

***Confidential***

**Subject:** Energy Division data request for additional information for Advice Letter (AL) 3583-E, which concerns PG&E's request for approval of three power purchase agreements (PPAs) with Shell Energy North America (US) L.P..

Please provide a detailed response by COB on **Tuesday, March 30, 2010**. Once you have prepared a response, please contact Sean Simon; [svn@cpuc.ca.gov](mailto:svn@cpuc.ca.gov) to schedule a call to discuss your response. Also, any questions related to the data request should be directed to Sean Simon.

1. Why wasn't the Independent Evaluator (IE) able to directly observe the negotiations between PG&E and Shell Energy?

As PG&E stated in its response to DRA's protest on this issue, PG&E acknowledges that the IE did not directly observe any negotiations between PG&E and Shell regarding the Agreements. However, these transactions are of the variety whereby Shell proposes a term sheet with prices and PG&E elects to either accept or decline the offer. PG&E is committed to ensuring IE involvement in current and future RPS negotiations. These Agreements are derived from previously negotiated term sheets (the terms of which were shared with the IE and the PRG). As was done with the two recently approved short-term Shell transactions, these term sheets were converted to Agreements based on the same previously negotiated EEI Master Agreement between Shell and PG&E. This was explained to the IE. The prices offered by Shell and accepted by PG&E are consistent with the other similar transactions between PG&E and Shell that were recently approved by the CPUC. The primary difference between the Agreements and the previously approved transactions between PG&E and Shell involves the import energy delivery period. The delivery period specified in the Agreements was specified by PG&E based on the best fit for PG&E's portfolio. PG&E focused on the combination of taking energy deliveries when incremental energy would be useful and minimizing potential congestion risk of the import energy into California. Moreover, although the IE did not directly observe negotiations, the IE nevertheless concluded that "inspection of the executed contracts raise[d] no material issues of unfairness," and on that basis, determined that PG&E treated its counterparties and ratepayers fairly in negotiations regarding the Agreements.<sup>1/</sup>

2. How will PG&E hedge against price variability for these contracts?

The index-based pricing exposure associated with these contracts will be managed at a portfolio level, consistent with approved CPUC hedge plans.

3. Is the Combine Hills II facility operational?

Yes.

- 3 (a). If not, when is it expected to be operational?

4. Are the transmission upgrades associated with the Combine Hills II facility completed?

Yes.

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<sup>1/</sup> Advice Letter, Confidential Appendix C at C-11.

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4 (a). If not, when are they expected to be completed?

5. How did Shell determine the value of the Green Attributes for each contract?

Shell did not disclose this information to PG&E.

5 (a). Why are the Green Attributes priced differently for each facility?

Shell did not disclose this information to PG&E.

6. For the Wheat Field contract, why does the delivery rate double in the months of November and December?

The delivery rate doubles in the months of November and December due to PG&E's attempt for the best portfolio fit, which includes minimizing the risk of congestion associated with importing the power into California.

6 (a). What are the benefits to ratepayers for an increase in delivery in these months?

As described above, the benefits are receiving the energy when PG&E is best able to utilize it in its portfolio. PG&E needs energy in November and December, and these months are better suited for minimizing the potential for congestion at COB into California.

7. What are the risks to ratepayers of a December true-up if, as the IE notes, December 2010 and 2011 are currently expected to have higher power prices at COB than the average for the year?

The risks are minimal. True-ups can result in an increase or decrease of December deliveries, contingent upon both actual project output for the calendar year and the December project output forecast. But more importantly, energy priced at the index is based on the prevailing market. So, the prices are the same as what PG&E would be either buying or selling in the market. Hence, the risks to ratepayers associated with a December true-up process (or any true-up period) is minimal.

7 (a). Does PG&E intend to hedge for this particular risk?

PG&E may or may not fix the price for the transactions, contingent upon portfolio need. That need is based on a CPUC approved electric portfolio hedging plan.

7 (b). Is there another more cost effective way to implement the true-up?

Without a December true-up, PG&E would increase the risk of either not receiving all of the Green Attributes produced under the terms of the Agreements or risk ending the calendar year with excess purchases of brown power. This is due to the fact that underlying project output is not known with certainty prior to actual production. Presuming normal weather conditions throughout the year, the December true-up is expected be minimal. A true-up process is beneficial for minimizing variances between Green Attributes produced and import energy delivered.