

August 30, 2012

Edward Randolph, Director  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
EDTariffUnit@cpuc.ca.gov**Re: PG&E's Comments on Draft Resolution E-4521 [OPTION A]**

Dear Mr. Randolph:

Pacific Gas and Electric Company ("PG&E") submits the following comments on Draft Resolution E-4521 [OPTION A] ("Option A"), which was circulated on August 14, 2012 for public review and comment in advance of the California Public Utilities Commission's ("Commission") consideration and potential vote on September 13, 2012. PG&E is also concurrently submitting comments on Draft Resolution E-4521 [OPTION B] ("Option B"), also circulated on August 14, 2012.

In Advice Letter 4048-E filed on May 25, 2012 (the "Advice Letter"), PG&E requested approval of an amended and restated power purchase agreement ("A&R PPA") between Bottle Rock Power LLC ("Bottle Rock") and PG&E for Renewables Portfolio Standard ("RPS")-eligible power from Bottle Rock's existing geothermal facility in Lake County, California ("Project"). Option A denies cost recovery for the A&R PPA, while Option B approves cost recovery for the A&R PPA. For the reasons provided below and in the Advice Letter and its appendices, PG&E requests that the Commission decline to adopt Option A, and instead adopt Option B with the modifications described in PG&E's comment letter on Option B.

Option A states that PG&E failed to adequately disclose the non-price factors that warrant approval of the A&R PPA.<sup>1</sup> PG&E did, however, describe in the public version of the Advice Letter the Project's many positive non-price factors that support approval of the A&R PPA. In particular, PG&E explained that (1) the Project is an existing and operating in-state facility with local area reliability benefits, interconnected to the California Independent System Operator ("CAISO") transmission system at NP-15; (2) the Project does not require any additional transmission network upgrades; (3) the Project does not present integration issues that are associated with intermittent resources; (4) the Project is required to preserve jobs in an economically depressed area; and (5) the Project is required to spend at least a specified amount of capital in order to improve plant production in the long term.<sup>2</sup> While Option A suggests that

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<sup>1</sup> Option A at 6.

<sup>2</sup> Advice Letter at 8.

maintaining jobs in an economically distressed area is insufficient to justify approval of the A&R PPA in light of other available projects,<sup>3</sup> job preservation is not, as noted above, the only factor that PG&E identified in support of approval. Moreover, as described in Confidential Appendix A to the Advice Letter and in Option B, if Bottle Rock is unsuccessful in expanding output to 15 MW by the end of the sixth contract year, PG&E has the right to terminate the contract and is entitled to damages if Bottle Rock has not satisfied its capital spending requirement.<sup>4</sup> These additional elements support approval.

Option A also errs in finding that generation from the Project does not adequately fit the portfolio need requirements of PG&E's RPS portfolio.<sup>5</sup> Option A cites to PG&E's draft 2012 Renewable Energy Procurement Plan ("Draft 2012 RPS Plan") as indicating that PG&E does not have a need for additional RPS-eligible generation until the third compliance period.<sup>6</sup> While PG&E may not need generation under the Bottle Rock A&R PPA to meet its current near-term RPS compliance requirements, PG&E's Draft 2012 RPS Plan demonstrates a significant and ongoing long-term need for additional RPS-eligible products.<sup>7</sup> Under the A&R PPA, the Project is required to produce and maintain additional RPS-eligible deliveries beginning in the third compliance period and continuing through the remainder of the 20-year A&R PPA term, when PG&E has a need for incremental RPS energy. The A&R PPA therefore adequately fits PG&E's demonstrated, long-term RPS need.

Finally, Option A erroneously compares the A&R PPA to a sub-section of an outdated 2011 RPS Solicitation shortlist. Specifically, Option A uses for comparison PG&E's initial shortlist for its 2011 RPS Solicitation (finalized in September 2011 and submitted to the Commission in Advice Letter 3938-E on November 7, 2011) and focuses only on geothermal projects.<sup>8</sup> The A&R PPA should be compared to the updated shortlist PG&E finalized in January 2012 and submitted to the Commission on February 8, 2012 in Advice Letter 3938-E-A,<sup>9</sup> as that represents the current shortlist information when the A&R PPA was executed.<sup>10</sup> Further, the economics of the A&R PPA should be compared to the entire shortlist, not only to projects using a particular technology. Technology-specific comparisons are not relevant for procurement decisions as PG&E procures eligible renewable energy resources that use a host of technologies to fulfill its RPS mandates, and all qualifying technologies receive the same amount of compliance credit. Comparing the A&R PPA to the entire February 8, 2012 updated shortlist is consistent with Resolution E-4199 and with the Independent Evaluator's ("IE") approach in assessing the A&R

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<sup>3</sup> Option A at 7.

<sup>4</sup> Confidential Appendix A at A6; Option B at 2, 13.

<sup>5</sup> Option A at 8 and Finding and Conclusion 2.

<sup>6</sup> Option A at 7, 8 and 15.

<sup>7</sup> See PG&E's updated Draft 2012 RPS Plan, filed in R.11-05-005 on August 15, 2012, Appendices 1 and 1A.

<sup>8</sup> Option A at 8 and 13-14.

<sup>9</sup> Advice Letter 3938-E-A was corrected by substitute sheets submitted on February 15, 2012.

<sup>10</sup> While this change would not make a material difference in the comparison of the A&R PPA to the shortlist, the resolution should be modified to reflect the correct shortlist.

PPA.<sup>11</sup> <sup>12</sup>

For the foregoing reasons and those provided in the Advice Letter and its appendices, PG&E requests that the Commission decline to adopt Option A, and instead adopt Option B with the modifications described in PG&E's comment letter on Option B.

Sincerely,

A handwritten signature in cursive script that reads "Brian Cherry". The signature is written in black ink and includes a date "8/30/12" at the end.

Vice President – Regulatory Relations

cc: Commissioners Michael Peevey, Mark Ferron, Mike Florio, Catherine Sandoval, and Timothy Simon  
Karen Clopton – Chief Administrative Law Judge  
Frank Lindh – General Counsel  
Energy Division Tariff Unit  
Paul Clanon – Executive Director  
Jason Simon – Energy Division  
Paul Douglas – Energy Division  
Service List for Draft Resolution E-4521 [OPTION A]

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<sup>11</sup> See Resolution E-4199 at 27 (setting forth review standards for RPS price amendments and requiring investor-owned utilities to compare amended projects to their “most recent shortlist”); Report of the IE at 25-27 (comparing the A&R PPA to the entire February 2012 updated shortlist).

<sup>12</sup> PG&E also notes that Option A's economic reasonableness assessment focuses primarily on net market value. As noted in the IE report and in Confidential Appendix A, however, PG&E now uses a valuation methodology called Portfolio-Adjusted Value (“PAV”) for RPS transactions. As a result, the A&R PPA should also be compared to other projects using PAV.