s goals to increase the amount of renewable energy provided to California citizens. Accordingly, 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 Stockton CoGen facility presents a unique opportunity to convert a high greenhouse gas (“GHG”) emitting facility into a renewable generating resource. The Alternate 2010 Extension Agreement is consistent with the Commission’s renewable and GHG policies. Thus, the Commission should approve the Alternate 2010 Extension Agreement.

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>2</sup>

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<sup>1</sup> The Alternate 2010 Extension Agreement is attached to this advice letter as Confidential Attachment A.

<sup>2</sup> See D.06-12-009 at 7.

**Background**

PG&E had a long-term Standard Offer Contract No. 4 (“Contract”) with Stockton Cogen that expired in March 2008. Stockton CoGen is a solid fuels-fired combined heat and power facility utilizing circulating fluid bed technology. It has supplied 45 MW of reliable power to PG&E along with power and steam to Corn Products International (“Corn Products”), the steam host, for over 20 years. Over the last ten years, Stockton CoGen provided power to PG&E at a capacity factor of 94.9% on an annual basis and in excess of 97% during the peak summer periods.

Stockton CoGen operated as a QF since 1988, and is currently firing a mixture of Utah coal, petcoke, tire-derived fuel and biomass to produce both electricity and steam. Corn Products is a provider of agriculturally-based products and ingredients. Corn Products relies on 125,000 pounds of steam per hour and 6 MW of power in its adjacent facility as an integral part of the daily operations of its facility. Stockton CoGen’s reliable supply of energy allows the Corn Products plant to remain competitive and operational. Both companies contribute significantly to the local economy through services, taxes and employment opportunities.

**Contract Extension History**

The original Contract between PG&E and Stockton CoGen was set to expire in March 2008, but consistent with D.07-09-040, the parties agreed to extend the Contract from March 20, 2008, through March 19, 2009, with some modifications, but under standard QF pricing terms. These modifications included capacity and energy pricing consistent with the Independent Energy Producers (“IEP”) settlement which was approved by the Commission in D.06-07-032. Because contract extensions under standard QF pricing terms were approved in D.07-09-040, PG&E was not required to file an advice letter or otherwise seek approval for the extension.

In 2009, Stockton Cogen approached PG&E and indicated that it wanted a second extension of the Contract so that it could pursue a potential partial conversion of the Stockton CoGen facility from mixed fuel use to biomass. However, Stockton CoGen indicated that the approved QF energy and capacity prices were not sufficient to continue to operate its facility and support potential conversion to biomass. On March 19, 2009, PG&E and Stockton CoGen entered into a second extension from March 20, 2009, through March 19, 2010, using the same pricing from the first extension agreement consistent with D.07-09-040. This allowed for Stockton CoGen to continue receiving payments under an effective contract.<sup>3</sup> The CPUC approved PG&E’s Advice Letter 3456-E requesting approval of the one-year contract extension.

Over the past year, Stockton CoGen tested the viability of its system of firing biomass to produce electricity and steam. Stockton CoGen continues its efforts to demonstrate an ability to use biomass fuel to produce renewable energy and is executing on capital improvements to increase the use of biomass from 6-8% of total BTU input demonstrated during the 2009 Extension Agreement term to 20-25% for the contract extension contemplated in the Alternate 2010 Extension Agreement. PG&E and Stockton CoGen intend this Alternate 2010 Extension

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<sup>3</sup> A copy of this 2009 contract extension is included as Confidential Attachment B.

Agreement to govern the sale and pricing of both renewable energy and Standard QF Energy (“Standard Energy”) to PG&E. PG&E will continue to pay Stockton CoGen the same price negotiated in 2009 for the Standard Energy supplied. Additionally, the Alternate 2010 Extension Agreement includes an increased weighted average energy price based on delivery of renewable energy (“Hybrid Energy Price”). The Hybrid Energy Price will govern upon Stockton CoGen demonstrating an established baseline Renewable Energy Guarantee Performance Level. Stockton CoGen is required to maintain delivery of renewable energy at the Guaranteed Performance Level over each contract year in order to be paid a premium for renewable energy generated by the use of biomass fuel. The Alternate 2010 Extension Agreement allows Stockton CoGen to continue to operate as it explores conversion of its facility to utilize up to 50% biomass fuel.<sup>4</sup> The Alternate 2010 Extension Agreement is conditioned on Commission approval pursuant to this advice letter and payments under the Alternate 2010 Extension Agreement are retroactive to March 20, 2010. Under the Alternate 2010 Extension Agreement, Stockton CoGen can continue with its biomass conversion plans which are integral to a long-term contract extension for the facility consistent with the stipulations of Senate Bill (SB) 1368.

In Confidential Attachment C, Stockton CoGen explains the economics of its facility and why a fixed price is necessary for it to be able to continue to operate the facility while it continues to explore a potential fuel conversion. Stockton CoGen committed to dedicating a portion of the rate increase toward the conversion of the facility to burn a significant amount of biomass in its total fuel supply.

### **Stockton CoGen Secured an Independent Analysis to Support a 40-50% Biomass Conversion in 2012**

In 2007, Stockton Cogen 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 Stockton CoGen facility. Stockton CoGen began a phased adjustment to its facility to determine viability of the operations. In 2009-2010, Stockton CoGen designed, permitted, purchased, and is installing equipment to receive and feed 20% to 25% biomass to the existing boiler.

Under the Alternate 2010 Extension Agreement, Stockton CoGen plans to expand the scope of its Phased Adjustments to potentially increase biomass use to 40-50% by 2012. In anticipation of this, Stockton Cogen has received permit approval to utilize as much as 50% agriculturally derived material at the facility. This phase includes securing additional sources of agriculturally derived waste previously used, 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 Stockton CoGen Facility Has Long-Term Benefits to the Ratepayers**

1. **The biomass conversion will improve air quality.** As a result of Assembly Bill (“AB”) 32 and SB 1368 passed by the California legislature, Stockton CoGen formulated long-term

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<sup>4</sup> See Confidential Attachment B.

plans to convert a significant portion of its solid fuel input to biomass in order to better comply with these state statutes. Converting a portion of the Stockton CoGen facility from coal to biomass will reduce GHG emissions and incent new renewable generation.

2. **PG&E's customers will benefit from incremental renewable power at the approved contract rate.** Stockton CoGen intends to submit to the California Energy Commission ("CEC") a fuel plan and measurement methodology to gain renewable certification from the CEC of that portion of the energy produced from biomass by the late spring of 2010 with anticipated approval in 2010. A portion of the energy purchased under the Alternate 2010 Extension Agreement will be renewable power and can help PG&E satisfy California's ambitious RPS goals.
3. **The Extension allows Stockton CoGen 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 economic stability during this extension period.
4. **The biomass conversion would lead to longer term contract agreements.** If Stockton CoGen is successful in achieving operation at Guaranteed Performance Level utilizing biomass fuel over the two-year period under the Alternate 2010 Extension Agreement, the Parties intend to negotiate long term arrangements for QF power and renewable energy.

### **PRG Participation and Feedback**

On January 14, 2010, PG&E provided the Procurement Review Group ("PRG") with a general presentation. This presentation has been provided to the PRG as "Confidential Attachment D" to this advice letter. No verbal opposition to this proposal was expressed at this meeting.

### **Conclusion**

PG&E views Stockton CoGen'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 Stockton and to pursue potential incremental renewable power. Therefore PG&E requests approval of the Alternate 2010 Extension Agreement, retroactive to March 20, 2010.

### **Compliance Items**

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

- Confidential Appendix A – Proposed Alternate 2010 Extension Agreement
- Confidential Appendix B – Active 2009 Extension Agreement

- Confidential Appendix C - Affidavit of Steven Pastore, Director of Energy Supply, Air Products and Chemicals, Inc.
- Confidential Appendix D - PRG Presentation Regarding Stockton CoGen

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 **May 24, 2010**, 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: [ijnj@cpuc.ca.gov](mailto:ijnj@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:

Pacific Gas and Electric Company  
Attention: Jane Yura  
Vice President, Regulation and Rates  
77 Beale Street, Mail Code B10B  
P.O. Box 770000  
San Francisco, California 94177

Facsimile: (415) 973-6520  
E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)

### **Effective Date**

PG&E requests that this advice letter be approved on or before June 18, 2010, with an effective date of March 20, 2010. PG&E submits this request as a Tier 2 advice letter.

### **Notice**

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for R.08-08-009. Address changes to the General Order 96-B service list should be directed to email [PGETariffs@pge.com](mailto:PGETariffs@pge.com). For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at [ProcessOffice@cpuc.ca.gov](mailto:ProcessOffice@cpuc.ca.gov). Send all electronic

approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.

A handwritten signature in cursive script that reads "Jane Yura" followed by a slash and the initials "JY".

Vice President, Regulation and Rates

cc: PG&E's Procurement Review Group

Melissa Semcer, Energy Division, CPUC

Service List GO 96-B

Service List R.08-08-009

Related Confidential Appendices A through D

# 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 or Greg Backens

Phone #: 415-973-1082 or 415-973-4390

E-mail: DxPU@pge.com or GAB4@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) #: 3660-E

Tier: 2

Subject of AL: **Two-Year Request for Extension and Modification of Stockton Cogeneration Company Qualifying Facility Contract to Support Partial Conversion of the Stockton 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? : No

Summarize differences between the AL and the prior withdrawn or rejected AL: N/A

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: Confidential treatment is requested for Attachments A through D

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: Richard Miram (415) 973-1170

Resolution Required?  Yes  No

Requested effective date: March 20, 2010

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](mailto:jnj@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)**

**Pacific Gas and Electric Company**

**Attn: Jane K. Yura, Vice President, Regulation & Rates**

**77 Beale Street, Mail Code B10B**

**P.O. Box 770000**

**San Francisco, CA 94177**

**E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)**

**DECLARATION OF RICH MIRAM  
SEEKING CONFIDENTIAL TREATMENT  
FOR CERTAIN DATA AND INFORMATION CONTAINED IN PG&E'S REPOSE  
TO DRA'S PROTEST OF ADVICE LETTER 3660-E  
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Rich Miram declare:

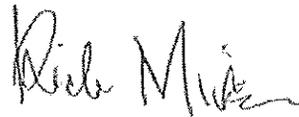
1. I am presently employed by Pacific Gas and Electric Company ("PG&E") and have been an employee at PG&E since 1973. My current title is Principal within PG&E's Energy Procurement organization. In this position, my responsibilities include negotiating power purchase agreements with counterparties in the business of producing electric energy. 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, C and D to PG&E's Advice Letter 3660-E, submitted on May 4, 2010. By this Advice Letter, PG&E is seeking this Commission's approval of an Extension Agreement that PG&E has executed with Air Products Manufacturing 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: (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 May 3, 2010 at San Francisco, California.



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Rich Miram

PACIFIC GAS AND ELECTRIC COMPANY Advice Letter 3660-E May 4, 2010		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 3660-E	Y	Item VII B) Contracts and power purchase agreements between utilities and non-affiliated third parties. General Order 66-C.	Y	Y	Y	For information covered under item VII B), remain confidential for three years  For information covered by General Order 66-C, remain confidential
2 Appendix A	Y	Item VII B) Contracts and power purchase agreements between utilities and non-affiliated third parties. General Order 66-C.	Y	Y	Y	For information covered under item VII B), remain confidential for three years  For information covered by General Order 66-C, remain confidential
3 Appendix B	Y	Item VII B) Contracts and power purchase agreements between utilities and non-affiliated third parties. General Order 66-C.	Y	Y	Y	For information covered under item VII B), remain confidential for three years  For information covered by General Order 66-C, remain confidential
4 Appendix C	Y	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	For information covered under item II, remain confidential for three years

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)	Length of Time
5 Appendix D	Y	Item VII B) Contracts and power purchase agreements between utilities and non-affiliated third parties	Y	Y	Y	<p>PG&amp;E's Justification for Confidential Treatment</p> <p>This Appendix consists of the presentation of the Amendment to PG&amp;E's Procurement Review Group (PRG). It describes the terms of the Agreement. Disclosure of this information would provide valuable market sensitive information to competitors, as described above with regard to Appendices A-B. Under D.06-06-066, an IOU may maintain the confidentiality of a power purchase agreement for three years. Disclosure of this Appendix could undermine PG&amp;E's ability to bargain on behalf of its customers, the Appendix should remain confidential for three years.</p>

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

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