

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and  
Refine Procurement Policies and Consider  
Long-Term Procurement Plans

R.10-05-006

**OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC  
COMPANY (U 39 E) ON PROPOSED DECISION APPROVING  
MODIFIED BUNDLED PROCUREMENT PLANS**

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## SUBJECT INDEX OF RECOMMENDED CHANGES

Pursuant to Commission Rule of Practice and Procedure 14.3(b), PG&E provides the following index of its recommended changes to the *Proposed Decision Approving Modified Bundled Procurement Plans* (“PD”) issued by Administrative Law Judge Allen:

- **Procurement Cost Cap:** The Commission should reject the proposal in the PD to cap PG&E’s procurement activities to “no more than a 10% system average rate increase over a rolling 18-month period.” PG&E’s Bundled Procurement Plan clearly describes PG&E’s approach to short-, medium-, and long-term procurement, including assessing PG&E’s customers’ need to prevent potential over-procurement, and thus there is no need to or support for the imposition of a cost cap on procurement. Alternatively, if the Commission believes that a procurement cap is necessary, it should adopt the quantity cap proposed by PG&E in these opening comments. PG&E’s quantity cap proposal is consistent with the approach taken by Southern California Edison Company and is supported by the record in this proceeding.
- **Loading Order Resources:** The requirement in the PD that the utilities procure additional loading order resources (*i.e.*, energy efficiency, demand response, renewable, and distributed generation resources) above and beyond the current Commission-approved programs should be rejected as unreasonable, unworkable, and outside the scope of this proceeding.
- **Combined Heat and Power Procurement (“CHP”) Assumptions:** The PD should be revised to provide that the utilities are not required to assume a pre-determined amount of CHP procurement for the period after 2015 as additional CHP procurement may not be consistent with the Qualifying Facility and Combined Heat and Power Settlement adopted by the Commission in D.10-12-035.
- **Intervenor Proposals:** Ordering Paragraph 1 should be clarified to state that unless otherwise expressly adopted, proposals made by intervenors to modify the utilities’ bundled procurement plans are rejected.

**BEFORE THE PUBLIC UTILITIES COMMISSION  
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**OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC  
COMPANY (U 39 E) ON PROPOSED DECISION APPROVING  
MODIFIED BUNDLED PROCUREMENT PLANS**

On November 10, 2011, Administrative Law Judge (“ALJ”) Peter Allen issued his *Proposed Decision Approving Modified Bundled Procurement Plans* (“PD”) addressing the bundled procurement plans filed in March 2011 by Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and San Diego Gas & Electric Company (“SDG&E”) in Track II of this proceeding. The PD largely approves PG&E’s Bundled Procurement Plan (“BPP”) with some modifications. Some of the proposed modifications are acceptable, while others are flawed and factually and legally erroneous. In these opening comments, PG&E will address the PD’s proposed modifications that are flawed or erroneous and explain why these portions of the PD should be rejected. Specifically, PG&E will address the following issues.

First, without any evidentiary support, the PD adopts a cost cap for PG&E’s “procurement activities.” No party in this proceeding proposed a procurement cost cap and the PD makes no effort to find any evidence in the record to support the cost cap that it arbitrarily selected. Instead, the PD simply pulls a proposed cost cap out of thin air, without making any effort to demonstrate that the arbitrary cost cap is workable or reasonable. PG&E resumed procurement on behalf of its bundled customers in 2003 and has successfully conducted procurement activities without a procurement cost cap for the last eight years. The PD cites no evidence that during that time PG&E over-procured short- and medium-term resources, nor does

the PD explain why a procurement cost cap is now necessary. The cost cap proposed in the PD is vague, unclear, and unworkable and should be rejected by the Commission. If the Commission believes that a procurement cap is necessary going forward, PG&E has included in these opening comments an alternative proposal that would address the PD's concerns in a manner that is workable, reasonable, and consistent with SCE's approach.

Second, the PD directs the utilities to procure additional energy efficiency, demand response, renewable resources, and distributed generation resources above and beyond the levels mandated for each of these resources by the Commission in separate resource proceedings. The PD fails to provide any criteria for determining when the utilities should procure these additional resources, simply stating that the utilities should "procure additional energy efficiency and demand response resources to the extent they are feasibly available and cost effective."<sup>1</sup> The vague standard described in a single sentence in the PD fails to consider that many energy efficiency, demand response, renewable and distributed generation resources may not be available for short- and medium-term procurement and may not meet a utility's operational needs. This aspect of the PD should be rejected.

Third, the PD mandates certain assumptions regarding the procurement of Combined Heat and Power ("CHP") resources as a result of the Qualifying Facility and Combined Heat and Power ("QF/CHP") Settlement approved by the Commission in Decision ("D.") 10-12-035. However, the PD-mandated assumptions for the period after 2015 are based on a fundamental misunderstanding of the QF/CHP Settlement and thus should be rejected.

Finally, the PD should be clarified to state that unless otherwise expressly adopted, proposals made by intervenors to modify the utilities' bundled procurement plans are rejected.

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<sup>1</sup> PD at p. 21.

**I. THE COST CAP PROPOSED IN THE PD SHOULD BE REJECTED.**

**A. The Cost Cap Is Fundamentally Flawed.**

The PD acknowledges that the utilities “need to procure the amount of electricity that is actually needed for reliable operation of the grid, regardless of the level of need that is forecast in this proceeding.”<sup>2</sup> However, despite this acknowledgement, the PD then proceeds to assert that it is reasonable for the Commission to set an “upper boundary” on procurement quantities.<sup>3</sup> While the bundled procurement plans of PG&E and SDG&E each include procurement limits for energy and natural gas transactions, PG&E and SDG&E did not propose explicit upper boundaries on procurement quantities for capacity. In response, the PD adopts a procurement cost cap for PG&E and SDG&E, mandating “procurement activities (consistent with this and other Commission decisions) that result in no more than a 10% system average rate increase over a rolling 18-month period are reasonable” and “any costs above that level can only be recovered after a reasonableness review that examines all utility procurement.”<sup>4</sup> Notably, no party in this proceeding proposed a procurement cap based on increases in system average rates, nor is there any evidence to support the PD’s novel proposal. This aspect of the PD is factually and legally erroneous and should be rejected.

First, the PD is seeking to solve a hypothetical problem that does not exist. PG&E resumed procurement on behalf of its bundled customers in 2003 after the energy crisis. Since that time, no party has asserted that PG&E has procured too much energy and capacity for its bundled customers.<sup>5</sup> For example, no party in any Commission proceeding has asserted that

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<sup>2</sup> *Id.* at p. 6.

<sup>3</sup> *Id.* at p. 7.

<sup>4</sup> *Id.* at pp. 13-14.

<sup>5</sup> Parties have raised concerns regarding the quantity of new generation resources procured on behalf of all benefiting customers for system reliability, and the allocation of such costs among bundled and non-bundled customers.

PG&E has procured too much short- and medium-term energy or capacity. The PD's concern about over-procuring for short- and medium-term resources is unsupported by any evidence that this type of over-procurement has occurred at any time in the past eight years.

Second, the PD ignores critical parts of PG&E's BPP. There is a lengthy section in PG&E's BPP that describes in detail how PG&E conducts short-, medium- and long-term procurement to meet its customers' needs.<sup>6</sup> In this portion of the BPP, PG&E describes how it determines the amount of short-, medium-, and long-term procurement that is needed, how it conducts the procurement process and how it applies Commission-mandated requirements, such as the requirement in D.02-10-062 that PG&E has resources available or under contract by the close of the month prior to the operating month to be within 5% of expected requirements.<sup>7</sup> For procurement activities such as hedging and natural gas procurement, PG&E's BPP includes procurement limits.<sup>8</sup> These important parts of PG&E's BPP belie the PD's unsupported assertion that SDG&E and PG&E "procure whatever they want, in whatever quantity they think best."<sup>9</sup>

Third, the cost cap proposed in the PD is vague, unclear, and unworkable. The PD cost cap applies to "procurement activities."<sup>10</sup> However, it is unclear whether the "procurement activities" only involve energy and capacity transactions, or whether it also involves hedging, nuclear fuel procurement, gas procurement and other activities. It is unclear how the cost cap adopted in the PD would work with the other procurement limitations in PG&E's BPP. In

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<sup>6</sup> Exhibit ("Ex.") 100 at Sheet Nos. 34-45.

<sup>7</sup> *Id.* at Sheet No. 36. A utility has authority to exceed this requirement if it has satisfied its monthly Resource Adequacy ("RA") requirements.

<sup>8</sup> *See e.g.*, Ex. 100-C at Sheet No. 36 (describing annual procurement requirements); Sheet No. 105 (hedging limits); Sheet Nos. 138-140 (gas supply limits).

<sup>9</sup> PD at p. 10.

<sup>10</sup> *Id.* at p. 13.



addition, the PD's approach is unworkable. Procurement costs depend upon generation from, among others, hydroelectric and renewable resources. A dry hydro year, increased costs as projects come on-line to deliver renewable energy already contracted, and higher-than-anticipated natural gas prices and costs for GHG emissions allowances—taken together, these factors could lead to a year-on-year procurement cost increase greater than 10%. These factors, which are beyond PG&E's control, should not expose PG&E to a reasonableness review for procurement above the proposed cost cap.

Fourth, the PD states that if PG&E or SDG&E exceeds the cost cap, that utility will no longer be operating under a Commission-approved procurement plan and any costs above that level can only be recovered after a reasonableness review. This provision, which effectively contemplates the use of after-the fact reasonableness reviews, is inconsistent with the intent of Public Utilities Code Section 454.5, which requires the Commission to adopt procurement plans that avoid the need for such reasonableness reviews.<sup>11</sup> Since the Commission will certainly want the utilities to continue to procure whatever power is needed to reliably serve customers, it is unreasonable to adopt a provision that could force a utility to operate outside its procurement plan in circumstances where market prices are dramatically rising. These are exactly the type of circumstances that prompted the legislature to enact § 454.5 to get the utilities back in the procurement business. The goal is to develop procurement plans that are robust and that function appropriately under a wide variety of conditions, including stressed market conditions.

Finally, it is notable that the cost cap proposed by the PD is inconsistent with SCE's procurement approach. The PD lauds SCE for including procurement caps and ratable rates in its bundled procurement plan.<sup>12</sup> However, SCE's bundled procurement plan does not include a

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<sup>11</sup> Pub. Util. Code § 454.5(d)(1).

<sup>12</sup> PD at p. 12.

cost cap. Instead, SCE's bundled procurement plan adopts quantity limits on SCE's procurement based on forecasts of future needs.<sup>13</sup> Indeed, under SCE's approach, SCE may exceed the 10% average system rate increase adopted in the PD.

**B. If The Commission Adopts A Procurement Cap, It Should Be A Quantity Cap.**

Although PG&E strongly believes that no additional procurement cap is necessary, to the extent the Commission agrees with the PD's conclusion regarding the need for SDG&E and PG&E "to move their procurement approaches towards that taken by SCE . . .,"<sup>14</sup> PG&E is willing to modify its BPP in order to establish position limits similar to those of SCE. Specifically, the portion of SCE's methodology that PG&E is willing to adopt is contained in Section 3 ("Procurement Limits and Ratable Rates") of SCE's proposed 2012 bundled plan.<sup>15</sup> PG&E proposes to follow the methodology set forth in subsection (b) of Section 3, which applies to bundled system capacity procurement,<sup>16</sup> and subsection (f), which applies to transaction compliance accounting and limit updates.<sup>17</sup> PG&E would adopt these aspects of SCE's bundled plan and apply them to PG&E's bundled procurement in the same manner as detailed in SCE's bundled plan. For example, PG&E would adhere to the following guidelines in its bundled procurement:

- 1) Annual procurement limits in delivery years two through ten equal to the difference between: (1) PG&E's 1-in-2 year peak annual hour load forecast at a 17% planning reserve margin target and (2) the forecast Net Qualifying Capacity ("NQC") of PG&E's committed resources and planned for preferred resources.<sup>18</sup>

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<sup>13</sup> See e.g., Ex. 202 at pp. 56-57 (SCE, Cushnie).

<sup>14</sup> PD at p. 12.

<sup>15</sup> Ex. 200 at pp. 49-56 (SCE).

<sup>16</sup> *Id.* at pp. 49-50.

<sup>17</sup> *Id.* at pp. 55-56.

<sup>18</sup> For purposes of calculating PG&E's annual electrical capacity limits and compliance with such limits, preferred resources are EE programs, DR programs, Renewable Sources, and Distributed Generation including CHP resources.

- 2) PG&E's procurement of electrical capacity as measured by the NQC of the resource, exclusive of preferred resources, cannot exceed the applicable annual position limit.<sup>19</sup>
- 3) Ratable rates equal to the annual position limit divided by the number of years between the delivery year and transaction year.<sup>20</sup> The ratable rates accumulate year-to-year, producing cumulative ratable rate limits for each delivery year.
- 4) The allowance of procurement of two times the ratable rate for delivery years 2 through 5 if the prompt 12-month forward on-peak implied market heat rate is less than the two standard deviation historical high value. Otherwise, one-times the ratable rate is used.
- 5) Annual (or more frequent, if necessary) filing of update to position limits and ratable rate limits in the form of a Tier 1 advice letter during years in which PG&E does not file an updated conformed bundled procurement plan.

In accordance with the direction set forth in the PD, PG&E would file a conformed bundled procurement plan via a Tier 3 advice letter<sup>21</sup> that includes the standardized planning assumptions, with modifications adopted in the final decision, along with the position limit methodology discussed above.

Finally, PG&E notes that it need not adopt subsections (a), (c) and (d) of SCE's methodology since PG&E's BPP has sufficient processes and protections in place for contract durations and to ensure that energy and natural gas fuel procurement are limited.<sup>22</sup> It is PG&E's understanding that position limits in SCE's bundled plan are established for four products: capacity, on-peak energy, off-peak energy and natural gas, and that for procurement of these products to fall under the position limits, the portfolio must be hedged. Appendix B of PG&E's

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<sup>19</sup> PG&E has no limits on its ability to meet its RA capacity requirements for the current calendar year and prompt calendar year (*i.e.*, the calendar delivery year immediately following the current year).

<sup>20</sup> For example, the ratable rate for contract deliveries in Year 4 would be one-third of the annual position limit for Year 4.

<sup>21</sup> PD, Ordering Paragraph 23.

<sup>22</sup> Subsection (c) addresses electrical energy and subsection (d) addresses natural gas. Subsection (e) addresses SO2 Allowance Sales Position Limits, which is not applicable to PG&E since it has no utility-owned coal-fired generation or tolling arrangements for coal-fired power plants.

BPP sets forth PG&E’s overall hedging strategy, which includes specified percentage targets for hedging. The hedge targets represent minimum and maximum limits on incremental fixed-price energy and natural gas transactions and thus represent the type of position limits established under SCE’s bundled plan. In addition to the specified hedge targets, PG&E also includes a liquidity limit and the PD sets Customer Risk Tolerance (“CRT”) value equal to 10% of system average rate.<sup>23</sup> PG&E’s hedging strategy incorporates both natural gas and electric products. Thus, with regard to establishing position limits, Appendix B of PG&E’s BPP covers on-peak and off-peak energy and natural gas financial products, and Appendix D of PG&E’s BPP covers natural gas physical products, transportation, and storage. As a result, only the capacity product requires position limits and SCE’s methodology need not be applied to PG&E’s on and off-peak energy and natural gas procurement.

## **II. THE PD’S PROPOSAL FOR LOADING ORDER RESOURCES IS FUNDAMENTALLY FLAWED.**

The PD recognizes that, consistent with the loading order, each of the utilities incorporated into its respective bundled procurement plan the energy efficiency (“EE”), demand response (“DR”), Renewable Portfolio Standard (“RPS”) resources, and distributed generation (*i.e.*, “preferred resources”) mandated in separate Commission proceedings.<sup>24</sup> However, even with the significant amount of preferred resource procurement, each of the utilities has forecasted the need for additional energy and capacity to meet customer needs. For this remaining need, typically referred to as the utilities’ “open position,” Pacific Environment proposed that the utilities procure all available preferred resources, regardless of whether these resources are cost-

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<sup>23</sup> To clarify, the CRT value is derived by multiplying the 10% system average rate value by the forecasted sales for the rolling 12 month period. This resulting CRT value is then compared to the VaR-to-Expiration (“VtE”) value at a 95% confidence interval. Thus, the risk metric calculation is CRT– VtE (95%), as proposed in the PD.

<sup>24</sup> PD at pp. 18-21.

effective or meet a utility's specific operational needs.<sup>25</sup> The PD adopts this proposal, although it adds language that the preferred resources must be "feasibly available" and "cost-effective."<sup>26</sup>

PG&E supports the loading order and the procurement of cost effective preferred resources and will continue to propose procurement of those resources in their respective proceedings. However, PG&E has concerns regarding how those resources can or should be incorporated into procurement for the open position. As explained in more detail below, the PD should be modified to require that procurement of preferred resources be addressed in the respective proceedings for these resources to ensure that appropriate consideration is given to costs, benefits, and feasibility.

First, the utilities are already required to procure all available cost effective resources in other proceedings. Therefore, the open position effectively represents the unmet resource need after the utilities have already procured all available cost-effective preferred resources.

Second, resources need to provide the necessary operational characteristics reflected in a utility's open position. PG&E's BPP does not seek authority to contract for or build new generation resources. Instead, the open position identified in PG&E's BPP is generally a short- to medium-term need for energy or capacity to meet immediate customer needs.<sup>27</sup> PG&E's "open position" is often a year-ahead or even a shorter duration.<sup>28</sup> The open position will generally include specific operational needs not met by the existing resources in PG&E's portfolio, such as ramping and dispatch capabilities.<sup>29</sup> Preferred resources often fail to meet these operational needs.

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<sup>25</sup> Ex. 501 at p. 9 (Pacific Environment, Powers).

<sup>26</sup> PD at pp. 20-21.

<sup>27</sup> See Ex. 100-C, Sheet Nos. 34-39 (describing short- and medium-term procurement to fill open position). Short-term contracts have durations of one year or less and medium-term contracts have durations of greater than one but less than five years. *Id.*, Sheet No. 15.

<sup>28</sup> Ex. 100, Sheet Nos. 36-39.

<sup>29</sup> Ex. 103 at p. II-4, lines 12-26 (PG&E).

Third, preferred resource programs, such as EE and DR, generally take a substantial amount of time and money to develop and implement, and cannot simply be procured on a short-term basis to meet customer needs.

Fourth, the authorization to procure incremental preferred resources is granted in other proceedings and is explicitly outside of the scope of this proceeding. To the extent additional, cost-effective preferred resource programs can be implemented by the utilities, these programs should be addressed in the respective resource proceedings, as the Commission clearly stated when it issued the *Ordering Instituting Rulemaking* (“OIR”) in this proceeding.<sup>30</sup>

Fifth, procurement of preferred resources such as EE and DR is granted in three-year cycles, which is not appropriate for meeting short- and medium-term needs. For example, an unmet need for 2012 or 2013 could not reasonably be met by DR since there would be insufficient time to request procurement authority, receive approval, and either implement a proposed program or expand an existing program.

Sixth, the vague and ambiguous terminology used in the PD provides little guidance for the utilities and will only result in additional, protracted litigation at the Commission. The PD states that preferred resources should be procured if they are “feasibly available and cost-effective” or can be “reasonably procure[d].”<sup>31</sup> It is unclear what it means for a resource to be “feasibly available” – does this mean that the resource is technically feasible or that at a certain price it could be feasible, or does this mean something else? The PD also requires that the preferred resources be “cost-effective” but fails to explain how cost-effectiveness will be determined. Is cost-effectiveness based on the cost of other short to medium term alternatives, such as conventional generation, the cost compared to a certain benchmark, such as the Total

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<sup>30</sup> OIR at pp. 17-18.

<sup>31</sup> PD at p. 21.

Resource Cost test, or something else? As the Commission is well aware, parties have spent years in other proceedings litigating standards for “feasibility” and “cost-effectiveness.”

Adopting these unclear standards will likely lead to protracted litigation.

### **III. THE PD MISUNDERSTANDS THE QF/CHP SETTLEMENT.**

The PD includes a brief discussion about the assumptions regarding CHP that should be used by the utilities as a result of the approval of the QF/CHP Settlement.<sup>32</sup> PG&E agrees with the PD that for the Initial Program period covered by the QF/CHP Settlement (*i.e.*, procurement through 2015), the specific Megawatt (“MW”) Targets for each of the utilities respectively should be used with regard to CHP procurement.<sup>33</sup> However, the PD requires for the Second Program Period under the QF/CHP Settlement that the utilities forecast additional CHP based on the standardized assumptions. For PG&E, this means that expiring and non-renewed contracts during the First Program Period would continue to be included in PG&E’s portfolio. It also means that aggressive new CHP targets would be included before the need for additional CHP is determined. As PG&E explained in its post-hearing briefs, forecasting CHP procurement during the Second Program Period is premature and this aspect of the PD should be rejected.

First, the PD notes that SCE is forecasting that it will procure conventional generation to meet its residual open position during the Second Program Period and thus erroneously concludes that SCE has a “need” for additional CHP during this period.<sup>34</sup> This argument reflects a flawed understanding of the QF/CHP Settlement. For the Second Program Period created by the QF/CHP Settlement, the amount of new CHP additions will be determined based on factors such as resource need and portfolio fit.<sup>35</sup> In D.11-03-051, the Commission emphasized that a

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<sup>32</sup> PD at pp. 30-32.

<sup>33</sup> *Id.* at p. 31.

<sup>34</sup> *Id.*

<sup>35</sup> See QF/CHP Settlement, § 6.9.3 (IOU may not procure CHP to meet the GHG Emissions Reduction Target is that “[a] lack of need exists”). See also Section 5.4 (“[I]ack of need or portfolio fit arguments . . .

determination of system or local reliability need must precede procurement of additional CHP capacity to meet the Second Program Period GHG Target.<sup>36</sup> Simply forecasting conventional procurement for the bundled portfolio during the Second Program Period is not the same as a determination that there are system and local reliability needs that can be filled with CHP, which most frequently operates as a baseload resource and can not be dispatched to fill behind renewable resources. It would be illogical to assume CHP procurement at levels specified in the standardized assumptions during the Second Program Period as an input to the need determination when the outcome of this need determination establishes whether any additional CHP capacity should be procured.

Second, the PD notes that the utilities' obligations under the Public Utility Regulatory Policies Act ("PURPA") continue for small CHP facilities that are 20 MW or less after 2015.<sup>37</sup> While this statement is accurate, it does not support an assumption that there will be a large amount of CHP to be procured in the Second Program Period. The PD fails to cite any evidence in the record regarding the amount of new CHP 20 MWs or less that can be expected after 2015. Based on PG&E's experience, the number of new, small CHP facilities under 20 MW coming on-line after 2015 may be very low.

Third, the PD states there is uncertainty as to whether the utilities will have satisfied their greenhouse gas ("GHG") emissions reduction targets and thus it is appropriate to assume additional CHP procurement during the Second Program Period.<sup>38</sup> However, as PG&E explained above, the QF/CHP Settlement does not require the procurement of additional CHP

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. are reasons to justify an inability to meet the GHG Emissions Reduction Targets.”)

<sup>36</sup> See D. 11-03-051 at p. 9 and Ordering Paragraph 1.

<sup>37</sup> PD at p. 31.

<sup>38</sup> *Id.*



resources to meet GHG Emissions Reduction Targets in the Second Program Period unless there is a system or local reliability need for additional CHP generation.

#### **IV. CLARIFYING THE PD REGARDING INTERVENORS' PROPOSALS.**

The PD approves PG&E's BPP subject to the modifications included in Ordering Paragraphs 2-23.<sup>39</sup> A number of intervenors in this proceeding proposed additional modifications to PG&E's BPP; the PD did not address many of these modifications. For example, Pacific Environment proposed that the Commission contract directly with Independent Evaluators and that the utilities be required to file all transactions, no matter what the duration, for approval by advice letter. Women's Energy Matters ("WEM") proposed shutting down all nuclear facilities in California. These proposals, and many others offered by intervenors, were not addressed in the PD. PG&E assumes that, unless specifically addressed in the PD, these proposals are rejected. Given the extremely litigious nature of this proceeding, the Commission should make clear that unless explicitly addressed in the Ordering Paragraphs, intervenor proposals are rejected. In Appendix A to these comments, PG&E has proposed language to make this aspect of the PD clear.

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<sup>39</sup> PD, Ordering Paragraph 1.

**APPENDIX A**

**PROPOSED CHANGES TO THE FINDINGS OF FACT,  
CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS**

Pursuant to Commission Rule 14.3(b), PG&E offers the following proposed changes to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs in the PD. Underlining reflects proposed additions and strikethrough proposed deletions.

**Findings of Fact:**

6. ~~PG&E and SDG&E largely disregard the standardized planning assumptions.~~
15. ~~Using an assumption of zero megawatts for the Second Program Period is likely to be less accurate than the standardized planning assumptions, and is inconsistent with the loading order.~~

**Conclusions of Law:**

3. The structure of the proposed bundled procurement plans of PG&E and SDG&E ~~are inadequate~~ is sufficient to ensure just and reasonable rates under section 454.5.
4. ~~It would be reasonable to impose an upper boundary on the procurement costs of PG&E and SDG&E to ensure compliance with state law.~~
7. ~~Satisfying Commission established targets for certain resources does not alter their place in the loading order.~~
14. CHP forecasts should comply with D.10-12-035, ~~the loading order, and the standardized planning assumptions.~~

**Ordering Paragraphs:**

1. The bundled procurement plans of Southern California Edison Company, Pacific Gas and Electric Company and San Diego Gas & Electric Company are approved as modified by ordering paragraphs 2 through 23 below. Unless specifically addressed in Ordering Paragraphs 2 through 23, proposals made by intervenors in their respective testimony or pleadings for modifications to the utilities' bundled procurement plans are rejected.

2. ~~Approval of Pacific Gas and Electric Company's and San Diego Gas & Electric Company's bundled procurement plans includes a cap set at 10% of each utility's system average rate over a rolling 18-month period.~~

3. ~~Utility rate recovery of costs above the 10% cap is not consistent with a pre-approved procurement plan, and is subject to reasonableness review.~~

5. Utility procurement must comply on an ongoing basis with the programs approved by the Commission in other proceedings to implement the Commission's loading order.

10. Southern California Edison Company and Pacific Gas and Electric Company are authorized to use combined heat and power megawatt target numbers from Decision 10-12-035 for the Initial Program Period, and no pre-determined CHP for the Second Program Period ~~from the standardized planning assumptions for the Second Program Period.~~ San Diego Gas & Electric Company should use combined heat and power megawatt target numbers from Decision 10-12-035 for both the Initial and Second Program Periods.

