



**Jane K. Yura**  
Vice President  
Regulation and Rates

Pacific Gas and Electric Company  
77 Beale St., Mail Code B10B  
P.O. Box 770000  
San Francisco, CA 94177

Fax: 415-973-6520

April 19, 2010

Mr. Honesto Gatchalian  
Ms. Maria Salinas  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

**Re: PG&E's Reply to DRA's Comments on Draft Resolution E-4321**

Dear Mr. Gatchalian:

Pursuant to the cover letter sent by Paul Douglas on March 23, 2010 enclosing Draft Resolution E-4321,<sup>1</sup> Pacific Gas and Electric Company ("PG&E") respectfully submits this reply to the comments of the Division of Ratepayer Advocates on Draft Resolution E-4321 ("Draft Resolution").

The Draft Resolution approves with modifications PG&E's Advice Letter 3525-E and Supplemental Advice Letter 3525-E-A, which request Commission approval of a renewable power purchase agreement ("PPA") with Vantage Wind Energy LLC ("Vantage") for generation from a new wind project and associated firming and shaping services provided by Powerex Corp. ("Powerex") (collectively, the "Agreements").

DRA does not oppose the Draft Resolution's finding that the Vantage REC price is below the TREC price cap set forth in D.10-03-021,<sup>2</sup> but DRA recommends "that the Commission refrain from issuing other Draft Resolutions approving applicable renewable PPAs until Energy Division has completed development of the REC pricing method."<sup>3</sup>

Pursuant to D.10-03-021, which issued after the Vantage PPA had been executed and filed for approval, the Vantage PPA is re-classified as a "REC<sup>4</sup>-only" transaction and now subject to a temporary price cap of \$50 per tradable REC (TREC).<sup>5</sup> The Draft Resolution determines that the Vantage REC price is below the applicable cap by taking the total contract price, including

---

<sup>1</sup> Mr. Douglas' cover letter allows replies to comments on the Draft Resolution to be filed no later than April 19, 2010.

<sup>2</sup> See DRA Comments on Draft Resolution E-4321 ("DRA Comments") at 2; Draft Resolution at 17 (Finding 5).

<sup>3</sup> DRA Comments at 2.

<sup>4</sup> A REC is a Renewable Energy Credit, as defined in D.08-08-028.

<sup>5</sup> Draft Resolution at 7-8.

firming and shaping costs, and subtracting the forward market value of both the energy and the capacity.<sup>6</sup> The Draft Resolution further determines that while this is a reasonable method of determining the Vantage REC price, it is not precedent setting.<sup>7</sup>

PG&E supports the approach taken in the Draft Resolution and objects to DRA's assertion that the Commission should not approve any further pending contracts that have been re-classified as REC-only until the Energy Division has developed an alternative methodology for determining a REC price from a bundled purchase. As the Draft Resolution notes, the recent TREC Decision found that "the most transparent and consistent source" for determining the price of a REC in a transaction involving both energy and RECs is "likely to be an estimate of the market value of the energy through the life of the contract."<sup>8</sup> "The net REC price could then be determined by subtraction."<sup>9</sup> The Draft Resolution follows this methodology and should be approved.

The TREC Decision goes on to note that there may be cases in which the REC price must be inferred, but in which forward price curves "are inappropriate or unavailable."<sup>10</sup> In such cases, the Director of Energy Division is authorized to develop a methodology, in consultation with the parties, for determining an alternative methodology for determining the price of a REC and "to make any changes to the processing of advice letters that are necessary . . . ."<sup>11</sup> As the Draft Resolution notes, this language strongly suggests that Energy Division staff may use existing and reasonable methods to process pending advice letters and may make any necessary adaptations to that process.<sup>12</sup> This is particularly true where, as in Vantage, forward price curves are both available and appropriate.<sup>13</sup>

PG&E has a significant number of executed and filed RPS contracts that will be re-classified under the TREC Decision as REC-only.<sup>14</sup> An indefinite "hold" on processing these advice letters until Energy Division has completed a process to clarify, if necessary,<sup>15</sup> the methodology for inferring the price of the RECs, as DRA has advocated, could lead to termination of these contracts pursuant to their contractual required CPUC approval dates or a delay in the commercial operation of the projects. Not only is such a "hold" in conflict with the recent TREC Decision, but it would also potentially deprive PG&E's customers of a substantial amount of cost-competitive renewable power that can be delivered in the near-term.

The Draft Resolution's approach to inferring the price of RECs is appropriate and reasonable in Vantage, is consistent with the recent TREC Decision, and it should be applied on a case-by-case

<sup>6</sup> *Id.* at 8, 26-27 (Conf. App. B).

<sup>7</sup> *Id.* at 8.

<sup>8</sup> D.10-03-021 at 60; Draft Resolution at 8 (citing same).

<sup>9</sup> *Id.*

<sup>10</sup> D.10-03-021 at 61.

<sup>11</sup> *Id.*

<sup>12</sup> Draft Resolution at 8.

<sup>13</sup> *See id.* at 26-27 (Conf. App. B).

<sup>14</sup> *See* Advice Letters 3525-E, 3593-E, 3620-E, 3583-E, 3600-E, 3609-E; 3632-E.

<sup>15</sup> PG&E notes that the TREC Decision makes clear that the Energy Division's authority to develop a methodology for inferring the price of a REC only applies in cases where "the RECs and the energy are not separately priced." D.03-02-021 at 60. Accordingly, to the extent that any of PG&E's filed RPS contracts separately price the RECs from the energy, such contracts should not be subject to any such "hold" even if DRA's request were approved.

basis going forward. DRA's request for an indefinite "hold" on the processing of REC-only transactions pending the clarification of the methodology should be rejected, and the Commission should adopt the Draft Resolution with the modifications set forth in PG&E's previously-filed comments.

Sincerely,

A handwritten signature in cursive script that reads "Jane Yura /ent".

Jane Yura  
Vice President - Regulation and Rates

cc: Commission President Michael R. Peevey  
Commissioner John A. Bohn  
Commissioner Timothy A. Simon  
Commissioner Nancy Ryan  
Commissioner Dian M. Grueneich  
Julie Fitch, Director, Energy Division  
Paul Douglas, Energy Division  
Cheryl Lee, Energy Division  
Frank Lindh, General Counsel  
Karen Clopton, Chief ALJ  
Sean Simon, Energy Division  
Service Lists for R.08-08-009, R.08-02-007 and R.06-02-012

## CERTIFICATE OF SERVICE

I certify that I have by mail, e-mail, or hand delivery this day served a true copy of Pacific Gas and Electric Company's reply to DRA's comments on Draft Resolution E-4321, regarding PG&E's Advice Letter 3525-E and 3525-E-A, to:

- Maria Salinas
- Honesto Gatchalian
- Cheryl Lee
- Julie Fitch
- Karen Clopton, Chief ALJ
- Frank Lindh, General Counsel
- Commissioners: Michael Peevey, John Bohn, Dian Grueneich, Nancy Ryan, and Timothy Simon
- All parties on the official CPUC service lists for: R.08-08-009, R.06-02-012, and R.08-02-007.

/S/ LINDA TOM-MARTINEZ  
LINDA TOM-MARTINEZ  
PACIFIC GAS AND ELECTRIC COMPANY

Date: April 19, 2010