

December 10, 2012

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

**Subject: Resolution E-4537, ID #11745
Granting Request of Southern California Edison Company for
Approval of a Transition Power Purchase Agreement With Watson
Cogeneration Company**

Dear ED Tariff Unit:

Pursuant to California Public Utilities Code Section 311(g)(1), Pacific Gas and Electric Company ("PG&E") submits its comments on California Public Utilities Commission ("CPUC" or "Commission") Draft Resolution E-4537 ("Draft Resolution"). PG&E supports approval of the power purchase agreement ("PPA") between Southern California Edison Company ("SCE") and Watson Cogeneration Company ("Watson"). However, PG&E recommends limited revisions to the discussion of the greenhouse gas emissions reduction target ("GHG Target") adopted by the Qualifying Facility/Combined Heat and Power Settlement Agreement ("Settlement Agreement")¹ and the PPA's contribution to SCE's GHG Target. These revisions are necessary to prevent any misinterpretation of the Settlement Agreement.²

1. The description of the GHG Target is inaccurate.

The following statement appears under the heading "Consistency with D.10-12-035 which approved the QF/CHP Program Settlement" on pages 6 and 7 of the Draft Resolution:

The IOUs must procure 3,000 MW of CHP and 4.8 MMT of greenhouse gas emission reductions in proportion to the load of the IOU and non-IOU Load Serving Entities.

¹ The Settlement Agreement was approved and adopted by CPUC Decision ("D.") 10-12-035.

² Throughout these comments, text proposed for insertion is underlined and text proposed for deletion is ~~stricken~~.

This statement conveys the impression that the total GHG Target is fixed, although it is not. Section 6.2.2.3.3 of the Settlement Agreement Term Sheet ("Term Sheet") provides that the GHG Target will be revised based upon updated California Energy Commission retail electric sales data. Also, Section 6.7 indicates that the GHG Target may be adjusted depending upon action by the California Air Resources Board and the CPUC.

PG&E recommends the substitution of the following, more accurate, description of the Settlement Agreement's targets for the above-quoted sentence pages 6 and 7 of the Draft Resolution:

Pursuant to D.10-12-035, the three large electric investor owned utilities ("IOUs") must procure a minimum of 3,000 MW of CHP and reduce GHG emissions consistent with the IOUs' proportional share of the California Air Resources Board ("CARB") Scoping Plan target for CHP.

2. The discussion under the heading "Consistency with Settlement Green House Accounting Methodology" requires clarification.

The Draft Resolution addresses the PPA's contribution to SCE's GHG Target on page 11 under the heading "Consistency with Settlement Green House Accounting Methodology." It states that Term Sheet Section 5.1.3 directs the IOUs to enter into PPAs to meet the MW Targets and GHG Targets consistent with the processes listed in Section 4, that the Transition PPA is not listed as a procurement process in Section 4, and that therefore, the PPA does not count toward SCE's GHG Target.

This reading of Section 5.1.3 is overbroad because Section 5.1.3 does not state that those commercial vehicles and PPA types are the exclusive means by which IOUs can meet their GHG goals. In fact, the rules in Term Sheet Section 7 govern the counting of procurement toward GHG Targets. The Commission has evaluated IOU procurement consistently in terms of Section 7 GHG credits and debits in its semi-annual review of IOU progress toward their GHG Targets. Language in the Draft Resolution should be clarified to avoid inconsistency with the Commission's implementation of the Settlement Agreement.

To avoid any potential misinterpretation of the Settlement Agreement, PG&E recommends the Commission make the following changes to the text on page 11 of the Draft Resolution:

Consistency with Settlement Greenhouse Gas Accounting Methodology

Per Term Sheet Section 5.1.3, the IOUs are directed to enter into PPAs to meet the MW and GHG Emission Reduction Targets consistent with the CHP Procurement Processes in Section 4. The contribution of IOU procurement activity toward each IOU's GHG Target is determined by Term Sheet Section 7. Transition PPAs are not listed as a Procurement Process in Section 4. This is appropriately reflected in the Advice Letter.

3. Certain language in the Draft Resolution must be modified to avoid creating ambiguity where there is none.

a. D.07-09-040 Did Not Authorize the Execution of New PPAs.

The Draft Resolution states on page 2 that Section 11.2.1 of the Term Sheet establishes a procedure “to prevent the interruption of power delivery by allowing Legacy PPAs executed pursuant to D.07-09-040 to remain in effect until Seller commences deliveries under a new or amended (‘Subsequent’) PPA.” D.07-09-040 did not authorize the parties to execute new PPAs, it only authorized the extension of existing Legacy PPAs for a prescribed period of time.³ The word “executed” in the above-quoted excerpt should be replaced by the word “extended” to avoid creating the impression that the Commission authorized the execution of new standard offer PPAs in 2007, as shown below:

Section 11.2.1 of the Term Sheet of the QF/CHP Settlement, which was adopted by the Commission in Decision (“d.”) 10-12-035, establishes a procedure to prevent the interruption of power delivery by allowing Legacy PPAs executed extended pursuant to D.07-09-040 to remain in effect until Seller commences deliveries under a new or amended (‘Subsequent’) PPA.

b. The Statement Concerning Bilaterally Negotiated Contracts Should be Modified.

The Draft Resolution states on page 6, under the heading, “Consistency with D.10-12-035 which approved the QF/ CHP Program Settlement” states: Furthermore, the Settlement allows for bilaterally negotiated contracts with QFs to determine energy and capacity payments mutually

³ D.07-09-040, Conclusion of Law 20.

agreeable by relevant parties and subject to CPUC approval.”

Actually, Section 4.3.1 of the Term Sheet states, “Bilaterally negotiated and executed CHP PPAs or Utility Prescheduled Facilities PPAs are part of the procurement options in this CHP Program.” The word “CHP” should be inserted into the above-quoted language as follows:

Furthermore, the Settlement allows for bilaterally negotiated contracts with CHP QFs to determine energy and capacity payments mutually agreeable by relevant parties and subject to CPUC approval.

4. Conclusion

The Commission should incorporate the foregoing revisions into the final Resolution so that its approval of the PPA does not inadvertently lead to misinterpretation of the QF/CHP Settlement Agreement.

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