May 15, 2006

Advice 2827-E

(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

Subject: Contracts for Procurement of Renewable Energy Resources Resulting from PG&E’s 2005 Renewables Portfolio Standard (RPS) Solicitation

I. PURPOSE

By this advice letter, Pacific Gas and Electric (“PG&E”) seeks the California Public Utilities Commission’s (Commission or CPUC) approval of three power purchase agreement(s) (PPAs) that PG&E has executed with developers of eligible renewable energy resources as a result of PG&E’s 2005 RPS solicitation. The Commission’s approval of the PPAs will authorize PG&E to accept future deliveries of incremental supplies of renewable resources and contribute towards the 20 percent renewables procurement goal required by California’s RPS statute. The annual output of these projects comprise up to 100 percent of PG&E’s 2005 annual incremental RPS target.

The PPAs result from PG&E’s August 4, 2005 solicitation for renewable bids, which was authorized by Decision (D.) 05-07-039. Each PPA contains the standard terms and conditions for RPS contracts adopted by D. 05-07-039 and will provide power from renewable resources at the least cost and best fit, as defined by D.04-07-029. The PPA includes the standard covenant that during the delivery period, the project will constitute an eligible energy resource certified by the California Energy Commission (CEC).

Deliveries from the PPAs are priced below the 2005 market price referent (MPR) and thus do not require any supplemental energy payments (SEPs) from the CEC.

The PPAs are being presented for CPUC review and approval as provided by the “RPS Solicitation – Contract Approval Milestones” contained in D.04-07-029. Utilities have been encouraged to submit the PPAs for approval in tranches. Accordingly, this advice

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1 California Public Utilities Code section 399.11 et seq., as interpreted by D.03-07-061, the “Order Initiating Implementation of the Senate Bill 1078 Renewables Portfolio Standard Program”, and subsequent CPUC decisions in Rulemaking (R.) 04-04-026.
letter presents PG&E’s agreement with Bottle Rock Power LLC (Bottle Rock), Liberty V Biofuels LLC (Liberty), and HFI Bio Power Project LLC (HFI). The PPAs and their corresponding confirmation letters are provided as Confidential Appendix A. The PPAs contribute significantly towards PG&E’s renewables procurement goals. In 2005, the year of this RPS solicitation, PG&E’s incremental procurement target (IPT) was 736 gigawatt-hours (GWh). These PPAs will contribute an aggregate up to 735 GWh per year, all of which is incremental energy.

On March 1, 2006, PG&E reported its cumulative adjusted (2003-2005) IPT for 2005 as 1,149 GWh. With the approval of the three new PPAs, PG&E will have procured or contracted for deliveries of up to 735 GWh towards that target, or slightly more than 1 percent of its 2005 IPT.²

PG&E requests the Commission to issue a resolution no later than July 20, 2006 containing the findings required by the definition of “CPUC Approval” in Appendix A of D.04-06-014 and incorporated in the PPA so that PG&E’s contracts for these renewable resources can remain in effect.³ The requested form of approval is described in more detail under the heading, “Request for Commission Approval”, below.

In support of this request, the following confidential information is being submitted under seal. This material is also protected from public disclosure by the May 20, 2003 Protective Order issued in Rulemaking (R.) 01-10-024.⁴

Appendix A – Power Purchase Agreements

Appendix B -- SEP/MPR worksheet

Appendix C – Contract Summary

Appendix D – Procurement Review Group (PRG) materials

II. DESCRIPTION OF THE PROJECTS

The following table summarizes the substantive features of the PPA:

<table>
<thead>
<tr>
<th>Generating Facility</th>
<th>Type</th>
<th>Term</th>
<th>MW Capacity</th>
<th>Location</th>
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<tbody>
<tr>
<td>Bottle Rock</td>
<td>Geothermal</td>
<td>10-15</td>
<td>17-55 MW</td>
<td>NP-15</td>
</tr>
<tr>
<td>Liberty</td>
<td>Biomass</td>
<td>15</td>
<td>5-10 MW</td>
<td>NP-15</td>
</tr>
<tr>
<td>HFI</td>
<td>Biomass</td>
<td>10</td>
<td>20-40 MW</td>
<td>NP-15</td>
</tr>
</tbody>
</table>

² See March 1, 2006 Compliance Filing of Pacific Gas and Electric, page 5.
³ As provided by D.04-06-014, the Commission must approve the Agreement and payments to be made thereunder, and find that the procurement will count toward PG&E’s RPS procurement obligations, as either incremental procurement or procurement for baseline replenishment in order for an executed RPS PPA to be binding on the parties.

⁴ Treatment of confidential information in the RPS rulemaking is to be consistent with the policies developed in the general procurement proceeding, R.01-10-024, and its successor, R.04-04-003. See, R.04-04-026, mimeo at 12.
Copies of the PPAs are provided as Confidential Appendix A.

III. **Contract Analysis**

A. Consistency with PG&E’s Adopted RPS Plan.

California’s RPS statute requires the Commission to review the results of a renewable energy resource solicitation submitted for approval by a utility. The Commission will then accept or reject proposed PPAs based on their consistency with the utility’s approved renewable procurement plan.⁵ PG&E’s 2005 RPS plan was approved by D.05-07-039 on July 21, 2005. As required by statute, it includes 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.⁶

The stated goal of PG&E’s 2005 RPS Solicitation Plan was to procure approximately 1-2 percent of PG&E’s retail sales volume or between 700 and 1,400 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.

1. **Fit with Identified Renewable Resource Needs**

In its approved 2005 RPS Plan, PG&E’s portfolio assessment showed a “medium” need for baseload resources beginning in 2007. In order to meet the 20 percent renewable energy target by 2010, PG&E requires incremental energy deliveries from newly contracted resources at an average rate of approximately 700 to 1,400 GWh per year. The PPAs under consideration are expected to contribute significantly toward PG&E’s 2010 RPS target.

2. **Consistency with RPS Solicitation Protocol**

The proposed PPAs are consistent with the RPS Plan because they were solicited, negotiated and executed through PG&E’s adherence to its Solicitation Protocol, which is the primary component of the 2005 RPS Plan.

PG&E generally followed the RPS Solicitation schedule set forth in its Solicitation Protocol, but ultimately, the schedule for concluding negotiations was necessarily extended. The resulting 2005 Solicitation schedule is shown below:

<table>
<thead>
<tr>
<th>DATE</th>
<th>EVENT</th>
</tr>
</thead>
</table>


Using the approved bid solicitation protocol and forms of power purchase agreements, PG&E commenced its solicitation on August 4, 2005. Bids were received until September 15, consistent with the published schedule. All of the accepted bids conformed to the RPS protocol; that is, they offered power from eligible renewable energy resources, they were submitted using the standard forms, they executed the bid protocol and confidentiality agreements, and they posted the required bid deposit.

These bids were evaluated and scored in the manner prescribed in the Solicitation Protocol. In particular, evaluation of the offer price took into account PG&E’s published Time of Delivery factors and imputed the potential cost of transmission adders. PG&E scored the offers pursuant to a methodology that attributed the proper weight to market valuation, portfolio fit, credit and other non-price factors of the Solicitation Protocol.

The bids were ranked according to the protocols, and were placed on PG&E’s “Short List” and presented to PG&E’s PRG on October 24, 2005. PG&E notified short-listed bidders and PG&E negotiations with short-listed bidders once they submitted the required bid deposit. The interim results of negotiations were presented to the PRG on several occasions between December 2 and May 3, 2006. At those meetings, the PRG had no objection to PG&E proceeding to execute the PPAs presented by this advice letter.

3. Consistency with PG&E’s Long Term Procurement Plan

PG&E’s long term procurement plan assumed the inclusion of new the need for baseload resources. This same need was reflected in PG&E’s 2005 RPS plan. Because the projects represented by these PPAs are new baseload geothermal and biomass technologies they contribute to meeting baseload requirements in the long term plans.
B. Consistency of bid evaluation process with Least-Cost Best Fit (LCBF) decision.

The LCBF decision directs the utilities to use certain criteria in their bid ranking. It offers guidance regarding the process by which the utility ranks bids in order to select or “shortlist” the bids with which it will commence serious negotiations. Much of the bid ranking criteria described in the LCBF decision is incorporated in PG&E’s Solicitation Protocol and is discussed below.

1. Market Valuation

In its “mark-to-market analysis,” which PG&E’s analyst described at the Least Cost Best Fit workshop on May 25, 2004, 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. PG&E evaluates the bid price and indirect costs, such as the costs to the utility transmission system caused by interconnection of the resource to the grid or integration of the generation into the system-wide electrical supply.  

2. Portfolio Fit

Portfolio fit considers how well an offer variation’s features match PG&E’s portfolio needs. This analysis includes the anticipated transaction costs involved in any energy remarketing (i.e., the bid-ask spread) if the contract adds to PG&E’s net long position. Because these deliveries are anticipated to occur at a time when PG&E is experiencing moderate need for baseload energy, the acceptance of these baseload deliveries should not result in significant remarketing costs.

C. Consistency with Adopted Standard Terms and Conditions.

The Commission set forth standard terms and conditions to be incorporated into RPS agreements in D. 04-06-014.

During the course of negotiations, the parties identified a need to modify some of the standard terms in order to reach agreement. These terms had all been designated as subject to modification at the bidder’s request in Appendix A of D.04-06-014. Standard Terms and Conditions identified as “may not be modified” have not been modified.

The PPAs represent a meeting of the minds by the developers and PG&E, and each term was bargained for in consideration of every other term. Appendix C-1 (confidential) provides a detailed description and comparison of each term that has been materially modified from its form in the 2005 Solicitation. Each provision should be understood by the Commission as essential to the negotiated agreement between the parties and should not be disturbed by regulatory review. The reasonableness of an agreement should be examined as a whole, in terms of its ultimate impact on utility

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customers. The only reason to disturb a particular term would be if the Commission found that it violated public policy. PG&E submits that the agreement protects the interests of ratepayers while achieving the Commission’s goal of increasing procurement from eligible renewable resources.

D. Consistency with the Transmission Ranking Cost decision

The RPS statute requires the “least cost, best fit” eligible renewable resources to be procured. Under the RPS program, the potential customer cost to accept energy deliveries from a particular project must be considered when determining a project’s value for bid ranking purposes. PG&E’s 2005 transmission ranking cost (TRC) report identified the remaining available transmission capacity and upgrade costs for PG&E substations at which renewable resources are expected to interconnect.

PG&E determined the TRC cluster at which each shortlisted project would interconnect to the transmission grid. Consistent with Commission Decisions, based on the potential transmission congestion, the associated proxy transmission network upgrades and the associated capital costs that may be needed to accommodate delivery at this cluster, PG&E assigned a transmission adder to each Offer for evaluation.

E. Terms and conditions of delivery

Each project will be its own scheduling coordinator. The points of delivery will be NP-15 and ZP-26. Provision has been made for alternate points of delivery if the Independent System Operator’s current zonal delivery system is changed from zonal to nodal. No other transmission-related issue required accommodation in the PPA.

F. Contract Price

The contract price of each PPA is confidential, market sensitive information that will not be publicly revealed. The levelized contract price for each of the PPAs does not exceed the 2005 MPR. As such, contract payments below the MPR are per se reasonable as measured according to the net present value calculations explained in D.04-06-015 and D.04-07-029. The net present value of the sum of payments to be made under the PPA is less than the net present value of payments that would be made at the market price referent for the anticipated delivery. Confidential Appendix B presents a detailed analysis of how the contract payments are below the MPR.

G. Qualitative factors

PG&E considered qualitative factors as required by D.04-07-029. While it was possible to include a diverse mix of renewable technologies in the short list, eventually certain technologies were found to confer significantly greater customer benefits. None of the bids asserted that the proposed project would contribute to local reliability and none of the three projects claimed to possess any of the qualitative factors identified for special consideration by D.04-07-029.
H. Project Milestones

Each of the PPAs identifies the construction start date and the commercial operation date as guaranteed project milestones. For commercial reasons, PG&E cannot publicly disclose this information.

I. Project Viability

1. Financeability of resource.

It is PG&E’s belief that there is a reasonable likelihood that each of the selected projects will be financed and completed as required by the PPAs and will be available to deliver energy by its guaranteed commercial operation date.

2. Production Tax Credit

The PPAs are not contingent nor is the pricing dependent on the extension of federal production tax credits as provided in Section 45 of the Internal Revenue Code of 1986, as amended. However, depending on the commercial operation deadline, sellers could potentially benefit from the extension of such tax credits.

3. Sponsor’s creditworthiness and experience

The bidders were required to provide credit-related information as part of their bids. PG&E has reviewed this information and is satisfied that the counterparties to the PPAs possess the necessary credit and experience to perform as required by the parties’ PPAs.

4. Project Status

The PPAs include guaranteed construction start dates and guaranteed commercial operation dates. The sellers’ obligations to meet these milestones are supported by performance assurance securities.

IV. PRG Feedback

PG&E provided its PRG with reports on the progress of its 2005 RPS solicitation on five occasions. The first briefing occurred on September 30, 2005, and focused on the results of PG&E’s August 4, 2005 solicitation. The second briefing was October 24, 2005 at which PG&E reviewed the results of the bid evaluation and provided its preliminary short-list. At the third PRG briefing on December 1, 2005, PG&E reviewed the status of negotiations with short-listed bidders and responded to concerns raised at the previous presentation. At the January 12 and March 29, 2006 meetings, PG&E provided the PRG with an overview of the projects it considered most likely to proceed to final agreement. These presentations included a general overview of the negotiated terms and conditions of these and other PPAs.
On May 3, 2006, PG&E provided the PRG with a status report of the 2005 Solicitation. The three projects that are the subject of this advice letter were described and presented in the context of the Solicitation results. There was no opposition to PG&E's execution of these contracts.

The PRG members have expressed general satisfaction with the manner in which PG&E arrived at its 2005 RPS shortlist and the resulting PPAs. The PRG supported PG&E moving forward with these PPAs. An overview of the PRG material, the PRG presentations, and minutes of the above-described PRG meetings are provided as Confidential Appendix D.

V. Supplemental Energy Payments

As discussed in Section III.F and shown in Appendix B, the contract payments are below the MPR and no supplemental energy payments are required.

VI. Request for Commission Approval

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

Therefore, PG&E requests that the Commission issue a resolution no later than July 20, 2006, that:

1. Approves each PPA in its entirety, including payments to be made by PG&E, subject to CPUC review of PG&E’s administration of the Agreement.

2. Finds that any procurement pursuant to these Agreements constitutes procurement from eligible renewable energy resources for purposes of determining PG&E’s compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision 03-06-071, or other applicable law;

3. Finds that any procurement pursuant to these Agreements constitutes incremental procurement or procurement for baseline replenishment by PG&E from eligible renewable energy resources for purposes of determining PG&E's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, Decision 03-06-071, or other applicable law;

4. Finds that any indirect costs of renewables procurement identified in Section 399.15 (a)(2) shall be recovered in rates.
Protests

Anyone wishing to protest this filing may do so by sending a letter by June 5, 2006, which is 21 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: jir@cpuc.ca.gov and jnj@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission.

Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-Mail: PGETariffs@pge.com

Effective Date:

PG&E requests that this advice filing become effective on July 20, 2006.

Notice:

In accordance with General Order 96-A, Section III, Paragraph G, 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 list for R.04-04-026. 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

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8 The date of the 20 day protest period falls on a Sunday. The protest period is moved to the following business day.
accompanying confidential attachments by overnight mail. Address changes should be
directed to Rose De La Torre (415) 973-4716. Advice letter filings can also be
accessed electronically at:

http://www.pge.com/tariffs

Limited Access to Confidential Material:

The portions of this advice letter so marked Confidential Protected Material are in
accordance with the May 20, 2003 Protective Order in R. 01-10-024 Regarding
Confidentiality of Pacific Gas and Electric Company (PG&E) Power Procurement
Information. As required by that Order, reviewing representatives of Market
Participating Parties will not be granted access to Protected Material, but will instead be
limited to reviewing redacted versions of documents that contain Protected Material.

Confidential Attachments:

Appendix A    Power Purchase Agreements
Appendix B   SEP/MPR worksheet
Appendix C   Contract Summary
Appendix D    PRG materials
Appendix D-1    Overview of PRG presentations
Appendix D-2  09/30/05 PRG meeting presentation and minutes
Appendix D-3  10/24/05 PRG meeting presentation and minutes
Appendix D-4  12/01/05 PRG meeting presentation and minutes
Appendix D-5  01/12/06 PRG meeting presentation and minutes
Appendix D-6  03/29/06 PRG meeting presentation and minutes

Director - Regulatory Relations

cc:    R.04-04-026.
       Paul Douglass – Energy Division
Company name/CPUC Utility No. Pacific Gas and Electric Company U39M

<table>
<thead>
<tr>
<th>Utility type</th>
<th>Contact Person: David Poster</th>
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<td>☑ ELC</td>
<td>☑ GAS</td>
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<td>☑ HEAT</td>
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<tr>
<td>☑ WATER</td>
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**EXPLANATION OF UTILITY TYPE**

ELC = Electric      GAS = Gas
PLC = Pipeline       HEAT = Heat    WATER = Water

Advice Letter (AL) #: **2827-E**
Subject of AL: **Contract for Procurement of Renewable Energy Resources Resulting from PG&E’s 2005 Renewables Portfolio Standard (RPS) Solicitation**

Keywords (choose from CPUC listing): RPS
AL filing type: ☑ Monthly ☑ Quarterly ☑ Annual ☑ One-Time ☐ Other ____________________________

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution: **N/A**

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL ____________________________

Summarize differences between the AL and the prior withdrawn or rejected AL: ____________________________

Resolution Required? ☑ Yes ☐ No
Requested effective date: **7-20-06**
No. of tariff sheets: 0

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**

Pending advice letters that revise the same tariff sheets: **N/A**

Protests 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
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
jjr@cpuc.ca.gov and jnj@cpuc.ca.gov
PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
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Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Commerce Energy
Constellation New Energy
CPUC
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright, Tremaine LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas Services
Douglass & Liddell
Downey, Brand, Seymour & Rothwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
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Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz & Hanna & Morton
Heeg, Peggy A.
Hitachi Global Storage Technologies
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
IUCG/Sunshine Design LLC
JTM, Inc
Kaiser Cement Corp
Luce, Forward, Hamilton & Scripps
Manatt, Phelps & Phillips
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norns & Wong Associates
North Coast Solar Resources
Northern California Power Agency
Office of Energy Assessments
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
Plurimi, Inc.
PPL EnergyPlus, LLC
Praxair, Inc.
Price, Roy
Product Development Dept
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
Transcanada
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Cost Management LLC
Utility Resource Network
Wellhead Electric Company
Western Hub Properties, LLC
White & Case
WMA
08-May-06