

Brian K. Cherry
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October 10, 2011

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

Re: PG&E's Comments on Draft Resolution E-4433

Dear Mr. Gatchalian:

Pacific Gas and Electric Company ("PG&E") submits the following comments on Draft Resolution E-4433 ("Draft Resolution"), which was issued on September 19, 2011, in advance of the Commission's consideration and potential vote on October 20, 2011. The Draft Resolution contains two options. Option A rejects the Power Purchase Agreement ("PPA") between PG&E and Mojave Solar, LLC ("Mojave Solar") and Option B approves the PPA subject to certain modifications to the PPA's commercial terms. PG&E appreciates the Commission's work to review the PPA and the opportunity to comment on the Draft Resolution.

As described in the Draft Resolution, Mojave Solar has proposed developing a 250 megawatt ("MW") concentrating solar power project that will be located in San Bernardino County, California ("Project"). PG&E originally filed Advice Letter 3547-E seeking approval of the original PPA for the Project ("Original PPA") with the Commission on October 27, 2009. Subsequent to this filing, Mojave Solar informed PG&E that the Delivery Network Upgrades required for PG&E to receive Resource Adequacy ("RA") credit from the Project would not be completed prior to the Project's commercial operation date. PG&E withdrew its initial advice letter and filed Advice Letter 3876-E on July 19, 2011 seeking approval of the amended and restated PPA that was negotiated to accommodate a delay in the Delivery Network Upgrades and, to the extent possible, to maintain the value of the Original PPA for PG&E's customers.

Draft Resolution Option A, which rejects the PPA in its entirety, should not be adopted by the Commission. As PG&E explained in detail in Advice Letter 3876-E, the Project has a number of significant benefits and the terms and conditions of the PPA are reasonable given these benefits. With regard to Option B, PG&E appreciates that under this version of the Draft Resolution the PPA is approved, but Option B should be revised to eliminate any modification to the PPA. The modifications to the commercial terms required by Option B are not

reasonable and will disrupt the careful balance of benefits and burdens negotiated and agreed to by PG&E and Mojave Solar. These modifications are not in the best interests of PG&E's customers. PG&E explains its concerns regarding Option B in more detail below.

The PPA contains provisions that resolve Mojave Solar's potential inability to provide PG&E with the RA credit contemplated in the original PPA. RA credit has value to PG&E's customers and was a significant consideration in PG&E's decision to execute the PPA. The provisions in the PPA provide PG&E's customers with protection in the event that Mojave Solar cannot deliver RA (both in the short-term and in the long-term) and reflect a commercial compromise between PG&E and Mojave Solar.

Both Mojave Solar and the Department of Energy ("DOE"), with whom Mojave Solar has finalized a Federal Loan Guarantee, are commercially sophisticated parties and are aware of the terms of the PPA. The respective decisions for Mojave Solar to enter into the PPA and for the DOE to provide a Federal Loan Guarantee were made based on each party's due diligence with respect to the commercial terms in the PPA and other Project attributes, such as the risk associated with the construction of network upgrades required for full deliverability (*i.e.*, the Delivery Network Upgrades).

Option B implies the Delivery Network Upgrades described in Mojave Solar's Large Generator Interconnection Agreement ("LGIA") would no longer serve a purpose if Mojave Solar were not required to provide RA (or to comply with the relevant protective provisions in the PPA, if RA is not provided) beyond December 31, 2020 and thus would not be built. Option B concludes that removing the protective provisions in the PPA may ultimately reduce customer costs, as customers will not be required to pay for the Delivery Network Upgrades if they are not built. However, this reasoning is flawed. First, Option B does not require Mojave Solar to amend its LGIA and terminate the contractual obligation that exists with respect to the Delivery Network Upgrades. Second, while PG&E cannot speak for the California Independent System Operator ("CAISO") or the transmission owner, Southern California Edison ("SCE"), it is entirely possible that the Delivery Network Upgrades will be built regardless of the status of the Project in order to serve other generation projects located in the area. It is also possible that upgrades would be built for system reliability purposes, due to anticipated large amounts of congestion or curtailment. SCE elaborates on both of these concepts in its comments filed October 7, 2011. Thus, it not clear that PG&E's electric customers would avoid the cost of the network upgrades if Mojave Solar is not required to provide RA beyond December 31, 2020. Third, a Commission decision regarding the necessity of the network upgrades is outside of the scope of Advice Letter 3876-E and the Commission should not modify this PPA to try to influence that decision. The Commission will have a separate proceeding regarding the network upgrades.

PG&E supports the approval of the Mojave Solar PPA, but opposes the requirement that the PPA's commercial terms be modified to remove Mojave Solar's obligation to provide RA after

December 31, 2020. The parties agreed to the RA obligations with the understanding that there are uncertainties surrounding Delivery Network Upgrades. Given these uncertainties, the provisions in the PPA consider and accommodate a scenario in which the Delivery Network Upgrades are never completed. Removing these terms, as proposed in Option B, would eliminate the very protection that PG&E successfully negotiated to ensure that its customers did not pay for RA that is not provided by Mojave Solar. Furthermore, there is no guarantee that PG&E's customers would, in the future, avoid the cost of network upgrades, which could be required for either deliverability or reliability purposes. Thus, Option B leaves open the possibility of PG&E's customers paying for the Delivery Network Upgrades and receiving no RA for the project.

PG&E, therefore, respectfully requests that the Commission approve the PPA as is, without modification.

Sincerely,

Handwritten signature of Brian Cherry in cursive script.

Vice President - Regulation and Rates

cc: Commission President Michael R. Peevey
Commissioner Timothy A. Simon
Commissioner Mike Florio
Commissioner Catherine J.K. Sandoval
Commissioner Mark Ferron
Karen Clopton, Chief Administrative Law Judge
Frank Lindh – General Counsel, CPUC
Julie Fitch - Director, Energy Division
Paul Douglas, Energy Division
Cheryl Lee, Energy Division
Sean Simon, Energy Division
Maria Salinas, Energy Division
Service Lists for R.11-05-005 and R.10-05-006

Attachment

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 comments on Draft Resolution E-4433, regarding PG&E's Advice Letters 3876-E and 3876-E-A on:

- 1) Commissioners Michael Peevey, Mark Ferron, Mike Florio, Catherine Sandoval, and Timothy Simon
- 2) Karen Clopton – Chief Administrative Law Judge
- 3) Julie Fitch – Director, Energy Division
- 4) Frank Lindh – General Counsel
- 5) Sean Simon – Energy Division
- 6) Paul Douglas – Energy Division
- 7) Cheryl Lee – Energy Division
- 8) Honesto Gatchalian – Energy Division
- 9) Maria Salinas – Energy Division
- 10) Service Lists for R.11-05-005 and R.10-05-006

/S/ LINDA TOM-MARTINEZ

Linda Tom-Martinez
PACIFIC GAS AND ELECTRIC COMPANY

Date: October 10, 2011