

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



July 25, 2011

Advice Letter 3770-E

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

**Subject: Proposed Amendment of Existing Power Purchase Agreement
with Pacific Oroville Power, Inc.**

Dear Mr. Cherry:

Advice Letter 3770-E is effective July 14, 2011 per Resolution E-4412.

Sincerely,

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

Julie A. Fitch, Director
Energy Division

December 3, 2010

Advice 3770-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Proposed Amendment of Existing Power Purchase Agreement
With Pacific Oroville Power, Inc.**

Introduction

Pacific Gas and Electric Company ("PG&E") seeks California Public Utilities Commission ("CPUC" or "Commission") approval of a proposed amendment to an existing Interim Standard Offer No. 4 Power Purchase Agreement ("PPA") between Pacific Oroville Power Inc. ("POPI") and PG&E ("Proposed Amendment").¹ POPI is a wholly-owned subsidiary of Covanta Energy Corporation ("Covanta"). POPI has delivered electricity generated by its 18 megawatt ("MW") biomass facility ("Facility") in Oroville, California, pursuant to its PPA since the Facility began operations in 1985.

The Proposed Amendment modifies the contract price and performance obligations under the PPA. PG&E expects POPI to deliver 117 gigawatt-hour ("GWh") of renewable power to PG&E per year during the term of the Proposed Amendment. POPI has indicated that absent this amendment, the Facility will likely be closed because it has become uneconomic to operate the Facility under the PPA's terms and conditions.

The Proposed Amendment modifies the contract price for one year and allows PG&E the option to extend the amendment for an additional year. In addition, the Proposed Amendment extends the remaining term of the PPA for either one or two years to reflect the duration of the Proposed Amendment, depending on whether PG&E exercises the option to extend the amendment. Although there are five years and five months remaining under the PPA, the duration of the two amendments is no more than two years. Accordingly, the Proposed Amendment is being submitted to the Commission for approval by advice letter.

¹ The Proposed Amendment is attached to this advice letter as Confidential Appendix A.

Background

The Facility is located in the southern part of Oroville, in Butte County. It has historically burned a mix of mill wood waste, wood chips from forest thinning operations, agricultural residue such as shells and pits, and urban wood waste.² This region of California has a limited range of employment opportunities. The Facility has been a steady employer while, at the same time, supplying renewable power to PG&E for over 20 years. POPI also contributes significantly to the local economy in Oroville City and Butte County through its use of services and its payment of local taxes.

POPI has explained to PG&E that it has become uneconomic to operate the Facility under its existing PPA due to a combination of rising operating costs and decreasing revenues. Because of this uneconomic operation, in mid-2010, POPI informed PG&E that it would shut down the Facility beginning September 2010 if a price amendment was not executed. PG&E and its customers have a significant interest in retaining POPI's biomass generation in its Renewable Portfolio Standard ("RPS") portfolio and thus PG&E agreed to negotiate an amendment to the existing PPA that would preserve the value of the PPA for PG&E's customers while allowing the Facility's continued operation. The parties hope to achieve a longer-term solution to the financial challenges facing the Facility and for that reason, have limited the term of the Proposed Amendment to two years at the most.

Details of Contract Extension

The Proposed Amendment provides POPI with an amended contract price in exchange for modified performance obligations. The modified performance obligations will effectively result in increased RPS-eligible energy production from the Facility. The Proposed Amendment allows the Facility to continue to operate and provide PG&E's customers with renewable energy at a competitive price from an RPS-eligible facility.

Because POPI indicated that the Facility would shut down in September 2010 without a PPA amendment, PG&E and POPI executed the Proposed Amendment on August 21, 2010. As a result of the Proposed Amendment, POPI has continued to operate the Facility and has done so in a manner that satisfies the modified performance obligations in the Proposed Amendment. The Proposed Amendment will become effective when it is approved by the CPUC. However, because the Proposed Amendment was entered into in August, and POPI has continued operating the Facility in reliance on the Proposed Amendment, PG&E agreed to true-up payments made to POPI for the period starting September 1,

² The Facility is located across the street from a Sierra Pacific Industries lumber mill that currently produces cedar fencing and rails; however the generator does not rely on mill waste. Air quality licensing requirements limit the use of urban waste as fuel to less than 30% of the burn mix.

2010 to the date of CPUC approval using the Proposed Amendment price if the Proposed Amendment is approved by the CPUC. The Proposed Amendment will expire on September 1, 2011, unless extended for an additional year by PG&E.

PG&E delayed filing this advice letter until December because of the possibility of similar amendments for two other Covanta biomass facilities. For administrative efficiency purposes, PG&E had intended to file all three amendments together. However, PG&E subsequently decided not to pursue the two additional amendments and thus is filing this advice letter for the Proposed Amendment only.

PRG Participation

On August 13, 2010, PG&E presented its Procurement Review Group ("PRG") with a description of the proposed transaction.

Conclusion And Requested Commission Action

The Proposed Amendment benefits PG&E's customers by: (1) ensuring the continued operation of an existing and viable renewable resource; (2) providing RPS-eligible energy to PG&E's customers at a competitive price; and (3) including modified performance obligations in the PPA that will result in increased renewable energy production by the Facility. Since the Proposed Amendment was executed in August, POPI has increased generation from the Facility and, at the current rate, PG&E believes the facility is on track towards meeting its modified performance obligations. In addition, the Proposed Amendment will help PG&E to maintain its baseline RPS portfolio, achieve its RPS goal, and is in accordance with the Governor's executive order regarding the procurement of biomass renewable energy.³ For all these reasons, the Proposed Amendment is reasonable and should be approved.

PG&E requests that the Commission:

1. Approve the Proposed Amendment without modification as just and reasonable; and,
2. Determine that all costs associated with the Proposed Amendment, including any costs incurred if PG&E elects to exercise its option to extend the Proposed Amendment for one year, be recovered through PG&E's Energy Resource Revenue Account ("ERRA").

Confidential Appendices

In support of this advice letter, PG&E provides the following confidential supporting documentation:

³ Executive Order S-06-06 was issued April 25, 2006.

- Confidential Appendix A – Proposed Amendment
- Confidential Appendix B – Proposed Amendment Description and Analysis
- Confidential Appendix C – Affidavit of Mitchel Gorski, Covanta Energy Corp.

Protests

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 **December 23, 2010**, which is twenty (20) days after 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 and 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

Effective Date

PG&E requests that this advice filing (including PG&E's option to extend the one year amendment for an additional year) be approved on or before May 5, 2011,

with an effective date of September 1, 2010. PG&E submits this request as a Tier 3 advice letter.

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 service list 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 to the General Order 96-B service list and all electronic approvals should be directed to e-mail PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.



Vice President - Regulation and Rates

cc: PG&E's Procurement Review Group
Melissa Semcer, Energy Division, CPUC
Service List R.08-08-009
Related Confidential Appendices A through C

Attachments

Limited Access to Confidential Material:

The portions of this Advice Letter marked Confidential Protected Material are submitted under the confidentiality protections of Sections 583 and 454.5(g) 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.

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 Linda Tom-Martinez

Phone #: (415) 973-1082 and (415) 973-4612

E-mail: dxpu@pge.com and lmt1@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) #: **3770-E**

Tier: 3

Subject of AL: **Proposed Amendment of Existing Power Purchase Agreement with Pacific Oroville Power, Inc.**

Keywords (choose from CPUC listing): Contracts, Portfolio

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: Yes No 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: Hugh Merriam (415) 973-1269

Resolution Required? Yes No

Requested effective date: **September 1, 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 proposed¹: N/A

Pending advice letters that revise the same tariff sheets: 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: Jane Yura

Vice President, Regulation and Rates

77 Beale Street, Mail Code B10B

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**DECLARATION OF HUGH MERRIAM
IN SUPPORT OF CONFIDENTIAL TREATMENT OF
PACIFIC GAS AND ELECTRIC COMPANY
ADVICE LETTER 3770-E
APPENDICES A THROUGH C**

I, Hugh Merriam do hereby declare:

Pursuant to Decisions (“D.”) 06-06-066 and 08-04-023 governing confidentiality procedures, I make this declaration to support the confidential submission of energy procurement information in support of Advice Letter 3770-E. In this Advice Letter, PG&E requests Commission approval of its Proposed Amendment to an existing Interim Standard Offer 4 Power Purchase Agreement (“PPA”) between itself and Pacific Oroville Power, Inc. (“POPI”). PG&E seeks to maintain the confidentiality of the following protected materials:

- Confidential Appendix A – Contract Amendment
- Confidential Appendix B – Analysis of the Transaction
- Confidential Appendix C – Affidavit of Mitchel Gorski, Covanta Energy Corp.

Rules and procedures governing the submission of confidential electric procurement information to the Commission were adopted by D.06-06-066 and D.08-04-023. Rules governing the confidentiality of certain categories of data and information for Investor-Owned Utilities (“IOUs”) were specified in a Matrix attached to D.06-06-066 as Appendix 1 (the “IOU Matrix”). Decision 08-04-023 specifies that confidential treatment of material submitted in an advice letter must be supported by a declaration under penalty of perjury. The declaration must establish:

- (1) That the material it is submitting constitutes a particular type of data listed in the IOU Matrix;
- (2) The category or categories in the IOU Matrix to which the data correspond;
- (3) That the IOU is complying with the limitations on confidentiality specified in the IOU Matrix for that type of data;
- (4) That the information is not already public; and
- (5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.¹

¹ D.06-06-066, Ordering Paragraph No. 2.

This declaration demonstrates that Appendices A through C constitute materials that are entitled to protection from public disclosure in accordance with the Commission's decisions.

1. Appendices A through C constitute the type of data listed in specific categories within the IOU Matrix.

- Confidential Appendix A – Proposed Amendment

Contracts submitted for CPUC approval are deemed confidential under Item VII.B in the IOU Matrix.

- Confidential Appendix B – Analysis of the Transaction
- Confidential Appendix C – Affidavit of Mitchel Gorski, Covanta Energy Corp.

Individual contract information, such as price, other key terms, and descriptive information for each contract are protected from disclosure by Item VII.B in the IOU Matrix. Forecasts of the cost of QF generation are confidential for three years under Item II.B.3.

Appendix B analyzes the terms of the existing PPA and the Proposed Amendment. Appendix C, the Affidavit of Michael Gorski, describes the financial circumstances of the POPI operation and how the terms of the Proposed Amendment will enable the facility to operate and deliver power to PG&E at the specified price. Each one of these documents contain "individual contract information", "descriptive information", and forecasts of the cost of QF generation, which are all categories of protected information under the IOU Matrix.

The Proposed Amendment is subject to a confidentiality agreement between the parties which prohibits either party from making an unauthorized disclosure of the information within the Proposed Amendment. Thus, the Proposed Amendment is not already public.

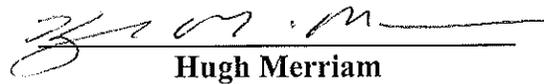
The analysis of the Proposed Agreement, declaration in support of the Proposed Agreement and description of the Proposed Agreement contain or refer to information in the Proposed Amendment that is not already public and is, therefore, appropriately treated as confidential.

2. The information in Appendices A through C cannot be presented in a way that allows partial disclosure.

As noted above, the Proposed Amendment is subject to a non-disclosure agreement. The Proposed Amendment cannot be aggregated, redacted, summarized, masked or otherwise protected to allow partial public disclosure without violating the non-disclosure agreement. PG&E has already summarized the terms of the Proposed Amendment in more general terms in the body of the Advice Letter. The description of the Proposed Amendment in the Appendices consists only of information that is commercially sensitive and cannot be further manipulated in order to disclose its contents.

I declare this under penalty of perjury and if called to testify on these matters, could and would competently do so.

Executed on December 3, 2010 in San Francisco, California.


Hugh Merriam

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

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