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April 5, 2012

Energy Division Tariff Unit
California Public Utilities Commission
Energy Division
505 Van Ness Avenue
San Francisco, CA 94102

RE: Reply to the Protest of Marin Energy Authority and Alliance for Retail Energy Markets to Pacific Gas and Electric Company's Advice Letter 4010-E (Replacement Power Purchase Agreement with O.L.S. Energy-Agnews, Inc.)

Dear Energy Division Tariff Unit:

Pacific Gas and Electric Company ("PG&E") hereby replies to the March 29, 2012 protest of Marin Energy Authority ("MEA") and Alliance for Retail Energy Markets ("AReM") to PG&E's Advice Letter 4010-E ("Protest"). The Advice Letter requests approval of PG&E's replacement power purchase agreement ("Replacement PPA") with O.L.S. Energy-Agnews, Inc. The Protest raises two concerns about the allocation of costs, resource adequacy ("RA") benefits, and greenhouse gas ("GHG") emissions reductions related to the Replacement PPA.

First, MEA and AReM claim that the Advice Letter's request for cost recovery appears inconsistent with Decision ("D") 10-12-035. PG&E reviewed the Advice Letter cost recovery language quoted in the Protest and discovered that it was in error. PG&E intends to submit a supplement to the Advice Letter that will revise this language to seek authorization of cost recovery consistent with D.10-12-035 (as modified by D.11-07-010), Section 13.1.2.2 of the Qualifying Facility ("QF")/Combined Heat and Power ("CHP") Settlement Term Sheet, and PG&E's Advice Letter 3922-E (effective November 23, 2011).¹

Second, the Protest claims that the Advice Letter is contrary to the QF/CHP Settlement and D.10-12-035 because it intends to allocate GHG reductions to PG&E's emissions reduction targets, notwithstanding the proportionate electric service provider ("ESP") and community choice aggregator ("CCA") emissions reductions targets and the investor-owned utilities' ("IOUs") obligation to procure CHP resources on behalf of ESPs

¹ PG&E's Advice Letter 3922-E can be found at the following link:
http://www.pge.com/nots/rates/tariffs/tm2/pdf/ELEC_3922-E.pdf.

and CCAs. This concern is based on the Advice Letter's request that the Commission "determine that any GHG reductions associated with the Replacement PPA shall count toward PG&E's GHG Emissions Reduction Targets in the QF/CHP Settlement."

PG&E recognizes that Section 6.3 of the Term Sheet allocates a portion of the California Air Resources Board ("CARB") CHP Recommended Reduction Measure ("RRM") to ESPs and CCAs, and also recognizes the IOUs' obligation to procure CHP on behalf of ESPs and CCAs. PG&E believes that MEA and AReM's concern regarding the allocation of GHG emissions reductions can be eliminated by revising the above-quoted Advice Letter language to request that any GHG reductions associated with the Replacement PPA count toward PG&E's GHG emissions reduction targets and toward the CARB CHP RRM allocated to the ESPs and CCAs for which PG&E has an obligation to procure. PG&E intends to make this revision in its supplement to Advice Letter 4010-E. To the extent the Protest is requesting that ESP and CCA customers receive GHG emissions reductions credits as a result of PG&E's procurement under the Replacement PPA, PG&E disagrees. Although the QF/CHP Settlement provides that ESPs and CCAs will be allocated a pro-rata share of net capacity costs and RA benefits,² it does not provide for the transfer of GHG emissions reductions credits.

PG&E believes that the supplement to Advice Letter 4010-E that PG&E plans to file will resolve the concerns raised in MEA and AReM's Protest. For this reason and the reasons set forth in the Advice Letter, PG&E requests that the Commission approve the Advice Letter as supplemented.

Sincerely,



Vice President – Regulation and Rates

cc: Service List for R.10-05-006
Andrew Schwartz, Energy Division, CPUC
Jennifer Kalafut, Energy Division, CPUC
Joseph Abhulimen, DRA, CPUC
Elizabeth Rasmussen, MEA/AReM
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² See Sections 6.3.2 and 13.1.2.2 of the Term Sheet.