

Renewable Qualifying Facilities Restructuring Strategy

1-13-2011



*Pacific Gas and
Electric Company™*

Current Renewable QF Situation

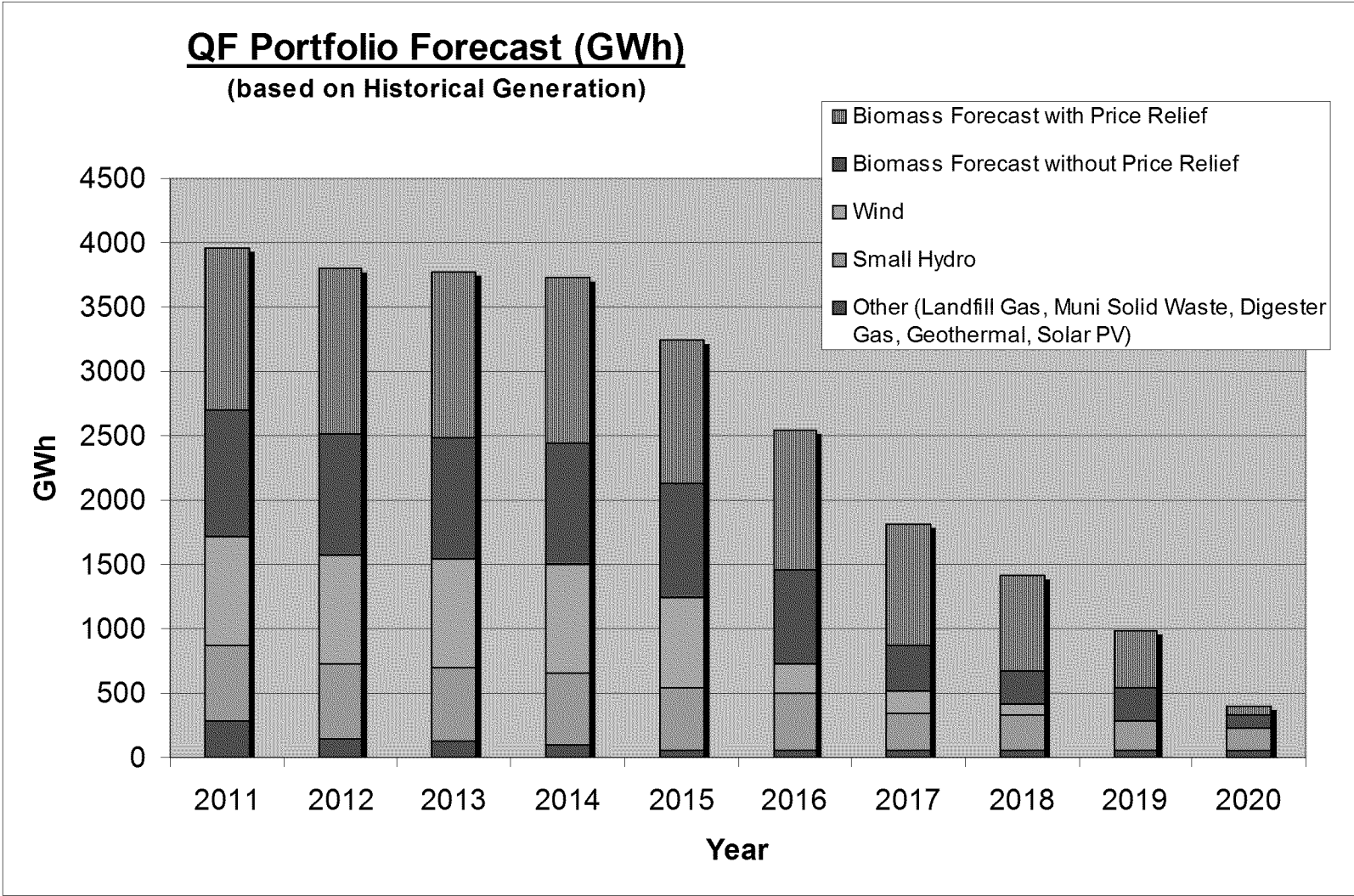
- Fixed Pricing Approved in Decision D.06-07-032 expires August 2011
- Biomass facilities assert that SRAC prices (current and forecast) are not sufficient to continue operations and therefore require higher energy pricing for continued baseload deliveries
- Non-Biomass facilities have requested fixed pricing option (their operating costs are not tied to cost of natural gas)
- Under the QF Settlement, projects can make a one time election among a variety of variable monthly pricing options

Current Renewable QF Portfolio Mix

Resource*	Number of Contracts	Contract Nameplate (MW)
Biomass	18	366
Other Resources	122	898
Biogas	12	54
Geothermal	2	3
Hydro	81	204
Solar	1	1
Waste to Energy	1	0
Wind	25	636
Total	140	1264

**Includes facilities listed in the Cogeneration and Small Power Production Semi-Annual Report to CEC.*

Renewable QF Portfolio Forecast



Category 1: Fixed Pricing Option Available to all RPS QFs

- Five year term
- Levelized Avoided Energy Costs (~\$55/MWh) based on five year SRAC forecasts
- Firm or As-available capacity payments remain unchanged (All-in price ~\$75-\$85/MWh)
- Anticipated that this price should be sufficient for small hydro and most wind, **but not for biomass**

Challenges Facing Biomass Plants

- Discussions have begun with all biomass facilities
 - Price relief via Category 1 not sufficient
- Energy Prices
 - Low projected SRAC prices from 2011-2016 (\$47-\$57/Mwh)
 - Expiration of IEP Fixed Price Period in August 2011
- Reduced or Eliminated Subsidies
 - Expiration of CEC Existing Renewable Facility Subsidy at end of 2011 (up to \$15/MWh)
 - Expiration of Production Tax Credits
 - Biomass Crop Assistance Program
- Ongoing operating cost increases
 - Fuel Supply
 - Increased fuel competition
 - Limited Forest Harvesting
 - Reduced urban wood waste
 - Labor/Transportation Costs

Current QF Biomass Portfolio

- 18 Projects; 366 MW
- ~2,200 GWh per year; ~2.5% of Retail Sales
- Standard Offer PPAs
 - Minimal performance requirements offer the Seller significant flexibility
 - ~1,300 GWh/year reduction allowed
 - Current All-in Pricing of Operating Portfolio ~\$95/MWh
 - Energy price at SRAC or fixed per D.06-07-032.
 - Firm or As-Delivered Capacity from plus Performance Bonus (~\$20-\$30/MWh)

Category 2: Fixed Price Relief for All Biomass

- Fixed Price Amendments available to all legacy biomass QFs
 - Five year term
 - Energy price of \$68.46/MWh, escalating at 2% (IEP Fixed price Amendment extension at higher escalator; All-in price likely to range from \$92-\$102/MWh)
 - Performance Requirement equal to 95% of average electricity delivered to PG&E in 2007, 2008 and 2009
 - Binding Day Ahead Schedule
 - Subsidy sharing; contract price will decrease proportionately with subsidy amount

Category 3: Fixed Price Relief for Select Biomass

- Fixed Price Amendments for specific contracts to maintain baseline renewable generation
 - 3 years with PG&E option to extend additional 2 years
 - Price based on open-book assessment
 - Performance Requirement equal to 95% of *greatest annual quantity* of electricity sold to the Utility under contract in 2007, 2008 and 2009 (being discussed with counterparty)
 - Binding Day Ahead schedule
 - Buyer call option for above schedule generation (for up to 744 hours/year)
 - Transition to CAISO Tariff (FERC jurisdictional CAISO Approved Interconnection)
 - Subsidy sharing; contract price will decrease proportionately with subsidy amount

Biomass Projects Expected under Category 2 and 3

Biomass Projects likely under Category 2

Project Name	Vintage	Expiration Date	Size (MW)	Forecast Annual Generation (GWh)
Sierra Pacific Industries- Quincy	QF	17-Mar	20	133
Sierra Pacific Industries- Burney	QF	16-Dec	20	87
Sierra Pacific Industries- Lincoln	QF	17-Jan	18	78
Sierra Pacific Industries- Anderson	QF	16-May	8	2
Sierra Pacific Industries- Sonora	QF	16-May	7	0
Mendota Biomass Power	QF	15-Jan	25	173
Wheelabrator Shasta	QF	18-Apr	54	380
Rio Bravo Fresno	QF	19-Feb	25	149
Rio Bravo Rocklin	QF	19-Feb	25	150
Ogden Power Pacific, Inc., Chinese Station	QF	17-Jan	22	122
Total			224	1274

Biomass Projects likely under Category 3

Project Name	Vintage	Expiration Date	Size (MW)	Forecast Annual Generation (GWh)
Burney Forest Products	QF	20-Jan	26	220
DG Fairhaven Power	QF	17-Feb	17	101
Ogden Power Pacific, Inc., Burney	QF	15-Jul	9	70
Ogden Power Pacific, Inc., Mt. Lassen	QF	15-Sep	11	69
HL Power	QF	19-Sep	30	145
Thermal Energy Dev. Corp. (Tracy Biomass)	QF	20-May	21	148
Total			115	753

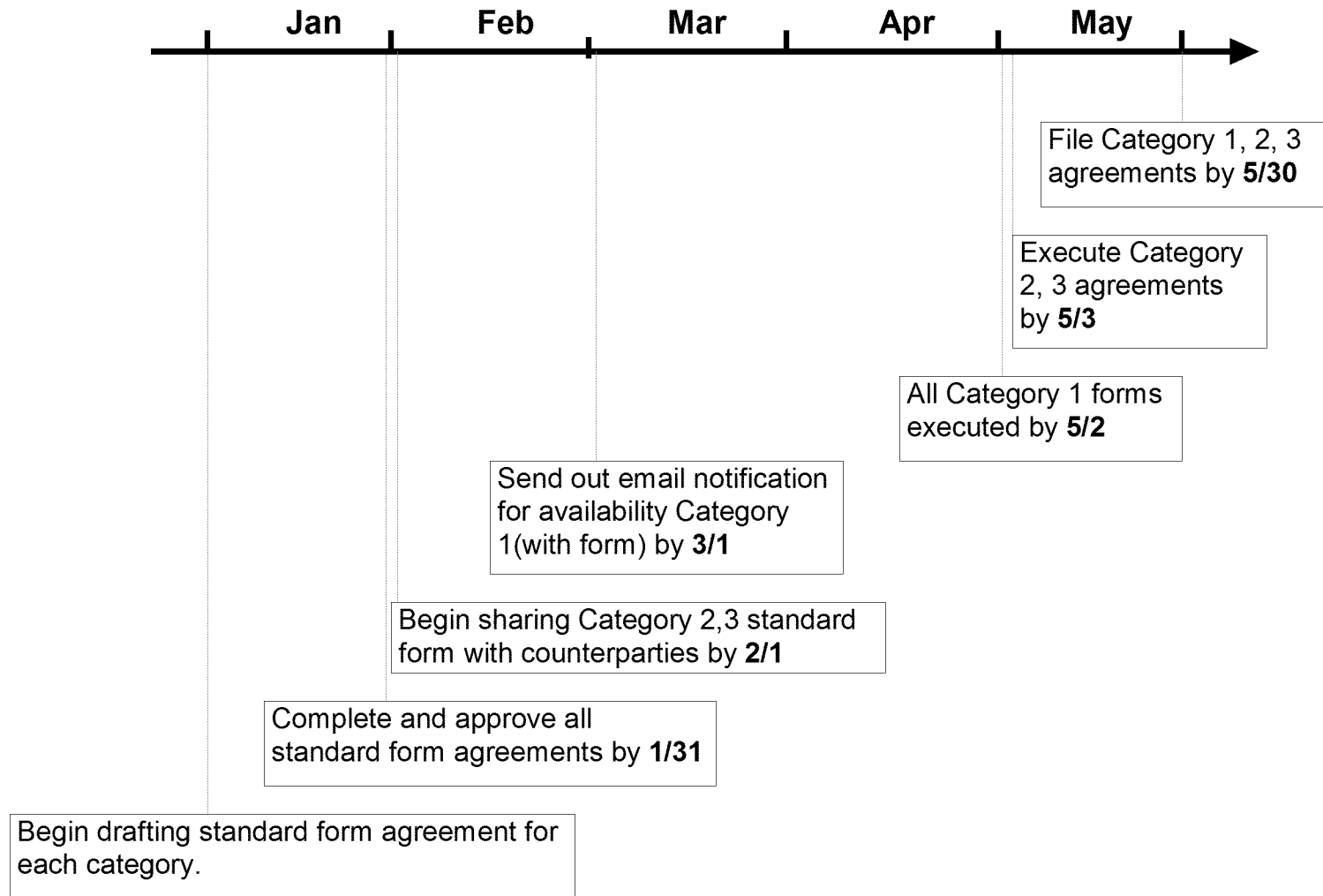
Implementation Strategy

- **Category 1:**
 - Send email notifications to entire QF portfolio outlining terms, conditions and pricing under the Amendment
 - Open Season; execution will occur by date certain
- **Category 2:**
 - Discussions have already taken place with eligible facilities
- **Category 3:**
 - Discussions have already taken place with eligible facilities
 - Full open-book cost/revenue documentation requirement

Tier 3 Advice Letter Filing Strategy:

1. **Category 1:** Batch filing/request for resolution by date certain.
2. **Category 2 & 3:** Batch filings to extent possible. Otherwise, combine filings by counterparties (i.e., all Covanta amendments into one filing, SPIs in another filing, etc...)

Tentative Implementation Timeline



Appendix

Current Renewable QF Pricing Breakdown

Resource	Number of Contracts on IEP Fixed Price	Number of Contracts on SRAC
Biomass	14	4
Biogas	9	3
Geothermal	1	1
Hydro	46	35
Solar	0	1
Waste to Energy	0	1
Wind	24	1
Total	94	46