BEFORE
THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of the GWF Transaction and Associated Cost Recovery. U39E	Application No. 11-07-_____

APPLICATION OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)
FOR APPROVAL OF THE GWF TRANSACTION

PUBLIC VERSION
(Redaction in Exhibits A, B, C and D)

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Dated: July 21, 2011

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I. INTRODUCTION AND AUTHORITY REQUESTED

Pacific Gas and Electric Company ("PG&E") seeks California Public Utilities Commission ("Commission") approval of three contracts in connection with a transaction with GWF. The GWF Transaction involves seven power plants – the Hanford power plant located in Hanford, California; the Henrietta power plant located in Lemoore, California; and five petroleum coke power plants located in the San Francisco Bay Area Delta region in California. All seven power plants are currently under contract with PG&E. The "Power Purchase Agreements ("PPAs") for the first two power plants, Hanford and Henrietta, are scheduled to terminate on December 31, 2012. The Qualifying Facility ("QF") Power Purchase Agreements ("PPAs") for the petroleum coke power plants are scheduled to terminate in 2020 and 2021. The GWF Transaction involves three separate agreements: an Omnibus Agreement which governs the shutdown of the five GWF petroleum coke power plants and the termination of their associated existing QF PPAs; and two new 10-year PPAs with the Hanford and Henrietta facilities (the "Peaker PPAs").

The GWF Transaction will provide significant environmental and operational benefits for California and is reasonable and beneficial for PG&E's customers. First, as a result of the closure of GWF's five petroleum coke facilities, the GWF Transaction will result in a net reduction of greenhouse gas ("GHG") emissions of over 600,000 metric tons per year from PG&E's portfolio.

Second, PG&E estimates that the GWF Transaction will result in a net savings to customers of approximately $15 million as a result of the termination of the existing, higher priced QF PPAs.

Third, the Peaker PPAs provide unit-specific dispatch throughout the year. The Henrietta and Hanford facilities are combustion turbine units that can provide the operational flexibility to manage changing grid conditions. As the amount of renewable generating capacity grows in response to California's Renewable Portfolio Standard ("RPS"), resources such as the Henrietta and Hanford facilities that are able to respond to changing grid conditions will become even more important. The units will also offer PG&E a range of ancillary services and other capabilities, including spinning reserves, quick start capability, and a large number of starts and operating hours.

Fourth, the Hanford and Henrietta facilities provide local Resource Adequacy ("RA") in the Fresno transmission constrained area. The Peaker PPAs will help meet PG&E's local RA requirements during the 10-year contract terms.

Finally, the shutdown of the petroleum coke facilities will benefit local communities with specific local and regional environmental improvements. These include the reduction of criteria pollutants (by more than 725 tons annually), ozone and particulate matter precursor emissions (by more than 250 tons annually), water use (by more than 1800 acre feet annually) and the elimination of approximately 14,000 diesel truck trips hauling petroleum coke fuel and limestone from refineries through Contra Costa neighborhoods to the existing GWF petroleum coke facilities.

PG&E is requesting that the Commission approve the GWF Transaction by no later than January 26, 2012, and earlier if possible. The earlier the GWF Transaction is approved, the greater the customer benefits resulting from the early shutdown of the GWF petroleum coke facilities and the termination of higher payments under the QF PPAs. In addition, the sooner these facilities are shutdown, the greater the GHG and criteria pollutant emission reductions. Given the significant environmental and customer benefits associated with the GWF Transaction, PG&E requests that the Commission expeditiously review this Application and approve the GWF Transaction and the associated cost recovery proposal.

II. BACKGROUND AND DESCRIPTION OF THE GWF TRANSACTION

The GWF Transaction involves the two Peaker PPAs for the Henrietta and Hanford facilities and the Omnibus Agreement which terminates five existing QF PPAs. This section describes the existing facilities and the three agreements associated with the GWF Transaction.

A. Existing GWF Electric Generating Facilities

1. Peaker Facilities

The GWF Hanford and GWF Henrietta facilities are both relatively new, efficient peaking combustion turbine ("CT") generation facilities located in California in the cities of Hanford and Lemoore, respectively. Both facilities employ LM 6000 Sprint natural gas simple cycle gas turbines, typically referred to as CTs. Combined, the facilities provide approximately 175 MWs of capacity on a peak summer day. These units are currently under contract to PG&E through December 31, 2012 as a result of the novation of the California Department of Water Resources agreements, which was approved by the Commission in Decision ("D.") 10-07-042.

2. Petroleum Coke Facilities

The five GWF petroleum coke facilities are non-dispatchable, base-load facilities located in Contra Costa County along the Sacramento River in or near Pittsburg and Antioch California. Each facility is approximately 19 MW and sells energy and capacity to PG&E under an existing QF PPA with a termination date in 2020 or 2021. As base-load facilities, these units operate year-round with capacity factors of roughly 90%. PG&E has no ability to dispatch these units in order to follow its customers' electricity demand, or to reduce output to minimize GHG emissions. The facilities burn petroleum coke, a waste product of the oil refining process, as their source of fuel and, as such, are extremely carbon intensive. On a pounds per megawatt-hour basis, these units emit more than twice the GHG emissions as the Hanford and Henrietta facilities. In total these facilities emit approximately 1,000,000 metric tons of GHG emissions per year, representing a sizable portion of California in-state electricity sector GHG emissions compared to the portion of the state's electricity supplied by these facilities.

B. Description of the QF PPAs

Under the existing QF PPAs, PG&E pays for energy and capacity subject to terms of the agreements. Currently, the QF PPA energy payments are based on the Short-Run Avoided Cost ("SRAC") price and the capacity payments specified are based on prices specified in the contracts.[1] Under the Qualifying Facility and Combined Heat and Power ("QF/CHP") Settlement approved by the Commission in D.10-12-035, PG&E will pay GWF for GHG emissions through 2014. After that point in time, GHG emissions costs will be paid solely through the SRAC price for energy. Under the QF PPAs, GWF would be required to pay

[1] A more detailed description of the QF PPA energy and capacity payments is included in Section B of PG&E's Testimony In Support Of the GWF Transaction ("Initial Testimony") that is being submitted concurrent with the filing of this Application.

minimum damages to PG&E for early termination of the agreements, reflecting the fact that customers paid front-end loaded payments in the earlier years of the contracts.

C. Description Of The GWF Transaction

1. The Omnibus Agreement

The Omnibus Agreement addresses the shutdown of the five GWF petroleum coke facilities and the termination of the existing QF PPAs. The Omnibus Agreement provides for termination of the QF PPAs when certain conditions precedent are satisfied, addresses payment obligations and requirements under the QF PPAs before a Commission decision on this Application becomes final and non-appealable, and requires certain actions by GWF once a Commission decision on this Application becomes final and non-appealable. A summary of the Omnibus Agreement and the Peaker PPAs is included as Confidential Exhibit A to this Application, and a copy of the Omnibus Agreement is attached as Confidential Exhibit B to this Application.

2. The Peaker PPAs

Under the Peaker PPAs, PG&E will have the ability to dispatch two reliable and operationally flexible CTs. GWF will continue to own and operate the facilities, and energy from these facilities will be purchased by PG&E over a 10-year period beginning January 1, 2013. PG&E will have full dispatch rights over the facilities during that period, and will utilize the units to help ensure system reliability and to help integrate a growing amount of intermittent renewable resources. The Peaker PPAs are fuel conversion agreements under which PG&E will pay for the fuel and arrange to make it available at the project. GWF will then be paid to convert that fuel into energy. Copies of the Peaker PPAs are attached as Confidential Exhibits C and D and are summarized in Confidential Exhibit A.

III. THE GWF TRANSACTION IS REASONABLE AND BENEFICIAL FOR CUSTOMERS

The GWF Transaction has a number of significant benefits for California and for PG&E's customers. First, the GWF Transaction results in a significant reduction in GHG emissions from PG&E's portfolio of resources in support of and well in advance of the State's emissions reductions targets.[2] California is leading the nation in efforts to reduce GHG emissions by setting challenging emission reduction goals and adopting innovative GHG programs. Shutting down GWF's aging petroleum coke facilities will provide significant GHG emissions reductions, which will benefit all Californians. Specifically, the GWF Transaction achieves an early net reduction of over 600,000 metric tons of GHG emissions per year from PG&E's portfolio as a result of the shutdown of the five GWF petroleum coke facilities. These facilities emit on a pounds per megawatt-hour basis more than twice the GHG emissions of the Hanford and Henrietta facilities. In total the five GWF petroleum coke facilities emit approximately 1,000,000 metric tons of GHG emissions per year. Although there will be some increased GHG emissions associated with operation of the Henrietta and Hanford facilities, the net reduction in GHG emissions will be approximately 600,000 metric tons per year from PG&E's portfolio.

Second, as described in more detail in PG&E's Initial Testimony, the GWF Transaction will result in a net savings to customers of approximately $15 million.[3] These savings result from a net reduction in energy, capacity and GHG emissions payments as a result of terminating the existing QF PPAs (QF PPA payments less the costs of replacement power) less the net market value of the Peaker PPAs.

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[2] *See* Initial Testimony, Section C.1 (describing GHG emissions reductions).

[3] *Id.*, Section C.1.

Third, the Peaker PPAs provide unit-specific dispatch throughout the year.[4] As the amount of renewable generating capacity grows in response to California's RPS, resources that are able to respond to changing grid conditions will become even more important over time. The units will also offer PG&E a range of ancillary services and other capabilities, including spinning reserves, quick start capability and a large number of starts and operating hours. Currently, PG&E does not have any ability to dispatch the GWF petroleum coke facilities under the existing QF PPAs.

Fourth, the Hanford and Henrietta facilities provide local RA in the Fresno transmission constrained area.[5] The Peaker PPAs with these units will help meet PG&E's local RA requirements during the contract term.

Fifth, in addition to the above benefits, the GWF Transaction will result in significant other environmental benefits that are harder to quantify.[6] The GWF petroleum coke facilities are located in Contra Costa communities that are heavily burdened by numerous nearby power plants and other industrial facilities. The shutdown of the petroleum coke facilities would benefit local communities with specific local and regional environmental improvements. These include the reduction of criteria pollutants (by more than 725 tons annually), ozone emissions (by more than 260 tons annually), particulate matter precursor emissions (by more than 640 tons annually), water use (by more than 1800 acre feet annually) and the elimination of approximately 14,000 diesel truck trips hauling petroleum coke fuel and limestone through Contra Costa neighborhoods from refineries to the facilities.

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[4] *Id.*, Section C.3.

[5] *Id.*, Section C.4.

[6] *Id.*, Section C.5.

Finally, PG&E has evaluated the viability of GWF's existing petroleum coke QF facilities to determine if termination of the QF PPAs is beneficial to customers.[7] Based on site visits and an analysis of the QF PPAs economic viability, although there some uncertainties related to viability, the GWF QF facilities are sufficiently viable.[8]

In short, the GWF Transaction has significant environmental, operational, reliability, and financial benefits for PG&E's customers. Given these benefits, the Commission should expeditiously approve the GWF Transaction.

IV. THE PEAKERS PPA COMPLIES WITH THE COMMISSION'S GHG EMISSIONS PERFORMANCE STANDARD

In 2006, the California state legislature passed Senate Bill ("SB") 1368, precluding utilities from signing long-term contracts for high GHG-emission baseload generation. In relevant part, the statute states:

> (4) In determining whether a long-term financial commitment is for baseload generation, the commission shall consider the design of the powerplant and the intended use of the powerplant, as determined by the commission based upon the electricity purchase contract, any certification received from the Energy Commission, any other permit or certificate necessary for the operation of the powerplant, including a certificate of public convenience and necessity, any procurement approval decision for the load-serving entity, and any other matter the commission determines is relevant under the circumstances.[9]

In January 2007, the Commission adopted the criteria to be used to establish conformance with SB 1368 for long-term commitments.[10] The adopted Emissions Performance Standard ("EPS") applies to:

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[7] *See e.g.*, D.95-11-058 (regarding viability review related to proposed termination of PPA for existing QF facility).

[8] *Id.*, Section B.3.

[9] *See* Senate Bill No. 1368, Stats. 2006 (2005-2006 Reg. Sess.) ch. 598, § 8341(b)(4).

[10] *See* D.07-01-039. The 1,100 lbs. CO2/MWh equates to a heat rate of approximately 9,413 Btu/kWh for a facility burning natural gas.

1. Contracts five years or greater.
2. Generating facilities designed and intended to provide electricity at an annualized capacity factor of 60 percent or greater.

If the above criteria are true, then the facility's CO_2 emissions rate must be less than 1,100 pounds per MWh (lbs/MWh).[11]

For EPS compliance purposes, a review of the Peaker PPAs demonstrates that the first SB 1368 applicability requirement (contract five years or greater) is met. The Peaker PPAs are for a delivery term of 10 years with specified resources with no system purchases. With regard to the second requirement (an annualized capacity factor of 60 percent or greater), as part of the evaluation of the Peaker PPAs, PG&E estimated the capacity factor at substantially less than a 60 percent annualized capacity factor, as explained in PG&E's testimony supporting this Application.[12] Thus, the EPS compliance requirements do not apply to the Peakers PPAs.

V. CONSISTENCY WITH PG&E'S GHG REDUCTION STRATEGY

The Commission's decision in the 2006 Long-Term Procurement Plan ("LTPP") proceeding requires the utilities to "demonstrate how each application for fossil generation filed based on the procurement authority granted in this proceeding fits into each investor-owned utility's GHG reduction strategy."[13] The Omnibus Agreement provides for the shutdown of five existing petroleum coke facilities that produce a significant amount of GHG emissions. Shutting down these types of facilities is consistent with PG&E's strategy to reduce GHG emissions from older, less efficient facilities. In addition, the Peaker PPAs are structured as tolling agreements under which PG&E purchases and supplies the natural gas and schedules power from the facilities. The Peaker PPAs provide PG&E the flexibility to schedule power from the facilities

[11] *Id.* at p. 8.

[12] *See* Initial Testimony, Section D.

[13] D.07-12-052, p. 291, Conclusion of Law 6.

when demand is high and other lower operating cost, lower carbon footprint resources are unavailable or are already fully utilized and producing power to meet demand. The structure also allows PG&E to reduce output from the facility when demand is lower and output from resources with lower operating costs than the facility is available. The Peaker PPAs will be reliable and operationally flexible, with the flexibility supporting PG&E's efforts to integrate renewable generation and enable overall reductions in GHG emissions in PG&E's portfolio.

VI. SUMMARY OF APPLICATION AND REQUESTS

A. Summary of Application

PG&E's Application includes the following exhibits and testimony:

- **Application, Confidential Exhibit A** – Summary of Omnibus Agreement and Peaker PPAs
- **Application, Confidential Exhibit B** – Omnibus Agreement
- **Application, Confidential Exhibit C** -- Hanford PPA
- **Application, Confidential Exhibit D** -- Henrietta PPA
- **Initial Testimony**

B. Summary of Requests

PG&E requests that the Commission approve the Peaker PPAs and the Omnibus Agreement that terminates the existing QF PPAs. PG&E seeks Commission approval to recover costs incurred pursuant to each of the agreements through a debit to its Energy Resource Recovery Account ("ERRA") and the recovery of stranded costs associated with the GWF Transaction consistent with D.08-09-012.

PG&E requests that this Application be approved by the Commission by no later than January 26, 2012, and earlier if possible. As PG&E explained earlier in this Application, the sooner the GWF Transaction is approved, the greater the customer benefits as a result of the early shutdown of the GWF petroleum coke facilities and the termination of higher payments associated with the QF PPAs. In Section E of the Initial Testimony, PG&E quantifies the customer benefits that will result from early approval of the GWF Transaction. PG&E has provided a proposed schedule in Section VII.B.4 that results in approval by January 26, 2012, but requests that the schedule be adjusted as appropriate at the Pre-Hearing Conference to potentially allow for an earlier decision.

VII. COMPLIANCE WITH THE COMMISSION'S RULES OF PRACTICE AND PROCEDURE

A. Statutory Authority

PG&E submits this Application pursuant to Sections 451, 454, 454.5, 701, 728, 729, and 740.4 of the Public Utilities Code and the Commission's Rules of Practice and Procedure.

B. Categorization, Hearings, and Issues to be Considered (Rules 2.1(c) and 7.1)

1. Proposed Category

PG&E proposes that this Application be categorized as a rate-setting proceeding.

2. Need for Hearing

PG&E believes that the Commission should approve the GWF Transaction without hearings, based on the information presented by PG&E in its Application and the Initial Testimony. However, a date for evidentiary hearing may be reserved to avoid calendaring delay in the event that a hearing is desired.

3. Issues to be Considered

The following issues should be considered in this proceeding:

(a) Whether the Peaker PPAs and the Omnibus Agreement that make up the GWF Transaction proposed in this Application are reasonable and in the best interest of PG&E's customers and thus should be approved by the Commission.

(b) Whether PG&E should be authorized to recover costs incurred pursuant to the above-listed contracts in ERRA and recover any stranded costs consistent with D.08-09-012.

(c) Whether the Peaker PPAs meets the EPS requirements.

4. Proposed Schedule

PG&E proposes the following schedule in order to obtain a final decision by no later than January 26, 2012.

ACTIVITY	PROPOSED SCHEDULE
Application filed	July 21, 2011
Application Noticed	July 22, 2011
Responses filed	August 22, 2011
PG&E's reply to responses	August 25, 2011
Prehearing Conference	August 29, 2011
Scoping memo	September 9, 2011
Intervenor testimony due	September 23, 2011
Rebuttal testimony due	September 30, 2011
Evidentiary hearing (tentative)	October 5, 2011
Concurrent opening briefs filed	October 19, 2011
Concurrent reply briefs filed	October 26, 2011
ALJ Proposed Decision filed	December 23, 2011
Final Decision	January 26, 2012

C. Legal Name and Principal Place of Business (Rule 2.1(a))

The Applicant's legal name is Pacific Gas and Electric Company. PG&E's principal place of business is 77 Beale Street, San Francisco, California. Its post office address is Post Office Box 7442, San Francisco, CA 94120-7422.

D. Correspondence and Communication Regarding This Application (Rule 2.1(b))

Correspondence regarding this Application should be directed to PG&E's representatives in this matter, listed below:

Charles R. Middlekauff, Law Department
PACIFIC GAS AND ELECTRIC COMPANY
P.O. Box 7442
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Daniel Patry, Energy Proceedings
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E. Articles of Incorporation (Rule 2.2)

PG&E is, and since October 10, 1905, has been, an operating public utility corporation organized under California law. It is engaged principally in the business of furnishing electric and gas services in California. A certified copy of PG&E's Restated Articles of Incorporation, effective April 12, 2004, is on record before the Commission in connection with PG&E's Application 04-05-005, filed with the Commission on May 3, 2004. These articles are incorporated herein by reference pursuant to Rule 2.2 of the Commission's Rules.

F. Rule 3.2 Requirement

PG&E's Application does not request authority to increase rates, or to implement changes that would result in increased rates, and therefore the requirements of Commission Rule 3.2 do not apply to this Application.

VIII. CONFIDENTIAL INFORMATION AND SERVICE.

The Omnibus Agreement and Peaker PPAs include confidential energy procurement information consistent with D.06-06-066. Accordingly, the Omnibus Agreement, Peaker PPAs, and a summary of these agreements attached as Exhibit A are submitted as confidential exhibits to this Application. This Application is being filed in two versions – a redacted (public) version that does not include the confidential exhibits and a confidential (non-public) version that includes the Agreements. Except for the exhibits, the redacted and confidential versions of this Application are identical. This Application is accompanied by a Motion for Confidential Treatment.

IX. REQUESTED RELIEF

PG&E respectfully requests the Commission issue an order by no later than January 26, 2012 that:

A. Approves the two GWF Transaction, which includes the Omnibus Agreement and the Peaker PPAs, and finds the GWF Transaction to be reasonable and in the best interest of customers;

B. Authorizes PG&E to recover costs incurred pursuant to the GWF transaction through the ERRA balancing account and to recover any stranded costs consistent with D.08-09-012;

C. Finds that the Peaker PPAs comply with the Emissions Performance Standard; and,

D. Grants such other and further relief as the Commission finds just and reasonable.

Dated at San Francisco, California, this 21st day of July 2011.

Respectfully submitted,

PACIFIC GAS AND ELECTRIC COMPANY

BY: *_/s/ Roy M. Kuga_*
ROY M. KUGA
Vice President - Energy Supply Management

BY: *_/s/ Charles R. Middlekauff_*
CHARLES R. MIDDLEKAUFF

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77 Beale Street, B30A
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E-Mail: CRMd@pge.com

Dated: July 21, 2011

VERIFICATION

I, the undersigned, say:

I am an officer of Pacific Gas and Electric Company, a corporation, and am authorized pursuant to Code of Civil Procedure § 446, ¶ 3, to make this Verification for and on behalf of said Corporation, and I make this Verification for that reason. I have read the foregoing Application, and I am informed and believe that the matters therein concerning Pacific Gas and Electric Company are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on July 20, 2011, at San Francisco, California.

/s/ Roy M. Kuga

ROY M. KUGA

Vice President - Energy Supply Management

Exhibit A

Confidential

Summary of Omnibus Agreement and Peaker PPAs

Exhibit B

Confidential

Omnibus Agreement

Exhibit C

Confidential

Hanford PPA

Exhibit D

Confidential

Henrietta PPA

CERTIFICATE OF SERVICE
BY ELECTRONIC MAIL, U.S. MAIL, AND HAND DELIVERY

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 21st day of July, 2011, I caused to be served a true copy of:

**APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)
FOR APPROVAL OF THE GWF TRANSACTION
PUBLIC VERSION
(Redaction in Exhibits A, B, C and D)**

[XX] By Electronic Mail – by electronic mail on the official service list for R.10-05-006, who have provided an e-mail address.

[XX] By U.S. Mail – by U.S. mail on the official service list for R.10-05-006, who have not provided an e-mail address.

[XX] By hand delivery to the following:

Peter V. Allen, ALJ
California Public Utilities Commission
505 Van Ness Avenue, Room 5130
San Francisco, CA 94102

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on the 21st day of July, 2011.

/s/ Stephanie Louie
STEPHANIE LOUIE