

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

Order Instituting Rulemaking to Continue)	
Implementation and Administration of California)	Rulemaking 11-05-005
Renewables Portfolio Standard Program.)	(Filed May 5, 2011)
_____)	

**2012 RPS PROCUREMENT PLAN
OF PILOT POWER GROUP, INC.**

May 23, 2012

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Pursuant to the directions contained in the Assigned Commissioner’s Ruling Identifying Issues And Schedule of Review For 2012 Renewables Portfolio Standard Procurement Plans Pursuant to Public Utilities Code Sections 399.11 et seq. and Requesting Comments On New Proposals (the “ACR”), Pilot Power Group, Inc. (“Pilot Power”) hereby submits its 2012 RPS Procurement Plan containing, to the greatest extent possible, information that is non-confidential.

**ASSESSMENT OF RPS PORTFOLIO SUPPLIES AND DEMAND—Section
399.13(a)(5)(A)**

Unlike the IOUs, Pilot Power does not have captive customers. All of Pilot Power’s customers are on contracts that may be terminated by either party upon fairly short notice. As a result, there is not a readily quantifiable volume of future customer consumption that can be relied upon in analyzing the coming 10 year period and the RPS qualifying energy that will be required to meet the anticipated consumption. Notwithstanding there is not a quantifiable volume of future customer consumption under contract, historically, Pilot Power’s customer load has been fairly consistent from year to year. Accordingly, for purposes of planning and analysis, Pilot Power assumes as a baseline that its future customer consumption in the coming 10 years will be in the same range as its historical customer consumption.

Currently, approximately 20% of Pilot Power's RPS qualifying energy comes from a long term 10.5 year contract executed in 2006. Approximately 50% of Pilot Power's RPS qualifying energy comes from a short term, multi-year contract which commenced deliveries in 2010 that runs through December 31, 2013. The balance of approximately 30% of Pilot Power's RPS qualifying energy comes from short term contracts of 1 year or less in duration. These percentages are based upon the volumes of RPS qualifying resources that are required under the compliance period ending December 31, 2013.

With the enactment of Senate Bill 21X, LSE's are required to procure RPS resources in varying amounts from 3 categories of resources. Currently Pilot Power has under contract through 2013, enough category 1 RPS resources to satisfy the category 1 requirements for the compliance period ending December 31, 2013.

Pilot Power is currently negotiating prospective long-term contracts for category 1 resources; one to be executed during the compliance period ending December 31, 2013, and a second to be executed during the compliance period ending December 31, 2016. If successful, these two long-term contracts will provide the majority of category 1 resources that may be needed for RPS compliance in the compliance periods ending December 31, 2016, and 2020. The balance of category 1 resources required for the compliance periods ending December 31, 2016, and 2020 shall be procured in short term contracts ranging from 1 to 3 years in duration. Because the compliance rules in connection with the RPS program have not been implemented (ALJ Simon issued a Proposed Decision on April 24, 2012 Setting Compliance Rules for the Renewables Portfolio Standard Program which, upon becoming final, will greatly aid LSE's in their planning and procurement strategies and efforts), RPS procurement efforts have necessarily been put on hold pending the establishment of those rules. Unless and until LSE's know

precisely what is required and how to comply, LSE's cannot take the risk of executing contracts that may be disallowed for compliance purposes at a later date.

Upon the creation of the three categories of resources by the California legislature, the market for RPS resources quickly responded. Almost overnight RPS resources qualifying as category 1 increased in price rather dramatically. Currently category 1 resources are selling for rates ranging from approximately \$38 per MWh to \$42 per MWh for the RECs associated with the RPS qualifying energy. Category 2 REC prices are trading for approximately \$8 to \$11. Category 3 REC prices trade in a range of approximately \$2 or less. To minimize and control RPS costs, therefore, Pilot Power intends to procure the full amount of category 3 resources allowed pursuant to Public Utilities Code Section 399.16(c)(2). Pilot Power anticipates that contracts for category 3 resources will be short term contracts of anywhere from 1 to 3 years duration. The balance of its RPS resource requirements will come from short term contracts for category 2 resources.

Due to the difficulty of procuring sufficient RPS qualifying resources that conform to the myriad rules of the program, deliverability characteristics such as peaking, dispatchable, baseload, firm, and as-available capacity are a secondary consideration. Our primary concern is complying with the RPS program requirements.

POTENTIAL COMPLIANCE DELAYS—Section 399.13(a)(5)(B)

To meet the increasing volume requirements of the RPS program, it will be necessary for additional RPS qualifying generation facilities to be built. Notwithstanding RPS qualifying facilities have been demanded by the environmental lobby, environmentalists still object to and hamper the building of any and all generation facilities—including RPS qualifying facilities. As

a result, it takes years and millions of extra dollars to build generation facilities in California. The same can be said for required transmission facilities.

ESPs are small LSEs. At the current time, ESPs generally do not have the customer load to justify the building of new generation facilities. Pilot Power as a small ESP, therefore, contracts with facilities that are already built and in operation or about to commence operation. Accordingly, at this point Pilot Power does not foresee that permitting, interconnection, building and other delays related to the development of new facilities will delay Pilot Power's compliance.

PROJECT DEVELOPMENT STATUS UPDATE—Section 399.16(a)(5)(D)

Pilot Power does not currently have any eligible renewable energy resources under contract that are not yet delivering generation.

RISK ASSESSMENT—Section 399.16(a)(5)(F)

Pilot Power does not currently have any eligible renewable energy resources under contract that have not yet been built. Accordingly, there is no construction delay risk. However, the greatest risk facing LSEs in connection with the RPS program is the regulatory uncertainty surrounding this and every other program in California. Not more than a year can go by without the legislature or the California Public Utilities Commission changing or adding to the RPS program requirements. This makes long term planning unnecessarily difficult.

QUANTITATIVE INFORMATION—Sections 399.16(a)(A), (B), (D), and (F)

According to the ACR, "The Commission's Energy Division Staff will hold a workshop for retail sellers and all interested parties to develop a methodology, inputs, and format, as needed, for reporting the quantitative information required...Once a methodology is developed, it shall be incorporated in either the draft or final 2012 Procurement Plans, depending on the

availability of the final methodology.” No workshops have been held yet, and the methodology for quantitative information has not yet been developed. Accordingly, no quantitative analysis is provided at this time.

Respectfully submitted,



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VERIFICATION

I, Thomas R. Darton, am an officer of Pilot Power Group, Inc. and am authorized to make this verification on its behalf. The matters stated in the foregoing 2012 RPS PROCUREMENT PLAN OF PILOT POWER GROUP, INC. are true of my own personal knowledge, except as to matters which are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this Verification is executed this 23rd day of May, 2012, at San Diego, California.

A handwritten signature in black ink, appearing to read "Thomas R. Darton", written over a horizontal line.

Thomas R. Darton, Vice President