

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 B]**

Dear Mr. Randolph:

Pacific Gas and Electric Company ("PG&E") submits the following comments on Draft Resolution E-4521 [OPTION B] ("Option B"), 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 A] ("Option A"), 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. PG&E supports Option B's approval of cost recovery for the A&R PPA with the modification discussed below.

Option B recognizes the many non-price factors of the Project that support approval of the A&R PPA. As PG&E explained in the public version of the Advice Letter, (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.¹ 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

¹ Advice Letter at 8.

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.² These additional elements support approval.

However, Option B erroneously compares the A&R PPA to a sub-section of an outdated 2011 RPS Solicitation shortlist. Specifically, Option B 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.³ Option B should be modified to compare the A&R PPA 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,⁴ as that represents the current shortlist information when the A&R PPA was executed.⁵ Further, Option B should be modified to compare the economics of the A&R PPA 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 PPA.^{6 7}

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 modification described above and the changes to the Findings, Conclusions, and Orders shown in Appendix 1.

Sincerely,



Vice President - Regulatory Relations

² Confidential Appendix A at A6; Option B at 2, 13.

³ Option B at 10 and 19-20.

⁴ Advice Letter 3938-E-A was corrected by substitute sheets submitted on February 15, 2012.

⁵ 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.

⁶ 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).

⁷ PG&E also notes that Option B'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.

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 B]

**APPENDIX 1:
Recommended Modifications to Draft Resolution E-4521 [OPTION B] Findings and
Conclusions and Ordering Paragraphs**

Finding and Conclusion No.	Delete.
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