

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



July 5, 2013

Advice Letter 3795-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: Third Amendment to the Power Purchase Agreement for
Procurement of Eligible Renewable Energy Resources
Between Arlington Wind Project, LLC, and PG&E**

Dear Mr. Cherry:

Advice Letter 3795-E is effective June 27, 2013 per Resolution E-4589.

Sincerely,

A handwritten signature in cursive script that reads "Edward F. Randolph".

Edward F. Randolph, Director
Energy Division

January 26, 2011

Advice 3795-E
(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

Subject: Third Amendment to the Power Purchase Agreement for Procurement of Eligible Renewable Energy Resources Between Arlington Wind Project, LLC, and Pacific Gas and Electric Company

I. INTRODUCTION

A. Purpose of the Advice Letter

Pacific Gas and Electric Company (“PG&E”) seeks California Public Utilities Commission (“Commission”) approval of an amendment (“Third Amendment”) to the CPUC-approved power purchase agreement (“PPA”) between Arlington Wind Project, LLC (“Arlington”), and PG&E. The Commission approved the PPA in Resolution E-4204 on November 21, 2008. The Third Amendment amends the original power purchase agreements with Arlington only to the extent necessary to establish updated terms and conditions related to the Bonneville Power Administration (“BPA”) wind integration charges (“WIC”). Under its Tariff, BPA assesses WIC on wind generators in its Control Area. The original PPA with Arlington included a provision specifying how the charge would be addressed. However, due to recent increases in BPA’s WIC, the parties have been required to re-negotiate the PPA terms to address these increased charges and to ensure the continued performance of a reliable Renewable Portfolio Standard (“RPS”) eligible resource for PG&E’s customers. Additional information on the amended PPA terms is provided in Confidential Appendix D, Section D.3.

B. Subject of the Advice Letter

This advice letter is limited to seeking Commission approval for a price change associated with an increase in the BPA WIC. Confidential Appendix D contains further documentation and explanation of the WIC and how it affects the price paid under the PPA with Arlington. The Commission should approve this Amendment because the generating facility has been reliably delivering under the Commission-approved PPA

since 2009, and the Amendment is strictly limited to making reasonable changes necessary to provide for the increase in the BPA WIC.

C. General Project(s) Description

Project Name:	Arlington Wind Power Project, LLC
Technology	Wind
Capacity (MW):	103 MW
Capacity Factor	26.6 %
Expected Generation (GWh/Year)	240 GWh
Initial Commercial Operational Date	December 26, 2008
Date Contract Delivery Term Begins	January 5, 2009 due to firming and shaping agreement
Delivery Term (Years)	15 years starting in 2009
Vintage (New/Existing/Repower)	Existing
Location (City and State)	Gilliam County, Oregon
Control Area (e.g., CAISO, BPA)	BPA
Nearest Competitive Renewable Energy Zone (CREZ) as Identified by the Renewable Energy Transmission Initiative (RETI)¹	COB
Type of cooling, if applicable	N/A
Price² relative to MPR (i.e. above/below)	The price is above the 2009 MPR.

¹ Information about RETI is available at: <http://www.energy.ca.gov/reti/>.

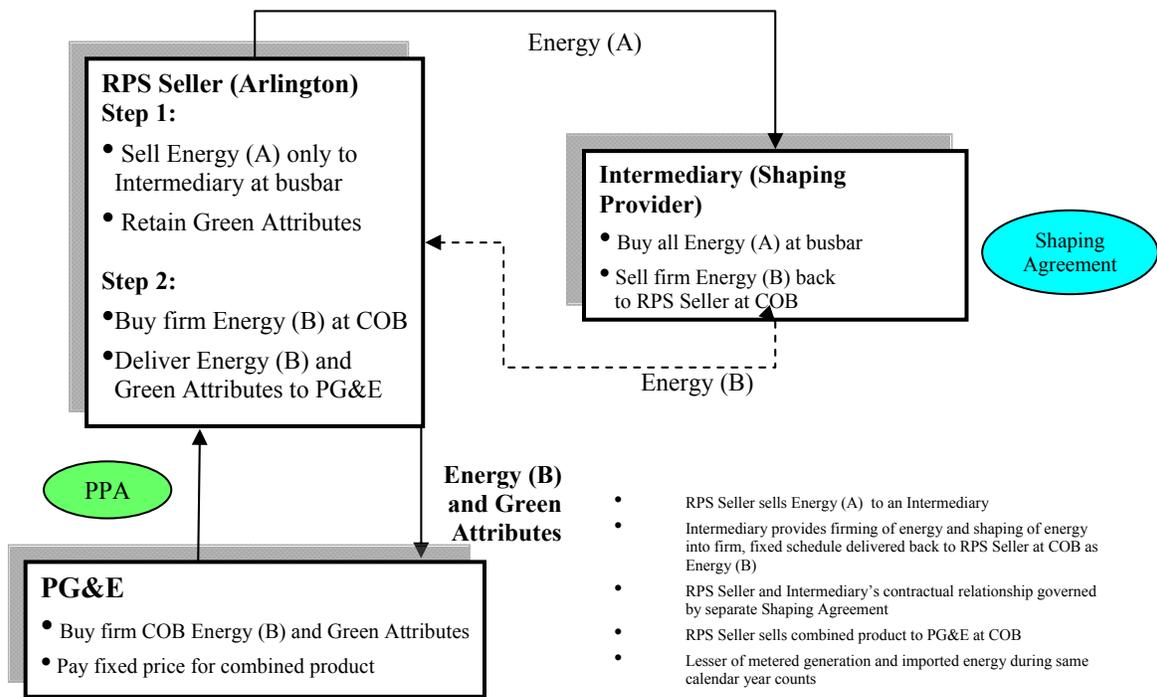
² Should refer to the maximum price under the contract.

D. General Deal Structure

The general delivery structure did not change as a result of the Third Amendment and is illustrated in figure 1.

Further information on the deal structure is included in Confidential Appendix D.

Figure 1: Delivery Structure of PPA³



E. RPS Statutory Goals

Senate Bill (“SB”) 1078 established the California RPS Program, requiring an electrical corporation to increase its use of eligible renewable energy resources to 20 percent of total retail sales no later than December 31, 2017. The legislature subsequently accelerated the RPS goal to reach 20 percent by the end of 2010. In addition, California is actively considering increasing its renewable goals beyond the current 20 percent renewable energy target. Governor Schwarzenegger’s Executive Order issued in November 2008 describes a new target for California of 33 percent renewable energy by

³ The delivery structure did not change as a result of the Third Amendment.

2020, and his executive order issued in September 2009 directs the California Air Resources Board to adopt a regulation consistent with this 33 percent target by July 31, 2010. In compliance with this Executive Order, the California Air Resources Board adopted regulations in 2010 that require 33 percent of energy deliveries to be from renewable resources by 2020 with interim procurement requirements as a key measure for reducing greenhouse gas emissions and meeting California's climate change goals.

F. Confidentiality

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

Confidential Attachments:

Appendix A – Consistency with Commission Decisions and Rules and Project Development Status

Appendix B – 2009 Solicitation Overview

Appendix C – Independent Evaluator Report (Confidential)

Appendix D – Contract Amendment Summary

Appendix E – Not included due to limited scope of amendment

Appendix F – Third Amendment to Power Purchase Agreement

Appendix G – Not included due to limited scope of amendment

Public Attachments:

Appendix H – Independent Evaluator Report (Public)

II. CONSISTENCY WITH COMMISSION DECISIONS

A. Compliance With Resolution E-4199

In Resolution E-4199, the Commission set forth eligibility criteria and guidelines for approving requests for above-market costs of renewable energy contracts negotiated through competitive solicitations. PG&E prepared this advice letter following the guidelines set forth in Resolution E-4199. As part of this Resolution, the Commission established standard information that the investor-owned utilities, developers, and Independent Evaluators (“IE”) must provide when submitting amendments that affect the contract price of an approved contract.

The Third Amendment affects the price of the PPA and thus falls under the requirements set forth in Resolution E-4199. These requirements are addressed to the extent possible in the public portion of this Advice Letter, and are further addressed in the Confidential Appendices as detailed in the table below:

Requirement	Refer To
<i>The IOU should:</i>	
<ul style="list-style-type: none"> Compare the amended contracts against the most recently approved set of MPRs and the time of delivery (“TOD”) factors associated with that solicitation year 	Appendix B Appendix D
<ul style="list-style-type: none"> Re-evaluate the competitiveness of the amended PPA as compared to the PPAs that the IOU is currently negotiating and to the IOU’s most recent shortlist, and provide a sufficient showing in the advice letter that the amended PPA is competitive based on current market data 	Appendix A Appendix B Appendix D
<ul style="list-style-type: none"> Explain why the contract change is needed Provide all relevant data to justify the change 	Appendix D
<i>The Developer must:</i>	
<ul style="list-style-type: none"> Provide the Commission and the IE with the original cash flow model, reflecting the price in the original contracts Provide the Commission and the IE with the latest cash flow model, reflecting the price in the amended contracts 	Appendix C Appendix D ⁴
<i>The confidential IE report must, at a minimum, include its:</i>	

⁴ Due to the limited scope of the Third Amendment (which only modifies terms relating to the WIC), PG&E has provided Table 1 in Appendix D, which sets forth the maximum possible changes to cash flows resulting from the Amendment.

<ul style="list-style-type: none"> • Evaluation of the new prices based on the PPA’s market valuation as compared to the bids in the IOU’s most recent solicitation • Review of the cash flow model • Evaluation of the change in model inputs 	Appendix C
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1. The Increase in the Contract Price is Justified

Confidential Appendix D contains a detailed explanation of the BPA WIC and how it affects payments under the PPA as amended by the Third Amendment.

2. The PPA as amended by the Third Amendment Is Competitive as Compared to Current Market Data

The PPA as amended by the Third Amendment is competitive with projects that were shortlisted in the 2009 RPS Solicitation. Additional information on the comparison of the amended PPA against current market data is provided in the Confidential Appendices to this Advice Letter.

B. Consistency with PG&E’s Adopted RPS Procurement Plan

The original PPA resulted from PG&E’s 2006 RPS Solicitation. PG&E’s 2006 renewable procurement plan (“2006 Plan”) was approved in D. 06-05-039 on May 25, 2006. As required by statute, the 2006 Plan included an assessment of supply and demand to determine the optimal mix of renewable generation resources, consideration of compliance flexibility mechanisms established by the Commission, and a bid solicitation setting forth the need for renewable generation of various operational characteristics.⁵

The goal of PG&E’s 2006 Plan was to procure approximately one to two percent of PG&E’s annual retail sales volume, or between 727 and 1,454 GWh per year, with delivery terms of 10, 15, or 20 years. Participants could submit offers for four specific products – as available, baseload, peaking, and dispatchable resources. The PPA falls within the criteria identified in the 2006 Plan and, with deliveries commencing in 2009, contributed toward achievement of PG&E’s 2010 RPS target.

⁵ Pub. Util. Code § 399.14(a)(3)

C. Consistency of Bid Evaluation Process With Least-Cost Best-Fit Decision

The RPS statute requires PG&E to procure the “least-cost best-fit” (“LCBF”) eligible renewable resources.⁶ The LCBF decision directs the utilities to use certain criteria in their bid ranking⁷ and offers guidance regarding the process by which the utility ranks bids in order to select or “shortlist” the bids with which it will commence negotiations. PG&E’s approved process for identifying the LCBF renewable resources focuses on four primary areas:

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

PG&E examined the reasonableness of the PPA as amended by the Third Amendment using the same comparison tools used with other RPS transactions received in the 2009 RPS Solicitation and with bilaterals currently being offered to PG&E. The general finding is that Arlington is reasonably priced. A more detailed discussion of PG&E’s evaluation of the amended PPA is provided in Confidential Appendices A and D.

1. Market Valuation

In a “mark-to-market analysis,” the present value of the bidder’s payment stream is compared with the present value of the product’s market value to determine the benefit (positive or negative) from the procurement of the resource, irrespective of PG&E’s portfolio. This analysis is based on an evaluation of the contract price as amended by the Third Amendment. PG&E’s analysis of the market value is confidential and addressed in Confidential Appendix A.

2. Portfolio Fit

Portfolio fit considers how well an offer’s features match PG&E’s portfolio needs. As part of the portfolio fit assessment, PG&E differentiates offers by the firmness of their energy delivery and by their energy delivery patterns. A higher portfolio fit measure is assigned to the energy that PG&E is sure to receive and fits the needs of the existing

⁶ Pub. Util. Code § 399.14(a)(2)(B).

⁷ D.04-07-029.

portfolio. Because the intermittent renewable power will be firmed and shaped and the power and Green Attributes delivered to PG&E at COB, the PPA as amended provides a reasonable match to PG&E's portfolio needs. PG&E further addresses portfolio fit in Confidential Appendix D.

3. Consistency With the Transmission Ranking Cost Decision

Arlington has been interconnected and delivered RPS-eligible energy to PG&E since January 5, 2009.

4. Consistent Application of TODs

For purposes of analysis, PG&E did not change the Time of Delivery ("TOD") factors adopted by the 2006 RPS Protocol when evaluating the PPA as amended by the Third Amendments to reflect the value of power delivered during different time periods. The effect of TOD factors is explained in Confidential Appendix D.

5. Qualitative Factors

No qualitative factors affected the evaluation of the PPA as amended by the Third Amendment.

D. Compliance with Standard Terms and Conditions

The Commission set forth standard terms and conditions to be incorporated into contracts for the purchase of electricity from eligible renewable energy resources in D.04-06-014 and D.07-02-011, as modified by D.07-05-057 and D.07-11-025. These terms and conditions were compiled and published in D.08-04-009. Additionally, the non-modifiable term related to Green Attributes was finalized in D.08-08-028 and the non-modifiable terms related to Tradable Renewable Energy Credits ("TREC's") were finalized in D.10-03-021, as modified by D.11-01-025.

As the Third Amendment amends the original power purchase agreements with Arlington only to the extent necessary to establish updated terms and conditions related to the BPA WIC, the standard terms and conditions in the original PPA were not changed as a result of the Third Amendment.⁸ The PPA as amended by the Third

⁸ This is consistent with D.10-03-021, as amended by D.11-01-025, which only requires *pending contracts that have not yet been approved* be amended to conform to the revised standard terms and conditions. D.10-03-021, Ordering Paragraph 37.

Amendment protects the interests of its customers while supporting the Commission's goal of increasing procurement from eligible renewable resources.

E. Consistency With Unbundled Renewable Energy Credit Transactions

The PPA as amended by the Third Amendment is for the purchase of RPS-eligible energy and renewable energy credits (RECs), and as confirmed in Resolution E-4204 approving the original PPA, the transaction complies with the CEC's RPS eligibility requirements. Though this deal structure is now defined as a REC-only transaction pursuant to D.10-021-03, , as modified by D.11-01-025, this limited filing seeking approval of the Third Amendment should not result in a reevaluation of the PPA terms and conditions, which were approved by the Commission in November of 2008. D10-021-03, as modified by D.11-01-025, specifies that "[i]n order to recognize the legitimate expectations of the parties to RPS contracts now classified as REC-only that were approved by the Commission prior to the effective date of [D.10-03-021]," the temporary limits on the use of tradable renewable energy credits for RPS compliance "shall not be applied to deliveries to a load-serving entity...from contracts that...were approved by the Commission prior to the effective date of this decision,"⁹ except where the contract is extended beyond the expiration date or the deliveries are increased beyond that allowed in the contract as of the effective date of D.10-03-021.¹⁰ As the Third Amendment does not change the quantity or duration of deliveries under the PPA or the general deal structure, and only adjusts the price in consideration of BPA's WIC, the Third Amendment should not require additional review of the terms and conditions of the original PPA under D.10-021-03, as modified by D.11-01-025.

F. Consistency With Minimum Quantity Decision

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

The PPA as amended by the Third Amendment is a long-term contract. The original PPA was executed in 2008 and the Third Amendment was executed in 2010. PG&E was in compliance with the minimum quantity set forth in D.07-05-028 for 2008, 2009, and 2010, and expects to be in compliance for 2011 as well.

⁹ D.10-021-03 at Ordering Paragraph 18.

¹⁰ D.11-01-025 at Ordering Paragraph 4K.

G. Tier 2 Short-Term Contract “Fast Track” Process

PG&E is not submitting this contract under the “Fast Track” Process.

H. Market-Price Referent

The actual price under the PPA as amended by the Third Amendment is confidential, market-sensitive information. As the Third Amendment provide for an increase in the contract prices, it is appropriate to compare the amended price with the most recently approved market-price referent (“MPR”) and the TOD factors associated with that solicitation year,¹¹ which are the 2009 MPR established in Resolution E-4298 on December 17, 2009 and PG&E’s 2009 TOD factors. The price under the Third Amendment is above the applicable 2009 MPR. Total cost information is discussed in Confidential Appendices A and D.

I. Above-Market Funds

The original PPA qualified for AMFs, as it resulted from a competitive solicitation, covered a duration of 15 years, the project was a new facility commencing commercial operations after January 1, 2005, the contract was for a bundled product, and the above-market costs of the PPA did not include indirect expenses. PG&E was notified by the CPUC on May 28, 2009 that PG&E had exhausted its portion of the AMFs available for above-MPR contract payments. AMFs are discussed further in Confidential Appendices A and D.

J. Compliance With Interim Emissions Performance Standard

In D.07-01-039, the Commission adopted an Emissions Performance Standard (“EPS”) that applies to new and renewal contracts for a term of five or more years for baseload generation with an annualized plant capacity factor of at least 60 percent. The PPA as amended by the Third Amendment is not a form of covered procurement subject to the EPS because the generating facilities have a forecast annualized capacity factor of less than 60 percent and therefore do not constitute baseload generation as defined by statute and the Adopted Interim EPS Rules. Notification of compliance with D.07-01-039 is provided through this Advice Letter, which has been served on the service list in the RPS rulemaking, R.08-08-009.

¹¹ See Resolution E-4199 at 36 (“Contracts re-filed for approval of a price amendment should be compared against the most recently approved set of MPRs and the TODs associated with that solicitation year.”)

Because the Project's generation is intermittent and located outside the CAISO, energy deliveries will be delivered to COB by Arlington. As described above, generation from Arlington will enter the local grid when it is generated, but energy will be delivered to PG&E's customers via COB in accordance with a fixed bi-monthly schedule ("firmed") and aggregated into the expected amount of generated energy over a two-week period ("shaped").

The system power used for firming and shaping does not violate SB 1368 (or D.07-01-039), because total purchases to firm and shape the energy (whether from the intermittent renewable resource or from substitute unspecified resources) are not expected to exceed the total expected output of the Project over the term of the PPA.

K. Procurement Review Group Participation

The Procurement Review Group ("PRG") for PG&E includes the Commission's Energy Division and Division of Ratepayer Advocates, Department of Water Resources ("DWR"), Union of Concerned Scientists ("UCS"), The Utility Reform Network ("TURN"), the California Utility Employees ("CUE"), and Jan Reid, as a PG&E ratepayer. The Third Amendment was discussed at a meeting on August 13, 2010. Additional information is provided in Confidential Appendix A.

L. Independent Evaluator

The Independent Evaluator ("IE"), Sedway Consulting, which also evaluated the original PPA in its August 7, 2008 IE report, evaluated the Third Amendment. The findings of the IE regarding the Third Amendment are contained in Confidential Appendix C and Public Appendix H.

III. Project Development Status

A. Company / Development Team

The Project is fully developed and has been delivering energy to PG&E since January 5, 2009 under the original PPA.

B. Technology

Arlington is a 103 MW wind project that has been operational and delivered RPS-eligible electric power to PG&E since January 5, 2009. The Third Amendment does not impact the technology.

1. Technology Type and Level of Technology Maturity

The Project is an operating wind farm based on mature wind technology.

2. Quality of Renewable Resource

Based on well established and proven wind technology.

3. Other Resources Required

No other resources required.

C. Development Milestones

The PPA as amended by the Third Amendment does not include any development milestones since the Project has been operational since January 5, 2009 and no new construction will result from the Third Amendment.

1. Site Control

N/A – existing and operating facility.

2. Equipment Procurement

N/A

3. Permitting / Certification Status

N/A

4. Production Tax Credit / Investment Tax Credit

- a. Treasury Grant In Lieu of Production Tax Credit/Investment Tax Credit

The Third Amendment does not rely on any new or additional Treasury Grants or Tax Credits.

5. Transmission

N/A. The Project is operational and interconnected.

D. Financing Plan

N/A

IV. CONTINGENCIES AND/OR PROJECT MILESTONES

The Third Amendment does not include any contingencies or project milestones.

V. REGULATORY PROCESS

A. Requested Effective Date

PG&E requests that the Commission issue a resolution approving this advice filing on **August 18, 2011**.

B. Earmarking

PG&E reserves the right to earmark deliveries from the PPA as amended by the Third Amendment.

VI. REQUEST FOR COMMISSION APPROVAL

PG&E requests that the Commission issue a resolution no later than **August 18, 2011**, that:

1. Approves the PPA as amended by the Third Amendment in its entirety, including payments to be made by PG&E pursuant to the PPA as amended by the Third Amendment, subject to the Commission's review of PG&E's administration of the PPA as amended by the Third Amendment.
2. Finds that any procurement pursuant to the PPA as amended by the Third Amendment is 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, as provided by Public Utilities Code section 399.14(g), associated with the PPA as amended by the Third Amendment shall be recovered in rates.
4. Adopts the following finding of fact and conclusion of law in support of CPUC Approval:
 - a. The PPA as amended by the Third Amendment is consistent with PG&E’s 2009 RPS procurement plan.
 - b. The terms of the PPA as amended by the Third Amendment, including the price of delivered energy, are reasonable.
5. Adopts the following finding of fact and conclusion of law in support of cost recovery for the PPA as amended by the Third Amendment:
 - a. The utility’s costs under the PPA as amended by the Third Amendment shall be recovered through PG&E’s Energy Resource Recovery Account.
 - b. Any stranded costs that may arise from the PPA as amended by the Third Amendment is subject to the provisions of D.04-12-048 that authorize recovery of stranded renewables procurement costs over the life of the contract. The implementation of the D.04-12-048 stranded cost recovery mechanism is addressed in D.08-09-012.
6. Adopts the following findings with respect to resource compliance with the Emissions Performance Standard (“EPS”) adopted in R.06-04-009:
 - a. The PPAs as amended by the Third Amendment is not covered procurement subject to the EPS because the generating facility has a capacity factor of less than 60 percent and, therefore, is not baseload generation under paragraphs 1(a)(ii) and 3(2)(a) of the Adopted Interim EPS Rules.

Protests:

Anyone wishing to protest this filing may do so by sending a letter by **February 15, 2011**, which is **20** days from the date of this filing. The protest must state the grounds

upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: mas@cpuc.ca.gov and jjj@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004, 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: Jane K. 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 the Commission issue a resolution approving this advice filing on **August 18, 2011**.

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.08-08-009, R.06-02-012 and R.08-02-007. 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 should be directed to 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>.

Handwritten signature of Jane Yura in cursive, followed by a vertical line and the word "lmt" in a smaller, less legible script.

Vice President – Regulation and Rates

cc: Service List for R.08-08-009
Service List for R.06-02-012
Service List for R.08-02-007
Paul Douglas – Energy Division
Sean Simon – Energy Division

Attachments

Limited Access to Confidential Material:

The portions of this Advice Letter marked Confidential Protected Material are submitted under the confidentiality protection of Section 583 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.

Confidential Attachments:

Appendix A – Consistency with Commission Decisions and Rules and Project Development Status

Appendix B – 2009 Solicitation Overview

Appendix C – Independent Evaluator Report (Confidential)

Appendix D – Contract Amendment Summary

Appendix E – Not included

Appendix F – Third Amendments to Power Purchase Agreements

Appendix G – Not included

Public Attachments:

Appendix H – Independent Evaluator Report (Public)

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) #: **3795-E**

Tier: **3**

Subject of AL: **Third Amendment to the Power Purchase Agreement for Procurement of Eligible Renewable Energy Resources Between Arlington Wind Project, LLC, and Pacific Gas and Electric Company**

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: Charles Post (415-973-9286)

Resolution Required? Yes No

Requested effective date: **August 18, 2011**

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
jnj@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 CHARLES POST
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3795-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Charles Post, declare:

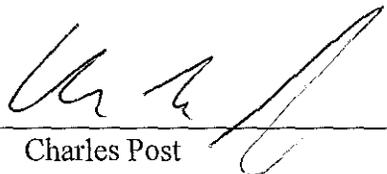
1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee at PG&E since 2000. My current title is Principal within PG&E's Energy Procurement organization. In this position, my responsibilities include negotiating PG&E's Renewables Portfolio Standard Program ("RPS") Power Purchase Agreements. 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, D, and F to PG&E's Advice Letter 3795-E submitted on January 26, 2011. By this Advice Letter, PG&E is seeking this Commission's approval of an amendment to the CPUC approved PPA with Arlington Wind Project, LLC that PG&E has executed with Arlington Wind Project, LLC.

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"), and/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, if applicable, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information, if applicable; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix that is pertinent to this filing.

I declare under penalty of perjury, under the laws of the State of California, that to the best of my knowledge the foregoing is true and correct. Executed on January 26, 2011 at San Francisco, California.



Charles Post

PACIFIC GAS AND ELECTRIC COMPANY Advice Letter 3795-E January 26, 2011		IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 08-06-066 AND DECISION 08-04-023					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)	PG&E's Justification for Confidential Treatment	Length of Time
1 Document: Advice Letter 3795-E	Y	Item VII F) Renewable Resource Contracts under RPS program - Contracts with SEPs. Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluations from the 2009 Solicitation; discusses, analyzes and evaluates the Project and the terms of the PPA; contains information concerning and analyses and evaluations of project viability; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. In addition, if information about and evaluations of project viability is made public, it could harm the counterparties and adversely affect project viability. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparty.	For information covered under Item VII F) and Item VII (un-numbered category following VII G), remain confidential for three years For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected.
2 Appendix A	Y	Item VII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2009 Solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, offers from the 2005, 2006, 2007, 2008, and 2009 solicitations and offers received outside of those solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval For information covered under Item VIII B), remain confidential for three years after winning bidders selected
3 Appendix B	Y	Item VII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2009 Solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, offers from the 2005, 2006, 2007, 2008, and 2009 solicitations and offers received outside of those solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval For information covered under Item VIII B), remain confidential for three years after winning bidders selected

Redaction Reference	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
4 Appendix C	Y	Item VII F) Renewable Resource Contracts under RPS program - Contracts with SEPs. Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	<p>This Appendix contains bid information and evaluation from the 2009 Solicitation; discusses, analyzes and evaluates the Project and the terms of the PPA; contains information concerning and analyses and evaluations of project viability; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. In addition, if information about and evaluations of project viability is made public, it could harm the counterparties and adversely affect project viability.</p> <p>Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparty.</p>	<p>For information covered under Item VII F) and Item VII (un-numbered category following VII G), remain confidential for three years</p> <p>For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval.</p> <p>For information covered under Item VIII B), remain confidential for three years after winning bidders selected.</p> <p>For information covered under General Order 66-C, remain confidential.</p>
5 Appendix D	Y	Item VII F) Renewable Resource Contracts under RPS program - Contracts with SEPs. Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	<p>This Appendix contains bid information and evaluations from the 2009 Solicitation; discusses, analyzes and evaluates the Project and the terms of the PPA; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparties to the PPA have an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA.</p> <p>It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparty.</p>	<p>For information covered under Item VII F) and Item VII (un-numbered category following VII G), remain confidential for three years</p> <p>For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval.</p> <p>For information covered under Item VIII B), remain confidential for three years after winning bidders selected.</p> <p>For information covered under General Order 66-C, remain confidential.</p>
7 Appendix F	Y	Item VII F) Renewable Resource Contracts under RPS program - Contracts with SEPs.	Y	Y	Y	<p>This Appendix contains the PPA. Disclosure of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparty to the PPA has an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA.</p>	<p>Remain confidential for three years</p>

Appendix H
Independent Evaluator Report (Public)

Sedway Consulting, Inc.

INDEPENDENT EVALUATION REPORT
FOR PACIFIC GAS & ELECTRIC'S
HORIZON ARLINGTON PPA
THIRD AMENDMENT

Submitted by:

*Alan S. Taylor
Sedway Consulting, Inc.
Boulder, Colorado*

January 21, 2011

Introduction and Background

This Independent Evaluation Report addresses an amendment to a renewable energy contract associated with Pacific Gas & Electric's (PG&E) 2006 Renewables Portfolio Standard (RPS) solicitation. That contract – between PG&E and Arlington Wind Power Project, LLC (Arlington, a subsidiary of Horizon Wind Energy) – was originally executed on May 28, 2008 and called for the development of a 102.9 MW wind facility in Gilliam County, Oregon with the sale of renewable energy to PG&E for 15 years. The Horizon Arlington wind facility began operating on December 26, 2008.

Since the original power purchase agreement (PPA) was executed, PG&E and Arlington amended the PPA on three occasions. The first two involved amendments that updated the contract to PG&E's latest pro forma terms and conditions on certain matters or addressed operational/trading issues. The third amendment is the subject of this report; the amendment was executed on December 1, 2010 and pertains to a potential increase in the PPA's price associated with increases in Bonneville Power Administration (BPA) wind integration charges.

Role of Independent Evaluator

The California Public Utilities Commission (CPUC) has issued several decisions in the last several years that require California's investor-owned utilities (IOUs) to retain an Independent Evaluator (IE) in RPS solicitations.¹ In late 2010, in compliance with these CPUC decisions, PG&E retained Sedway Consulting as an IE to review the Horizon Arlington PPA third amendment process. It was recognized that much of the negotiations had already occurred, but PG&E endeavored to provide sufficient background materials for Sedway Consulting to understand the transaction and perform the necessary evaluations and comparisons.

In instances where an IE is reviewing a PPA amendment for a contract that has already been approved by the CPUC (as is the case with the Horizon Arlington amended PPA), the CPUC has requested that the IE opine on whether the IOU's contract evaluation process accurately reflects the amended PPA's market valuation and whether the amended PPA's market valuation is competitive relative to the IOU's other options in the most recent solicitation.

Sedway Consulting was the IE in PG&E's 2006 RPS solicitation but not the utility's most recent (2009) RPS solicitation. However, Sedway Consulting has an adequate understanding of the market valuation processes that PG&E employed in the 2009 solicitation. Sedway Consulting was able to draw on its materials from the 2006 solicitation, supplement those materials with new information regarding PG&E's 2009

¹ D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8).

solicitation, and perform the necessary comparisons for a determination of the amended Horizon Arlington PPA's competitiveness with PG&E's other options.

This report touches on several of the items listed in the CPUC Independent Evaluator Report Template (Short Form);² however, that template was developed for reports associated with the annual RPS solicitations and many of the elements are not particularly applicable to contract amendment reviews.

Independent Evaluator Activities and Analysis

Sedway Consulting was familiar with the original Horizon Arlington PPA (which was the subject of Sedway Consulting's August 7, 2008 IE report) and reviewed the subsequently executed amendments to understand what had changed in the PPA. Sedway Consulting also reviewed the Procurement Review Group (PRG) presentation that was made on August 13, 2010 and drafts of PG&E's advice letter filing for the amended contract. Sedway Consulting was not involved in any direct monitoring of the negotiations. In addition, no full-blown financial models were provided or reviewed because the original and revised direct contract pricing did not change. The pricing impact of the third amendment only involved the treatment of third-party costs (i.e., BPA's wind integration charges) and was thus addressed in a simplified/focused cash flow analysis.

With regard to the 2009 RPS solicitation, Sedway Consulting was provided PG&E's market valuation results and related information for all shortlisted bids. As described below, PG&E also provided Sedway Consulting with all necessary market price and evaluation assumptions to allow it to calibrate its bid evaluation model and confirm that PG&E's assessment of the Horizon Arlington amended PPA reasonably reflected the revised project's market valuation. Sedway Consulting recognized, however, that comparing an executed contract with a short list of potential projects/contracts could be problematic. Only two of the 2009 shortlisted bids have yet to translate into executed contracts. It is reasonable to expect that some of the remaining bids will not, and of those that do, some may end up with revised schedules and prices. Therefore, Sedway Consulting decided to supplement its Horizon Arlington/2009 short list analysis with a comparison of the Horizon Arlington amended PPA and PG&E's recently executed RPS contracts (i.e., those long-term contracts or amendments signed within the last 12 months prior to the execution of the Horizon Arlington amended PPA). Many of these contracts were negotiated and executed during 2010 in the same time-frame as the Horizon Arlington amended PPA. Thus, Sedway Consulting believes that they represent comparable transactions.

Sedway Consulting used its RPS contract evaluation model – updated with PG&E's November 3, 2010 market price assumptions – to allow it to perform its own evaluation

² Administrative Law Judge's Ruling Issuing Templates for Independent Evaluator Reports and Contract Approval Requests, Attachment B, R.06-02-013, Carol Brown, ALJ filed May 8, 2008.

of the Horizon Arlington amended PPA. Sedway Consulting's model is a power supply evaluation tool that uses the following information for a contract:

- Capacity
- Commencement and expiration dates for power deliveries
- Energy pricing
- Expected hourly generation profile
- Expected total annual generation.

Sedway Consulting's evaluation model is a spreadsheet-based tool that calculates the present value of each proposal's monthly energy payments, energy benefits, and capacity value. The model then subtracts each proposal's costs from its economic benefits and divides the resulting net costs by the present value of the proposed project's generation to yield a \$/MWh levelized net market value. PG&E's evaluation model generated the same metric (net market value) in a similar fashion.

Sedway Consulting found that the Horizon Arlington amended PPA's net market value compared favorably to the 2009 short list and to the recently executed RPS contracts. The results of Sedway Consulting's two comparative analyses are provided in the Confidential Appendix A to this report. This material is being afforded confidential treatment for two reasons. First, it is important to protect participants from having their project pricing and operational information provided to their competitors. Second, certain information in Sedway Consulting's analysis is included only in the Confidential Appendix A, consistent with the Commission's confidentiality rules. Pursuant to Public Utilities (Pub. Util.) Code Section 583, General Order (G.O.) 66-C, and D.06-06-066, certain market-sensitive data should be kept confidential to ensure that such data does not influence the behavior of bidders in future RPS solicitations.

In the CPUC's Resolution E-4199, the Commission established procedures for reviewing PPA amendment price increases that were above the Market Price Referent (MPR). Sedway Consulting believes that Resolution E-4199 applies to the Horizon Arlington third amendment. One of Resolution E-4199's procedures involves the review of the counterparty's cash flow models (both an initial one that supported the original PPA pricing and a second one that included the price revision). As is more fully explained in Confidential Appendix A to this report, a review of full-blown cash flow models was not performed for the Horizon Arlington amended PPA. Sedway Consulting did not believe a full-blown analysis to be necessary, given the specific and narrow focus of the amended PPA's price revision. Instead, Sedway Consulting reviewed a simplified/focused cash flow analysis that was provided by PG&E in the utility's advice letter filing Appendix D. Sedway Consulting found that analysis to be sufficient and appropriate to meet the goals of Resolution E-4199.

Conclusion

Sedway Consulting believes that PG&E's contract evaluation process reasonably reflected the amended PPA's market valuation and that the amended PPA's market valuation is competitive relative to PG&E's other RPS options. Specifically, Sedway Consulting concludes that the Horizon Arlington amended PPA compares favorably with PG&E's 2009 RPS solicitation short list and with the RPS contracts that PG&E has executed in the previous 12 months.

Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of the third amendment to the Horizon Arlington PPA.

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

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