

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



June 15, 2009

Advice Letter 3456-E

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

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

Dear Mr. Cherry:

Advice Letter 3456-E is approved pursuant to General Rule 7.6.1 of General Order 96-B, which states that "An advice letter is subject to disposition by the reviewing Industry Division whenever such disposition would be a "ministerial" act, as that term is used regarding advice letter review and disposition." Therefore, Advice Letter 3456-E is effective retroactive to June 1, 2009.

Sincerely,

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

Julie A. Fitch, Director
Energy Division

May 1, 2009**Advice 3456-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

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

Pacific Gas and Electric Company (PG&E) submits this advice letter to request that the California Public Utilities Commission (“Commission”) approve a 12-month contract extension (“Extension Agreement”)¹ and related contract modifications for an existing Qualifying Facility (QF) contract between PG&E and Stockton Cogen Company (Stockton CoGen). In particular, the 12-month contract extension includes a fixed energy price as a temporary price increase, but will act as a bridge to support Stockton CoGen’s efforts to convert its existing coal-fueled facility into a biomass or hybrid biomass/coal generation facility. PG&E supports California’s goals to increase the amount of renewable energy provided to California citizens. Accordingly, PG&E has moved aggressively in the past years to identify reasonably priced and reasonably viable opportunities to provide its customers with incremental renewable power in an effort to meet the state’s current and prospective goals for renewable power. The potential conversion of the Stockton CoGen facility presents a unique opportunity to convert a high greenhouse gas (GHG) emitting facility into a renewable generating resource. The 12-month Extension Agreement is consistent with the Commission’s renewable and GHG policies. Thus, the Commission should approve the Extension Agreement.

This advice letter is submitted in compliance with the procedures set forth in Decision (D.) 06-12-009 allowing modifications and amendments to QF contracts for transactions of less than 5 years.²

Background

PG&E had a long-term Standard Offer Contract No. 4 (Contract) with Stockton Cogen that expired in March 2008. Stockton CoGen is a solid fuels-fired combined heat and power facility

¹ The Extension Agreement is attached to this advice letter as Confidential Attachment B.

² See D.06-12-009 at 7.

utilizing circulating fluid bed technology. It has supplied 45 megawatts (MW) of reliable power to PG&E along with power and steam to Corn Products International (Corn Products), the steam host, for over 20 years. Over the last ten years, Stockton CoGen has provided power to PG&E at a capacity factor of 94.9% on an annual basis and in excess of 97% during the peak summer periods.

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

Contract Extensions

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

In March 2009, Stockton Cogen approached PG&E and indicated that it wanted a second extension of the Contract so that it could pursue a potential conversion of the Stockton CoGen facility from mixed fuel use to biomass. However, Stockton CoGen indicated that the approved QF energy and capacity prices were not sufficient to continue to operate its facility and support potential conversion to biomass.

On March 19, 2009, PG&E and Stockton CoGen entered into a second extension from March 20, 2009, through March 19, 2010, using the same pricing from the first extension agreement, consistent with D.07-09-040. This allowed for Stockton CoGen to continue receiving payments under an effective contract.³ PG&E and Stockton CoGen also executed the non-standard Extension Agreement that included a fixed energy price, which would allow Stockton CoGen to continue to operate as it explores conversion of its facility to biomass fuel.⁴ The Extension Agreement is conditioned on Commission approval pursuant to this advice letter and payments under the Extension Agreement will be retroactive to March 20, 2009. Under the Extension Agreement, Stockton CoGen can continue with its biomass conversion plans which are integral to a long-term contract extension for the facility consistent with the stipulations of Senate Bill (SB) 1368.

In Confidential Attachment C, Stockton CoGen explains the economics of its facility and why a

³ A copy of this extension is included as Confidential Attachment A.

⁴ See Confidential Attachment B.

fixed price is necessary for it to be able to continue to operate the facility while it explores a potential fuel conversion. Under the current D.07-09-040 prices, Stockton CoGen is operating at a deficit and can not invest to test the biomass plan. Stockton CoGen has committed to dedicating a portion of the rate increase toward investing in the biomass plan.

Stockton CoGen Has Secured an Independent Analysis to Support a 40% Biomass Conversion in 2012

In 2007, Stockton Cogen conducted several test burns of biomass at the facility and commissioned a biomass co-firing conversion study using computer modeling conducted by an independent consultant to examine the capability to combust agriculturally-derived fuel to generate a significant quantity of renewable power from the Stockton CoGen facility. Stockton CoGen anticipated a phased adjustment to its facility to determine viability of the operations. Stockton CoGen is currently working on a program that will expand and capitalize upon what was learned in the biomass testing that began in the summer of 2007 - "Phase I."

Under Phase II of the project, Stockton CoGen intends to design, permit, purchase, and install equipment to receive and feed 20% to 25% biomass to the existing boiler. This work will continue from 2009 through the first quarter of 2010.

Phase III of the project will expand the scope to potentially increase biomass use to 40-50% by 2012. In anticipation of this, Stockton Cogen has received permit approval to utilize as much as 50% agriculturally derived material at the facility. This phase would include securing additional sources of agriculturally derived waste used in Phases I and II, securing additional storage and biomass size reduction equipment, and incorporating various feeding systems to allow for the different flow characteristics of the diverse fuel slate the facility intends to use.

Conversion of the Stockton CoGen Facility Will Have Long-Term Benefits to the Ratepayers

1. **The biomass conversion will improve air quality.** As a result of Assembly Bill (AB) 32 and SB 1368 passed by the California legislature, Stockton CoGen has been formulating long-term plans to convert a significant portion of its solid fuel input to biomass in order to better comply with these state statutes. Converting a portion of the Stockton CoGen facility from coal to biomass will reduce GHG emissions and incent new renewable generation.
2. **PG&E's customers will benefit from incremental renewable power at the approved contract rate.** Stockton CoGen intends to submit to the California Energy Commission (CEC) a fuel plan and measurement methodology to gain renewable certification from the CEC of that portion of the energy produced from biomass by the late spring of 2009 with anticipated approval in 2009. A portion of the energy purchased under the Extension Agreement will be renewable power and can help PG&E satisfy California's ambitious RPS goals.
3. **The Extension allows Stockton CoGen to maintain viability for the impacted companies.** At the moment, two companies rely on the continued operations of the steam host and adjacent facility in a manner that allows both to remain competitive. By granting

this short-term extension, this price increase may preserve short operational stability, thus assisting in California's short-term economic stability.

PRG Participation and Feedback

On March 13, 2008, PG&E provided the Procurement Review Group (PRG) with a general presentation that was submitted to PG&E by Stockton CoGen on March 4, 2009, regarding this proposal. This presentation has been provided to the PRG as "Confidential Attachment D" to this advice letter. No verbal opposition to this proposal was expressed at this meeting.

Conclusion

PG&E views Stockton CoGen's conversion project as an opportunity to continue its relationship with an energy provider that is pursuing biomass plans. PG&E supports this request for a short-term price increase in an effort to assist in cleaning up the environment in Stockton and to pursue potential incremental renewable power. Therefore PG&E requests approval of the Extension, retroactive to March 20, 2009.

Compliance Items

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

- Confidential Attachment A – Active 2009 Extension Agreement
- Confidential Attachment B – Proposed Alternative 2009 Extension Agreement
- Confidential Attachment C - Affidavit of Steven Pastore, Director of Energy Supply, Air Products and Chemicals, Inc.
- Confidential Attachment D - PRG Presentation Regarding Stockton CoGen

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically any of which must be received no later than **May 21, 2009**, which is twenty (20) days from the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jnj@cpuc.ca.gov 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:

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

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

Effective Date

As stated above, Stockton CoGen is currently operating at a deficit. PG&E requests that this advice letter be approved on or before June 18, 2009, with an effective date of March 20, 2009. 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 is being sent electronically and via U.S. mail to parties shown on the attached list. Address changes should be directed to Rose de la Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.

A handwritten signature in cursive script that reads "Brian Cherry / mt".

Vice President, Regulatory Relations

cc: PG&E's Procurement Review Group

Related Confidential Attachments A through D

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 M)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: David Poster

Phone #: (415) 973-1082

E-mail: DXPU@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) #: **3456-E**

Tier: **[3]**

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

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

AL filing type: Monthly Quarterly Annual One-Time Other _____

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

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

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

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

Confidential information will be made available to those who have executed a nondisclosure agreement: All members of PG&E's Procurement Review Group who have signed nondisclosure agreements will receive the confidential information.

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: Richard Miram (415) 973-1170

Resolution Required? Yes No

Requested effective date: **March 20, 2009**

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Brian K. Cherry, Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**PACIFIC GAS AND ELECTRIC COMPANY
DECLARATION OF RICHARD A. MIRAM IN SUPPORT OF
THE CONFIDENTIAL TREATMENT OF MARKET-SENSITIVE INFORMATION
APPEARING IN ADVICE 3456-E, CONFIDENTIAL ATTACHMENTS A THROUGH D**

I, Richard A. Miram, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 1973. My current title is Principal within the Structured Transactions Group, Energy Procurement (Energy Supply) organization. In this position, my responsibilities include negotiating agreements with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with numerous counterparties and have also gained knowledge of the operations of electricity sellers in general. Through this experience, I have become familiar with the type of information that would affect the negotiating positions of electricity sellers with respect to price and other terms, as well as with the type of information that such sellers consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued in Rulemaking 05-06-040 on August 22, 2006, I make this declaration seeking confidential treatment for certain data and information related to PG&E's Advice 3456-E, Attachments A through D, which has been submitted to the Energy Division on May 1, 2009.

3. Attached to this declaration is a matrix that identifies the data and information for which PG&E is seeking confidential treatment. The matrix specifies that the material PG&E is seeking to protect constitutes the particular type of data and information listed in the "IOU Matrix" attached as Appendix 1 of Decision 06-06-066. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the

information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference I am incorporating into this declaration all of the explanatory text in the attached matrix.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on May 1, 2009, at San Francisco, California.

/s/

RICHARD A. MIRAM

PACIFIC GAS AND ELECTRIC COMPANY
Document: ADVICE 3456-E, CONFIDENTIAL ATTACHMENTS A THROUGH D
IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066
Date: May 1, 2009

| Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N) | 2) Which category or categories in the Matrix the data correspond to: | 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N) | 4) That the information is not already public (Y/N) | 5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N) | PG&E's Justification for Confidential Treatment | Length of Time |
|-----------|---|--|---|---|---|--|----------------|
| 1 | Attachment A Y | Item VII - Bilateral Contract Terms and Conditions - Electric, Section B (Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)) and Public Utilities Code sections 454.5(g) and 583 | Y | Y | Y | Specific contract between the IOU and counterparty. Information includes the capacity, timing and pricing terms of the contract. | 3 |
| 2 | Attachment B Y | Item VII - Bilateral Contract Terms and Conditions - Electric, Section B (Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)) and Public Utilities Code sections 454.5(g) and 583 | Y | Y | Y | Specific contract between the IOU and counterparty. Information includes the capacity, timing and pricing terms of the contract. | 3 |
| 3 | Attachment C Y | Item II - Cost Forecast Data--Electric, Section B.3 (Generation Cost Forecasts, QF Contracts) and Public Utilities Code sections 454.5(g) and 583 | Y | Y | Y | Information includes forecast of QF contract costs. | 3 |
| 4 | Attachment D Y | Item VIII - Competitive Solicitation (Bidding) Information--Electric, Section B (Specific quantitative analysis involved in scoring and evaluation of participating bids) and Public Utilities Code 583 and General Order 66-C | Y | Y | Y | Confidential PRG presentation includes bid evaluation criteria, forecast gas burns and current, confidential contract information. | 3 |

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

| | | |
|--|---|--|
| Aglet | Department of the Army | Northern California Power Association |
| Agnews Developmental Center | Dept of General Services | Occidental Energy Marketing, Inc. |
| Alcantar & Kahl | Division of Business Advisory Services | OnGrid Solar |
| Ancillary Services Coalition | Douglas & Liddell | PPL EnergyPlus, LLC |
| Anderson & Poole | Douglass & Liddell | Pinnacle CNG Company |
| Arizona Public Service Company | Downey & Brand | Praxair |
| BART | Duke Energy | R. W. Beck & Associates |
| BP Energy Company | Duncan, Virgil E. | RCS, Inc. |
| Barkovich & Yap, Inc. | Dutcher, John | RMC Lonestar |
| Bartle Wells Associates | Ellison Schneider & Harris LLP | Recon Research |
| Blue Ridge Gas | Energy Management Services, LLC | SCD Energy Solutions |
| Braun & Associates | FPL Energy Project Management, Inc. | SCE |
| C & H Sugar Co. | Foster Farms | SESCO |
| CA Bldg Industry Association | Foster, Wheeler, Martinez | SMUD |
| CAISO | Franciscan Mobilehome | SPURR |
| CLECA Law Office | G. A. Krause & Assoc. | Santa Fe Jets |
| CSC Energy Services | GLJ Publications | Seattle City Light |
| | Goodin, MacBride, Squeri, Schlotz & Ritchie | Sempra Utilities |
| California Cotton Ginners & Growers Assn | Green Power Institute | Sequoia Union HS Dist |
| California Energy Commission | Hanna & Morton | Sierra Pacific Power Company |
| California League of Food Processors | Heeg, Peggy A. | Silicon Valley Power |
| California Public Utilities Commission | Hitachi | Smurfit Stone Container Corp |
| Calpine | Hogan Manufacturing, Inc. | Southern California Edison Company |
| Cameron McKenna | Imperial Irrigation District | St. Paul Assoc. |
| Cardinal Cogen | Innercite | Sunshine Design |
| Casner, Steve | International Power Technology | Sutherland, Asbill & Brennan |
| Cerox | Intestate Gas Services, Inc. | TFS Energy |
| Chamberlain, Eric | J. R. Wood, Inc. | Tabors Caramanis & Associates |
| Chevron Company | JTM, Inc. | Tecogen, Inc. |
| Chris, King | Los Angeles Dept of Water & Power | Tiger Natural Gas, Inc. |
| City of Glendale | Luce, Forward, Hamilton & Scripps LLP | Tioga Energy |
| City of Palo Alto | MBMC, Inc. | TransCanada |
| City of San Jose | MRW & Associates | Turlock Irrigation District |
| Clean Energy Fuels | Manatt Phelps Phillips | U S Borax, Inc. |
| Coast Economic Consulting | Matthew V. Brady & Associates | United Cogen |
| Commerce Energy | McKenzie & Associates | Utility Cost Management |
| Commercial Energy | Meek, Daniel W. | Utility Resource Network |
| Constellation | Merced Irrigation District | Utility Specialists |
| Constellation New Energy | Mirant | Vandenberg Air Force |
| Consumer Federation of California | Modesto Irrigation District | Verizon |
| Crossborder Energy | Morgan Stanley | Wellhead Electric Company |
| Davis Wright Tremaine LLP | Morrison & Foerster | Western Manufactured Housing Communities Association (WMA) |
| | | White & Case |
| Day Carter Murphy | New United Motor Mfg., Inc. | eMeter Corporation |
| Defense Energy Support Center | Norris & Wong Associates | |
| Department of Water Resources | North Coast SolarResources | |