

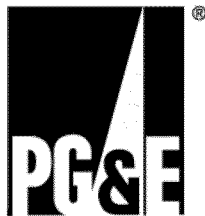
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Date: August 11, 2011
Witnesses: Various

PACIFIC GAS AND ELECTRIC COMPANY

PROCUREMENT RULES

**ORDER INSTITUTING RULEMAKING TO INTEGRATE AND REFINE
PROCUREMENT POLICIES AND CONSIDER LONG-TERM
PROCUREMENT PLANS**

TRACK III REPLY TESTIMONY



PACIFIC GAS AND ELECTRIC COMPANY
TRACK III TESTIMONY
REPLY TESTIMONY

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1 **PACIFIC GAS AND ELECTRIC COMPANY**
2 **TRACK III TESTIMONY**
3 **REPLY TESTIMONY**
4

5 Pursuant to the *Administrative Law Judge’s Ruling Revising System Track I*
6 *Schedule* (“ALJ Ruling”), issued on March 10, 2011, and subsequent rulings
7 modifying the dates for submissions, Pacific Gas and Electric Company (“PG&E”)
8 submits this reply testimony regarding issues raised in Track III of this proceeding.

9 **A. Procurement Rules To Comply With Once-Through Cooling Policies**
10 **(Marino Monardi)**

11 Q 1 Pacific Environment (“PE”) has characterized the Energy Division’s proposal to
12 limit contracting with Once-Through Cooling (“OTC”) units to a one-year
13 period of time as a needed measure to prevent contracting with OTC units
14 beyond the OTC transition period. Has PE framed the issue correctly?

15 A 1 No. PE demonstrates a misunderstanding of not only the utility procurement
16 process but also in this instance the utilities’ arguments against the proposed
17 one-year contracting limit for OTC units. While PE mischaracterizes the OTC
18 issue as one of long-term contracting¹ the issue in reality is whether short-term
19 or intermediate-term contracting with OTC units during the OTC transition
20 period is the proper policy. No one in this proceeding is arguing for the ability
21 to contract for OTC units beyond the OTC transition period. As PG&E and
22 others have pointed out in their testimony², intermediate-term contracting with
23 OTC units offers the potential for lower cost procurement compared to short-
24 term contracting with these units and should be considered as a modification to
25 the OTC Proposal.
26

¹ For example, PE states that the Energy Division’s OTC proposal: (1) will prevent “utilities from entering contracts that *exceed* the Statewide Policy’s *phase out deadlines*”; (2) is “necessary to *discourage long-term OTC contracting*”; (3) ensures “that utilities do not enter into contracts that *contravene the Statewide OTC Policy*”; and, (4) “will protect ratepayers from the stranded costs that would be caused by a contract with an OTC unit operating in *contravention of the Statewide Policy.*” See Exhibit (“Ex.”) 505 at pp. 4-5 (PE, Cox).

² Ex. 107, at pp.1-3 (PG&E, Monardi).

1 Q 2 Has PE mischaracterized PG&E’s position with respect to contracting with OTC
2 units?

3 A 2 Yes. In its testimony, PE selectively quotes from page 1-3 of PG&E’s testimony
4 implying that PG&E advocates that no restrictions be put on contracting with
5 OTC units in an apparent attempt at bolstering its concern of long-term
6 contracting with OTC units.³ However, PG&E makes clear in its testimony that
7 the period under consideration is the OTC transition period. As such,
8 contracting with OTC units beyond the OTC transition period is precluded.

9 Q 3 Has PE misunderstood PG&E’s proposal to consider the environmental impacts
10 of OTC units in its Request for Offer (“RFO”) offer evaluation process?

11 A 3 Yes. In its testimony, PE states that it does not believe that PG&E’s RFO offer
12 evaluation process is sufficient to ensure that OTC transition period deadlines
13 are met.⁴ However, PG&E’s proposal to consider the environmental impacts of
14 OTC units in its RFO offer evaluation process is a means to consider the
15 environmental consequences of once-through cooling within the offer selection
16 process wherein an offer from an OTC unit will be viewed less favorably than a
17 similar unit that does not utilize once-through cooling. PG&E’s testimony does
18 not alter the restriction on contracting with OTC units beyond the OTC
19 transition period.

20 Q 4 Does PE further mischaracterize PG&E’s proposal to consider the
21 environmental impacts of OTC units in its RFO offer evaluation process?

22 A 4 Yes. PE references a Commission decision⁵ that noted the low environmental
23 leadership weighting used in one of PG&E’s long-term RFOs. This testimony is
24 incomplete, at best, as PG&E informed PE in a response to PE’s data request #3
25 that PG&E had given sizable weight to the environmental leadership criterion in
26 its most recent intermediate-term RFO, where offers for OTC units were more
27 likely to be considered.

³ PE’s Testimony at page 4 quotes PG&E’s testimony as “OTC units should be allowed to compete in IOU RFO’s to sell capacity and energy without restriction.” The complete quote from PG&E’s testimony is “During the transition period and prior to their retrofit or retirement, OTC units should be allowed to compete in IOU RFO’s to sell capacity and energy without restriction.” See Ex. 107 at p. 1-3 (PG&E, Monardi).

⁴ Ex. 505 at p. 5 (PE, Cox).

⁵ *Id.*

1 Q 5 Does PE provide any testimony regarding a preference for short-term versus
2 intermediate-term contracting during the OTC transition period?

3 A 5 No. On the contrary, by focusing solely on the possibility of contracting with
4 OTC units beyond the OTC transition period⁶, an issue never under contention
5 in this proceeding, PE completely misses the opportunity to advocate for
6 ratepayer savings by considering modifying the Energy Division’s OTC
7 proposal to allow lower cost intermediate-term contracting.

8 Q 6 In his testimony, Jan Reid states that the Energy Division’s OTC contracting
9 proposal “encourages conservation, seeks to improve water quality, and is
10 consistent with the Commission’s policy goals”⁷ and thus should be adopted.
11 Do you agree with his conclusion?

12 A 6 No. While PG&E supports the transition from reliance on natural-gas fired OTC
13 units, the Energy Division’s OTC proposal should not be adopted simply
14 because it supports certain Commission goals if a modified proposal can achieve
15 the same goals at a lower cost. PG&E’s proposal to allow intermediate-term
16 contracting with OTC units during the transition period, combined with an
17 assessment of the environmental impact of OTC operation in the RFO
18 evaluation process, can achieve the same goals as the OTC Proposal but at a
19 lower cost to ratepayers.

20 Q 7 Do other parties oppose Energy Division’s proposal to limit OTC contracting?

21 A 7 Yes. This proposal is opposed by the California Large Energy Consumers
22 Association (“CLECA”)⁸, the Division of Ratepayer Advocates (“DRA”)⁹,

⁶ For example, PE states “although the utilities lament the possible uneconomic consequences of Staff’s Proposal ... [it] will protect ratepayers from the stranded costs that would be caused by a contract with an OTC unit” with the stranded costs apparently the result of long-term contracting with OTC units. *See* Ex. 505 at p. 5 (PE, Cox).

⁷ Ex. 1302 at p. 11 (Reid).

⁸ Ex. 1900 at p. 8 (CLECA, Barkovich).

⁹ Ex. 405 at pp. 20, 27 (DRA, Rogers).

1 GenOn¹⁰, the Independent Energy Producers (“IEP”)¹¹, and the Western Power
2 Trading Forum (“WPTF”).¹²

3 **B. Refinements To Bid Evaluation In Competitive Solicitations (Todd**
4 **Strauss)**

5 **1. Issues Raised By DRA, TURN and WPTF**

6 Q 8 DRA states that “almost all” of the “recently brought forth” applications for
7 utility-owned generation (“UOG”) “were introduced outside of the competitive
8 solicitation process.”¹³ Is this an accurate representation of PG&E’s UOG
9 applications since PG&E resumed procurement after the California energy
10 crisis?

11 A 8 No. In footnote 37, DRA identifies three PG&E UOG applications: a 3 MW
12 Fuel Cell Project, the Solar Photovoltaic (“PV”) Program, and Oakley. Of these
13 three UOG applications, one (Oakley) came through an all-source RFO. These
14 three applications were filed in 2009. Omitted from DRA’s footnote are four
15 other conventional UOG projects PG&E has proposed since PG&E resumed
16 procurement in 2003: Gateway, Humboldt, Colusa, and Tesla. The Commission
17 rejected the Tesla project. Of the four approved conventional UOG projects,
18 three resulted from competitive solicitations (*i.e.*, Humboldt, Colusa and
19 Oakley). The Gateway project resulted from a settlement in Mirant’s
20 bankruptcy and was a unique opportunity. Also omitted from DRA’s footnote is
21 PG&E’s 2009 Application for the Manzana wind project PSA. The Commission
22 rejected the Manzana project. In summary, of the eight UOG applications
23 PG&E has made, three have come directly through RFOs, and one additional
24 application originated in an RFO. The three applications that have come directly
25 through RFOs account for about 40 percent of the UOG MWs PG&E proposed,
26 and almost 60 percent of the UOG MWs proposed by PG&E and approved by
27 the Commission.

¹⁰ Ex. 2100 at p. 4 (GenOn, Chillemi).

¹¹ Ex. 2000 at p. 50 (IEP, Monsen).

¹² Ex. 2300 at p. 5 (WPTF, Ackerman).

¹³ Ex. 405 at p. 30 (DRA, Peck).

1 Q 9 DRA recommends that all UOG proposals be “tested by a competitive
2 solicitation.”¹⁴ Please comment on this proposal.

3 A 9 First, DRA’s proposal is unclear as to how a UOG proposal can or should be
4 “tested” by a competitive solicitation. Second, the Commission should not
5 adopt this kind of blanket rule as it may be inapplicable in certain circumstances.
6 For example, in Application (“A.”) 09-02-013, PG&E proposed the
7 development of several UOG fuel cell projects. Some parties asserted that
8 PG&E should conduct a competitive solicitation for these projects. However,
9 the Commission determined that “an RFO is infeasible for the Fuel Cell projects
10 because the circumstances of both [PG&E’s and SCE’s] applications involve a
11 unique partnership between either SCE or PG&E and the state universities for
12 educational and demonstration purposes.”¹⁵ The Commission went on to find
13 that “[t]he universities have indicated they will only participate in the Fuel Cell
14 Projects if PG&E and SCE own and operate the fuel cells.”¹⁶ In this
15 circumstance, the utilities’ respective UOG proposals could not be “tested” by a
16 competitive solicitation. DRA also cites PG&E’s PV Program as another
17 example of UOG procured outside of an RFO. DRA ignores the fact that
18 PG&E’s PV Program includes two components, a UOG portion and a Power
19 Purchase Agreement (“PPA”) portion. Moreover, both the UOG and PPA
20 portions include competitive solicitations. Thus, it is unclear how DRA’s
21 proposal for a hard and fast rule that all UOG proposals be “tested by a
22 competitive solicitation” would apply to PG&E’s PV Program. DRA’s
23 testimony does not consider that UOG proposals may arise in unique
24 circumstances.

25 Q10 DRA also proposes that, “for assessment purposes, the utilities should amortize
26 the UOG project costs over the same period that reflect the term of PPA
27 contracts against which the UOG is being compared.”¹⁷ WPTF expresses

¹⁴ *Id.* at p. 32.

¹⁵ Decision (“D.”) 10-04-028 at p. 27.

¹⁶ *Id.*, Finding of Fact 8.

¹⁷ Ex. 405 at p. 32 (DRA, Peck).

1 similar concern regarding the ability to compare a 30-year UOG project and a
2 10-year PPA.¹⁸ Do you agree with DRA’s proposal regarding amortization?

3 A10 No. The issue is about comparing offers with different terms or tenors,
4 regardless of whether the offer is for a PPA or UOG. PG&E’s evaluation
5 approach uses levelized values to account for the effects of offers with different
6 lengths in term or tenor, as well as different capacities. Using levelized values is
7 a commonly used method to compare projects varying in term or tenor,
8 technology, or other characteristics, and correctly represents the expected costs
9 and benefits customers experience. In contrast, amortizing UOG project costs in
10 the manner proposed by DRA yields “assessment” results inconsistent with
11 ratemaking treatment and true costs to customers. Further, DRA is silent on the
12 period over which project benefits are to be “amortized.”

13 Q11 DRA and WPTF recommend that shareholders, not ratepayers, should “shoulder
14 the costs” for failed UOG offers.¹⁹ Do you agree with this proposal?

15 A11 No. Because independent power producers (“IPPs”) and utilities have different
16 business models, preserving the hybrid wholesale market established by the
17 Commission *requires* that ratepayers pay for reasonable and prudently incurred
18 development costs incurred by utilities from losing offers and unbuilt projects.²⁰

19 Q12 DRA also argues that the Commission should establish clear “pay for
20 performance” mechanisms for UOG projects.²¹ Do you agree with this
21 proposal?

22 A12 No. DRA offers no specific explanation for this recommendation, or how pay
23 for performance would work for a UOG facility. In contrast, PG&E’s testimony
24 explicitly identifies nonperformance as a risk associated with both PPA and
25 UOG, identifies evaluation of Credit *ex ante* as the mechanism to mitigate the
26 risk of PPA nonperformance, and identifies Commission reasonableness review
27 *ex post* as the mechanism to mitigate the risk of UOG nonperformance.²²

¹⁸ Ex. 2300 at p. 9 (WPTF, Ackerman).

¹⁹ Ex. 405 at p. 34 (DRA, Peck); Ex. 2300 at pp. 11-12 (WPTF, Ackerman).

²⁰ Ex. 107 at pp. 2-11 to 2-12 and 2-14 (PG&E, Strauss).

²¹ Ex. 405 at p. 35 (DRA, Peck).

²² Ex. 107 at pp. 2-8 to 2-9 (PG&E, Strauss).

1 Q13 DRA also proposes that the Commission establish cost caps for UOG projects so
2 the utility will not underbid a project and attempt to recover “higher costs” after
3 the project has been approved.²³ The Utility Reform Network (“TURN”)
4 recommends that “critical cost parameters” for bids that result in the selection of
5 a UOG project be binding for purposes of future cost recovery for ten years.²⁴
6 WPTF makes a similar proposal.²⁵ Are these proposals appropriate?

7 A13 No. Every application from PG&E for a UOG project involves a proposal
8 regarding cost recovery. Rather than establishing a blanket cost cap, the
9 Commission should allow the utility the opportunity to propose project-specific
10 cost recovery in a UOG application. The cost recovery mechanism may vary
11 depending on project specific factors. For example, DRA and TURN were both
12 parties to a settlement agreement concerning the Gateway Generating Station
13 that allowed for adjustments to the initial capital costs under certain specific,
14 defined circumstances.²⁶ In the 2006 Long-Term Procurement Proceeding
15 (“LTPP”), the Commission considered whether to retain specific ratemaking
16 requirements for UOG proposals. The Commission determined that
17 “[c]ommensurate flexibility in ratemaking associated with the new generation
18 resources is also important, as we agree that providing for ratemaking flexibility
19 will facilitate the development and construction of a broader range of generation
20 facilities that should benefit all customers.”²⁷ The Commission instead
21 determined that it would consider ratemaking proposals on a “case-by-case”
22 basis.²⁸

23 PG&E encourages the Commission to continue the evaluations of cost caps
24 and performance incentives for UOG offers selected in an RFO on a case-by-
25 case basis, as adopted in D. 07-12-052. There are unique benefits to UOG under
26 traditional cost of service. Adoption of cost caps and incentive mechanisms can

²³ Ex. 405 at p. 35 (DRA, Peck).

²⁴ Ex. 1504 at pp. 6-7 (TURN, Woodruff).

²⁵ Ex. 2300 at p. 18 (WPTF, Ackerman).

²⁶ See D.06-06-035, Attachment A at pp. 5-6.

²⁷ D.07-12-052 at p. 221.

²⁸ *Id.*

1 have the effect of undermining those benefits. The Commission should be
2 careful of adopting blanket deviations from cost of service ratemaking that
3 would be applied to all future UOG offers selected in an RFO. For instance,
4 locking in capital additions forecasts for a prolonged period for a UOG facility
5 may give the utility the incentive to not make an investment in the facility which
6 would increase efficiency and lower costs to customers. Also, locking in
7 operations and maintenance (“O&M”) forecasts could have the effect of causing
8 the utility to earn above its authorized rate of return for an extended period.
9 Both of these situations are mitigated under traditional cost of service.

10 **2. Issues Raised By IEP**

11 Q14 IEP suggests that “typically [the uncertainty associated with future cost to
12 ratepayers from an IPP project] will be less than for a UOG project.”²⁹ What is
13 your response to IEP’s argument?

14 A14 IEP glosses over a key aspect of uncertainty associated with IPP costs.

15 Nonperformance risk is a critical uncertainty in future cost to ratepayers from
16 both an IPP project and a UOG project. While IEP correctly identifies aspects of
17 nonperformance associated with a UOG project (“installed costs operating and
18 maintenance (O&M) costs, . . . , and future capital additional additions”³⁰), IEP
19 neglects to mention potential IPP nonperformance in development, permitting,
20 construction, and operations, and the consequential risks to ratepayers.

21 Q15 IEP states that “if the O&M price embedded in an IPP bid is a fixed price with a
22 pre-specified escalation rate, it will have no ratepayer risk (i.e., uncertainty)
23 associated with it, since the IPP absorbs any variation in costs relative to the
24 bid.”³¹ Do you agree with this statement?

25 A15 No. Again, IEP neglects nonperformance risk associated with an IPP bid or
26 even an executed PPA.

27 Q16 IEP also states: “If a UOG project uses cost-of-service ratemaking for cost
28 recovery and an IPP’s fixed costs and operating characteristics are fully
29 specified in the project’s PPA, there is significantly greater uncertainty in the

²⁹ Ex. 2000 at pp. 29 (IEP, Monsen).

³⁰ *Id.*

³¹ *Id.* at p. 32.

1 UOG’s project costs than the IPP’s project costs.”³² Do you agree with this
2 statement?

3 A16 No. Once again, IEP neglects nonperformance risk. Having costs and operating
4 characteristics “fully specified in the project’s PPA” provides a veneer of cost
5 certainty. Having costs and operating characteristics fully specified in the
6 project’s PPA actually increases nonperformance risk, particularly under adverse
7 market circumstances. In contrast, the Commission’s jurisdiction over a
8 California Investor-Owned Utility (“IOU”) mitigates ratepayer cost uncertainty
9 by ensuring only reasonable and prudent costs are paid by an IOU’s ratepayers.

10 Q17 To address the issue of cost uncertainties, IEP proposes a method using a set of
11 “adders” to adjust present value of financial benefit.³³ Do you recommend the
12 Commission adopt IEP’s proposed risk-adjustment method?

13 A17 No. IEP’s proposed risk-adjustment method appears to take no account of the
14 actual details of how PG&E, other California IOUs, or other market participants
15 (including IEP’s own members) compute market value for PPAs or complex
16 assets such as power plants.

17 Q18 IEP proposes an overall bid evaluation framework, with specific criteria, criteria
18 weights, scoring for each criterion, and project ranking and selection
19 methodology.³⁴ Do you recommend the Commission adopt IEP’s proposed bid
20 evaluation framework?

21 A18 No. IEP’s proposed bid evaluation framework has significant and consequential
22 flaws. Most importantly, IEP’s proposed algorithm for selecting a short list takes
23 no account of diversity in counterparty, technology, location, or other criteria.
24 Such considerations are critical in formulating a short list. Another issue with
25 IEP’s framework is that the combination of a linear formula, specific criteria
26 weights, and scoring each criterion on a scale of zero to 100—all together this
27 implies a particular equivalency between a dollar of present value of financial
28 benefit, a “unit” of viability, a “unit” of environmental characteristic, and a
29 “unit” of qualitative characteristics. Such a particular equivalency may or may
30 not make any sense in the context of a particular set of RFO offers. Having the

³² *Id.* at p. 33.

³³ *Id.* at pp. 34, 39-45, 52-53.

³⁴ *Id.* at pp. 37-48, 52-57.

1 formula, the criteria weights, and the scoring for each criterion the same for all
2 RFOs—regardless of product sought or need to be filled—seems unwise.

3 Q19 Is IEP’s proposed bid evaluation framework essentially the same as what PG&E
4 uses to evaluate RFO offers?

5 A19 No. PG&E’s evaluation criteria are different and/or scored differently from
6 what IEP proposes. PG&E’s evaluation methodology has used methods other
7 than a linear formula using a fixed weight for each evaluation criteria. PG&E’s
8 methods for selecting a short list are very different from what IEP proposes.

9 Q20 IEP recommends that PG&E provide bidders with PG&E’s “forward capacity
10 and energy price curves” and “PG&E’s remaining assumptions.”³⁵ Does PG&E
11 agree with this recommendation?

12 A20 No. It is no surprise that a party representing market participants suggests that
13 those market participants receive commercially sensitive IOU information. It is
14 noteworthy that intervenors representing ratepayers—DRA and TURN—do not
15 advocate for market participants to receive commercially sensitive IOU
16 information which can be used to the disadvantage of ratepayers.

17 Q21 In PG&E’s most recent Long-Term RFO (“LTRFO”), did any losing bidder file
18 formal complaints at the CPUC that it had insufficient information regarding the
19 bid evaluation parameters or protest PG&E’s two applications for the 2008
20 LTRFO winning offers making similar arguments?

21 A21 No.

22 Q22 IEP recommends that existing generation facilities be allowed to bid into all IOU
23 RFOs.³⁶ Has the Commission already addressed this issue?

24 A22 Yes. In the 2006 LTPP proceeding, WPTF raised the same issue. The
25 Commission rejected this proposal concluding that the IOUs needed the
26 flexibility to tailor RFOs for specific needs.³⁷ For example, if an IOU’s service
27 area needed new capacity, then it would be entirely appropriate to limit an RFO
28 to new generation resources to meet the capacity need. Existing generation
29 resources would not satisfy a need for new capacity. IEP fails to identify any

³⁵ *Id.* at p. 15.

³⁶ *Id.* at pp. 22-23.

³⁷ D.07-12-052 at p. 148.

1 changes that have occurred in the California marketplace which would support
2 changing the Commission’s prior decision on this issue.

3 Q23 IEP claims that UOG projects have an advantage in RFOs because an IOU has
4 “greater access to information regarding the timing and type of needs the IOU
5 has than do IPPs.”³⁸ Are these concerns valid?

6 A23 No. In its 2008 LTRFO, PG&E implemented a Code of Conduct that was
7 intended to ensure that the team within PG&E working on UOG bids did not
8 have access to confidential RFO information and that there was a level playing
9 field with regard to access to information between UOG and PPA offers. PG&E
10 submitted its Code of Conduct as a part of the 2008 LTRFO applications and no
11 party asserted that UOG offers were unfairly advantaged as a result of
12 information access.

13 **3. Environmental Justice Issues Raised By PE**

14 Q24 PE asserts that PG&E “failed to adequately analyze environmental issues in its
15 2008 LTRFO” citing D.10-07-045.³⁹ Does this statement accurately reflect the
16 Commission’s entire conclusion in that proceeding?

17 A24 No. In D.10-07-045, the Commission determined that:

18 In light of the conclusions above, we find that while PG&E
19 properly solicited offers and generally acted in a manner consistent
20 with our guidelines and expectations for the LTRFO process,
21 PG&E could and should have provided greater transparency in the
22 evaluation process and more accurately reflected the Commission’s
23 stated priorities by giving greater weight to environmental factors
24 and enhancing definitions related to environmental scoring. These
25 criticisms should be taken in the context of the RFO as a whole and
26 while significant, particularly in regard to future RFO’s, do not
27 change our determination that overall PG&E conducted a
28 reasonable RFO and evaluation.⁴⁰

29 Q25 PE also asserts that PG&E “failed” to follow Commission directives regarding
30 transparency in the 2008 LTRFO, again citing D.10-07-045.⁴¹ Is this an
31 accurate characterization of the Commission’s decision?

³⁸ Ex. 2000 at p. 6 (IEP, Monsen).

³⁹ Ex. 505 at p. 11 (PE, Cox).

⁴⁰ D.10-07-045 at pp. 20-21.

⁴¹ Ex. 505 at pp. 11-12 (PE, Cox).

1 A25 No. Although the Commission suggested a few areas in which the 2008 LTRFO
2 could have been more transparent, it concluded that “PG&E’s process was, for
3 the most part, open and transparent and in most regards complied with D.07-12-
4 052”⁴² The Commission also noted that it ‘generally [felt] the RFO
5 functioned well, [but that] as with any new process, there were minor
6 shortcomings.”⁴³

7 Q26 Based on its mischaracterizations of D.10-07-045, PE proposes that the
8 Commission develop a standardized environmental justice scoring and
9 weighting procedure.⁴⁴ Can you comment on the methodology proposed by
10 PE?

11 A26 I have had an opportunity to review with PG&E employees who are experienced
12 in environmental matters the methodology proposed by PE. Based on these
13 communications, I understand that that the documents cited by PE for the
14 evaluation of environmental justice impacts in the siting of power production
15 facilities are inapplicable because these documents refer to screening
16 methodologies and are not assessment tools. For example, regarding the
17 CalEPA/OEHHA methodology “Cumulative Impacts: Building a Scientific
18 Foundation”, the front of the document states:

19 DISCLAIMER: This report was developed by the Office of
20 Environmental Health Hazard Assessment (OEHHA) for use as a
21 basis for further scientific evaluation and technical discussion. It
22 is not a regulatory action and does not have the force or effect of a
23 regulation. This report presents the first step in developing a
24 screening methodology to evaluate the cumulative impacts of
25 multiple sources of pollution in specific communities or
26 geographic areas. The scientific screening methodology is
27 intended for eventual use by the boards, departments and office of
28 the California Environmental Protection Agency (Cal/EPA).
29 Cal/EPA intends shortly to initiate the development of guidelines
30 to accompany this methodology. Until these guidelines are
31 completed, the scientific screening methodology discussed in this
32 report is not to be used for regulatory purposes, including the
33 permitting of facilities or compliance with the California

⁴² D.10-07-045 at p. 19.

⁴³ *Id.*

⁴⁴ Ex. 505 at p. 12 (PE, Cox).

1 Environmental Quality Act. Whether and how the scientific
2 screening methodology should be used in permitting or other
3 regulatory processes is a topic that needs more discussion within
4 Cal/EPA and more input from the Cumulative Impacts and
5 Precautionary Approaches (CIPA) Work Group and other stake-
6 holders. (p. 3)

7 This is designed as a state-wide screen and is not intended for community or
8 facility level impact analysis.

9 Similarly, the Pastor tool, *Pastor et al., Air Pollution and Environmental*
10 *Justice: Integrating Indicators of Cumulative Impact and Socio-Economic*
11 *Vulnerability into Regulatory Decision-Making* is also inapplicable because it is
12 a screening tool, not an assessment tool, and used to indicate communities of
13 concern. According to the Pastor study summary:

14 The method is a screening tool to guide decision-making, not for
15 risk assessment; as the community-based participatory component
16 of this project demonstrates, secondary databases and emissions
17 inventories do not capture the full scope of potentially hazardous
18 emission sources, sensitive land uses, or air quality problems on a
19 localized scale. Instead the EJSM (Environmental Justice
20 Screening Methodology) can provide an important first step to
21 guide decision-making regarding further research, community
22 outreach, and regulatory strategies to better address
23 environmental justice concerns related to air pollution impacts
24 across diverse communities in California. (p. 12)

25 The Pastor tool was developed as a toxics study and is not appropriate for
26 CO₂ and low emitting NO_x emissions from gas-fired power plants.

27 We specifically investigate effects for full gestational exposures
28 as well as trimester-specific effects using data collected from air
29 pollution monitors for particulates (PM_{2.5}, PM₁₀ and coarse
30 PM) as well as CO, NO₂, SO₂ and ozone. (p. 13)

31 Finally, use of these tools would require changes to Commission regulations on
32 siting, particularly regarding incentives for customer costs benefits of utilizing
33 existing infrastructure.

34 Q27 Are there any other reasons why the Commission should not adopt PE's
35 recommendation to develop a standardized environmental justice scoring and
36 weighting procedure and require the utilities to use this procedure?

37 A27 Yes. Different RFOs require different responses, depending upon the objectives
38 of that specific RFO and the potential impact of the facility. For example, the

1 impacts of renewable generation sources should be considered differently than
2 fossil-fuel sources because their potential impacts are different. In turn, the
3 impacts of fossil fuel facilities may vary and should also be considered based on
4 other variables such as site characteristics and equipment performance.

5 Q28 PE cited a number of studies developed by state agencies that provide a wide
6 variety of potential cumulative impact and environmental screening criteria that
7 they assert could be appropriately tailored to meet the Commission
8 environmental justice goals in the procurement process.⁴⁵ Can these studies be
9 tailored to develop a set of environmental justice criteria to meet the
10 Commission's goals?

11 A28 I have had an opportunity to review with PG&E employees who are experienced
12 in environmental matters the methodology proposed by PE. Based on these
13 communications, I understand that that these studies cannot be tailored to
14 develop a set of environmental justice criteria to meet the Commission's goals.
15 Because use of these proposed methods would require months of study per site,
16 they are unworkable given the time constraints inherent in the procurement
17 process. The methodologies proposed by PE are, at best, blunt instruments and
18 do not appear to be designed to effectively measure the actual or potential health
19 impacts of power generation facilities on specific communities.

20 Q29 PE claims that the utilities made no mention of using any environmental justice
21 criteria in their bid materials.⁴⁶ Is this the case for PG&E?

22 A29 No. In its RFOs, PG&E may provide instructions to developers that request
23 certain data they are to submit to aid in considering environmental justice issues.
24 For example, PG&E's 2010 Intermediate-Term RFO included a questionnaire
25 for bidders that requested information to help assess their projects'
26 environmental and community impacts. In this way, environmental justice
27 concerns were addressed. In addition, depending upon the RFO, bid review
28 criteria address environmental justice through community assessment, in which
29 PG&E uses demographic, GIS, and other data to identify environmental justice
30 communities.

⁴⁵ *Id.* at pp. 12-13.

⁴⁶ *Id.* at p. 14.

1 **C. Greenhouse Gas Products, Processes, And Risk Management Strategies**
2 **(Melissa Brandt)**

3 Q30 Green Power Institute (“GPI”) stated that the IOUs should only be granted the
4 authority required to procure and sell the greenhouse gas (“GHG”)-related
5 products needed to conduct their business, while limiting ratepayer exposure to
6 costs.⁴⁷ Do you agree?

7 A30 Yes. PG&E is seeking approval of its products, processes, and strategy to
8 procure GHG compliance instruments to meet only its physical and contractual
9 compliance obligations in accordance with its procurement strategy, to ensure
10 compliance with Cap-and-Trade.

11 Q31 GPI raised concerns about the redaction of PG&E’s procurement strategy for
12 GHG-related products.⁴⁸ Do GPI’s concerns have merit?

13 A31 No. This redacted information reveals PG&E’s procurement activities and
14 position in the GHG Products market by revealing PG&E’s bid, price, and
15 volume strategies. The release of this commercially sensitive information could
16 cause harm to PG&E’s customers and put PG&E at an unfair business advantage
17 by the disclosure of a GHG procurement strategy to other market participants.
18 In addition, this information regarding PG&E’s confidential GHG procurement
19 strategy is similar to the general type of procurement information that is
20 confidential and provided in response to the Energy Division’s Monthly Data
21 Request. This information also reveals the net open position for GHG
22 compliance.

23 Q32 GPI, PE, and DRA all stated that a final Commission decision regarding GHG
24 procurement by December 16, 2011 is no longer necessary, given that the
25 California Air Resources Board (“CARB”) has delayed the start of Cap and
26 Trade.⁴⁹ PE further recommends that the Commission issue an interim decision
27 on the plans in this proceeding and issue a final decision on the plans near the
28 end of 2012.⁵⁰ Do you agree?

⁴⁷ Ex. 2200 at p. 2 (GPI, Morris).

⁴⁸ *Id.* at p. 3.

⁴⁹ *Id.* at p. 2; Ex. 505 at pp. 33-34 (PE, Cox); Ex. 405 at pp. 38-39 (DRA, Parrillo).

⁵⁰ Ex. 505 at pp. 34-35 (PE, Cox).

1 A32 No. Although CARB delayed the compliance date until January 1, 2013, the
2 first CARB allowance auction will be held on August 2012, and PG&E is
3 required by CARB to consign 1/6 of its 2013 allowance allocation in the first
4 auction. Successful execution of PG&E's consignment and procurement
5 strategies will depend on prior Commission approval of PG&E's plan. In
6 response to PE's proposal for an interim decision, PG&E believes that a final
7 decision on its plan is necessary, so that PG&E may fully engage in procurement
8 in 2012 for future Cap-and-Trade compliance. PG&E continues to request that
9 the Commission issue its final decision by December 16, 2011.

10 Q33 PE recommends that the Commission reject the IOUs' proposal to automatically
11 pass all costs of allowance/offset procurement on to the ratepayers, and suggest
12 a means for ensuring that cost recovery is aligned with AB 32's overarching
13 goal of reducing GHG emissions.⁵¹ Do you agree?

14 A33 No. PG&E's plan lays out upfront achievable standards which, if approved,
15 would allow PG&E to receive full cost recovery from its customers under
16 Assembly Bill ("AB") 57. CARB is the lead agency designated with ensuring
17 reduction of greenhouse gas emissions under AB 32, and Cap-and-Trade is
18 designed to ensure a portion of reductions statewide. PG&E's participation in
19 Cap-and-Trade will ensure reduction of GHG emissions in an economically
20 efficient way at lower cost to customers. Direct utility reduction of GHG
21 emissions will occur through other programmatic measures, including the
22 Renewable Energy Standard, Customer Energy Efficiency, and Combined Heat
23 and Power programs, or when direct reduction of GHG emissions would result
24 in a lower cost to customers than procurement of allowances or offsets.

25 Q34 PE states that the IOUs should only receive cost recovery for allowances that are
26 actually used, at the time they are used, since ratepayers would otherwise bear
27 the costs for excess allowances if the utility over-procures.⁵² Do you agree that
28 the IOUs should be restricted in the manner proposed by PE?

29 A34 No. PG&E will record costs for GHG products in Energy Revenue Recovery
30 Account ("ERRA") in accordance with accounting rules, for recovery in rates.
31 PG&E intends to true-up anticipated GHG emissions with actual emissions,

⁵¹ *Id.* at p. iii.

⁵² *Id.* at p. 38.

1 minimizing the potential for unused compliance instruments at the end of the
2 Cap-and-Trade program. Allowances and offsets procured in advance can be
3 used in later years of the program. Further, PG&E may sell excess allowances if
4 the allowances cannot be used for future compliance.

5 Q35 PE states that the IOUs should consult with their Procurement Review Group
6 (“PRG”) and Independent Evaluator (“IE”) regarding bidding strategies at
7 multiple points during 2012 and 2013 as market experience is gained.⁵³ Do you
8 agree?

9 A35 No. PG&E’s GHG procurement strategy lays out its bidding strategy, thus
10 PG&E believes that an annual review of its bidding strategy with its PRG is
11 sufficient. PG&E will also consult with its PRG prior to transacting for any
12 GHG product in the Secondary Market with a vintage year more than three years
13 in the future beyond the current calendar year. PG&E does not agree that there
14 is a need to consult with an IE on PG&E’s bidding strategy—the purpose of an
15 IE is to provide oversight on procurement processes when a transparent market
16 does not exist; bidding in CARB-sponsored GHG auctions is transparent and
17 does not require IE oversight. PG&E will include an IE in any competitive
18 solicitation for GHG contracts with delivery terms that are greater than two
19 years.

20 Q36 PE states that the IOUs should be required to file advice letters for offset
21 transactions because offsets are inherently more risky and less valuable than
22 allowances.⁵⁴ Do you agree?

23 A36 No. PG&E believes that transactions of GHG products with vintage years four
24 years or less into the future do not need to be reviewed through the
25 Commission’s advice letter process as long as they follow PG&E’s approved
26 GHG procurement plan. This is consistent with the timeframe for Commission
27 review of electricity transactions. While offsets are inherently riskier than
28 allowances because of the risk of future invalidation, they are an important cost
29 containment tool in CARB’s Cap-and-Trade program design. Moreover, PG&E
30 has clearly addressed the procurement of offsets in its GHG procurement plan.

⁵³ *Id.* at p. 37.

⁵⁴ *Id.* at p. 37.

1 If PG&E acts consistent with its plan, an advice letter filing should not be
2 required for offsets that are four vintage years or less into the future.

3 Q37 DRA recommends that the Commission not authorize GHG procurement prior
4 to the adoption of the final CARB Cap-and-Trade Regulation.⁵⁵ Do you agree?

5 A37 No. CARB has released a draft Cap-and-Trade regulation, upon which PG&E's
6 proposal is based. Should CARB's regulations change to the point of
7 necessitating modifications to the proposal, PG&E will submit an advice letter to
8 the Commission requesting changes. It is important that the Commission not
9 delay approval, so that PG&E is authorized to fully participate in Cap-and-Trade
10 at the start of the program.

11 Q38 DRA proposes that the Commission adopt reporting requirements as part of the
12 GHG Procurement Plans.⁵⁶ Do you agree?

13 A38 Yes. In addition to its Quarterly Procurement Compliance Report, PG&E has
14 proposed providing a separate quarterly compliance report to the Energy
15 Division, providing a summary of current market conditions and all GHG
16 related product transactions conducted by PG&E.

17 Q39 DRA recommends the Commission specify a process for Commission review
18 after one year of GHG procurement activity, after which the Commission could
19 require an IOU to adjust its GHG procurement strategies.⁵⁷ Do you agree?

20 A39 No. PG&E needs final approval of its proposal in order to execute its strategy at
21 the start of the Cap-and-Trade program. The Commission will receive quarterly
22 compliance reports from PG&E, and an annual review of PG&E's bidding
23 strategy through PG&E's PRG. Should market conditions, CARB's regulations,
24 or the electric portfolio change to the point of necessitating modifications to the
25 proposal, PG&E will submit an advice letter to the Commission requesting
26 changes.

27 Q40 DRA proposes that a few additional issues be addressed by the IOUs in
28 supplemental testimony. These issues include: (1) allocation of GHG risks and
29 responsibilities in electricity contracts, and (2) bid evaluation for electricity
30 procurement contracts, including out-of-state renewable contracts with

⁵⁵ Ex. 405 at pp. 5, 35, and 39 (DRA, Parrillo).

⁵⁶ *Id.* at pp. 5, 35, and 49.

⁵⁷ *Id.* at pp. 5, 35, 49-50.

1 replacement power that could require a compliance obligation under CARB's
2 Cap-and-Trade Regulation.⁵⁸ Do you agree?

3 A40 No. The GHG Procurement Plan is not the proper forum for addressing
4 electricity procurement contract and bid evaluation issues. Furthermore, DRA's
5 request is premature at this time, as CARB has not yet finalized its Cap-and-
6 Trade regulation including the rules with respect to out-of-state renewable
7 contracts with replacement power.

8 Q41 DRA recommends that the Commission authorize a specified window for future
9 GHG procurement. According to DRA, this window should be no further out in
10 time than the subsequent compliance period (*i.e.*, the compliance period
11 following the current compliance period), and should entail lower volume limits
12 for years farther out in time.⁵⁹ Do you agree?

13 A41 No. For transactions of GHG products with vintage years more than four years
14 into the future, PG&E will submit the transactions for review through the
15 Commission's advice letter process. There is no need to uniformly limit all
16 procurement beyond the subsequent compliance period, as the Commission
17 would decide on a case-by-case basis whether to approve each such transaction.

18 Q42 DRA recommends that the IOUs be required to provide the Commission with
19 the forward price curves they are using in each ARB auction.⁶⁰ Do you agree?

20 A42 No. The Commission is not the proper forum for evaluating PG&E's forward
21 curves.

22 **D. Procurement Oversight Rules (Kelly Everidge)**

23 Q43 PE and Jan Reid are opposed to Energy Division Staff's proposal that the
24 Commission adopt the procurement oversight rules as a set of enforceable
25 rules.⁶¹ Does PG&E agree?

26 A43 Yes. As discussed in its Track III testimony, PG&E believes that the Rulebook
27 or a compendium of procurement rules would be useful as a reference source,
28 but should not be adopted as a General Order or an enforceable set of rules.

⁵⁸ *Id.* at pp. 5, 36, 39, and 48.

⁵⁹ *Id.* at p. 42.

⁶⁰ *Id.* at p. 43.

⁶¹ ALJ Allen's June 13, 2011 Ruling, at Appendix B, pp. 2-3.

1 Q44 PE suggests that the scope of PRG review should be expanded to include IOUs’
2 compliance with environmental justice concerns and recommends that the
3 Commission require an additional PRG member category of non-market
4 environmental expert participants.⁶² Does PG&E agree with this
5 recommendation?

6 A44 PG&E disagrees with PE’s mischaracterization of the PRG. It is not the
7 responsibility of the PRG to enforce IOU compliance. It is the job of the
8 Commission, not the PRG to ensure that IOUs comply with procurement rules
9 and requirements. While PG&E believes that a diversity of backgrounds
10 enhances the PRG consultation process, it does not believe that the Commission
11 should require its members have certain credentials.

12 Q45 PE suggests that greater weight should be given to PRG recommendations and
13 that as long as PRG recommendations are discretionary, there is no assurance
14 that procurement requirements are being met.⁶³ In addition, PE suggests that an
15 IOU should have the burden of rebutting a PRG recommendation if the IOU
16 seeks approval that is inconsistent with the recommendation. Does PG&E agree
17 with these suggestions?

18 A45 No. PE is again mischaracterizing the role of the PRG. First, it is not the role of
19 the PRG to ensure that procurement requirements are being met – that is the role
20 of the Commission. The PRG was originally established to consult and review
21 the details of an IOU’s procurement plan and to offer assessments and
22 recommendations to each IOU and then to the Commission when the contracts
23 are submitted for review.⁶⁴ Second, PG&E demonstrates its procurement
24 requirements through various filings to the Commission – not the PRG - in
25 Quarterly Compliance Filings, annual ERRA Compliance Proceedings, and
26 through various other monthly, quarterly, and annual reports provided to the
27 Energy Division and detailed in Track II testimony. Finally, nothing prevents a
28 PRG member from intervening in a formal proceeding where an IOU is seeking
29 authorization for something inconsistent with a PRG recommendation. In this

⁶² Ex. 505 at p. 26-27 (PE, Cox).

⁶³ Ex. 505 at p. 26 (PE, Cox).

⁶⁴ D.02-08-071, p. 24-25

1 case, the IOU does have the burden to respond. The key is that this is done in
2 the formal proceeding forum, not in the PRG setting.

3 Q46 PE asserts that several of PG&E's proposed improvements to the PRG process
4 would erode communication between the PRG and the IOUs. Does PG&E agree
5 with this assertion?

6 A46 No. PE offers no support of its assertion that PG&E's proposals would erode
7 communication between the PRG and the utilities. For example, it is not clear
8 how providing meeting summaries 48 hours before the next scheduled PRG
9 meeting would 'erode' the current level of communication between PG&E and
10 its PRG members, who are free to, and often do, contact PG&E for information
11 outside of the monthly meetings.

12 Q47 PE supports Staff's recommendation that the IOUs confer with the PRG and file
13 an expedited application should material barriers to hedging arise. Does PG&E
14 support this?

15 A47 As discussed in its Track III opening testimony, PG&E does agree that a
16 meeting with the PRG might be necessary to eliminate these barriers and has
17 held such meetings in the past, but PG&E does not support Staff's
18 recommendation to file an expedited application should material barriers to
19 hedging arise. PE fails to justify what additional value and oversight would be
20 provided by an expedited application versus the existing Tier 3 advice filing
21 process, unless Staff were to commit to an approval date X number of days after
22 filing, which it has not. Finally, neither Staff nor PE justifies the treating
23 hedging plan changes differently than other type of change to the Bundled
24 Procurement Plan that are made through an advice filing.

25 Q48 PE asserts that the utilities proposals not to include Staff's recommended
26 Congestion Revenue Rights ("CRR") impacts are concerning because they
27 would limit the information the PRG has to make reasoned assessments on CRR
28 procurement. Does PG&E agree with this statement?

29 A48 No. PG&E currently submits three different monthly CRR reports, updates the
30 PRG quarterly on the use of CRRs, and confers annually with the PRG on the
31 Annual CRR nominations and Auction, so it is unclear how not adopting Staff's
32 recommendations would limit the information the PRG has.

1 Q49 Several parties recommend that Energy Division should transfer IE contracting
2 authority to the Commission.⁶⁵ Does PG&E oppose this recommendation?
3 A49 PG&E does not oppose this recommendation as long as it does not create
4 unacceptable delays in the procurement process.
5 Q50 PE suggests that IEs have the authority to consider the loading order and overall
6 need in all the projects they oversee to help assure that the utilities procurement
7 decisions adhere to Commission policy.⁶⁶ Does PG&E agree with this
8 suggestion?
9 A50 No. An IOU's adherence to Commission policy is for the Commission, not the
10 IE, to determine. Further, it is the mandate of the Commission, not the IE, to
11 ensure just rates.⁶⁷ Consideration of the loading order and procurement need
12 are issues for the Commission to consider and determine.

⁶⁵ Ex. 505 at p. 31 (PE, Cox); Ex. 2300 at p. 19 (WPTF, Ackerman); Ex. 405 at p. 51 (DRA, Peck), Ex. 1504 at p. 8 (TURN, Woodruff).

⁶⁶ Ex. 505 at p. 32 (PE, Cox).

⁶⁷ Public Utilities Code Section 453.