Oakley Generating Station
A.12-03-026

December, 2012

Summary

- Oakley meets the two conditions for resubmittal in D.10-07-045
- Accelerating renewable integration driving flexibility needs
- Oakley reduces reliability risks and should be approved now

Conditions for Re-submittal and approval met

D.10-07-045

Though we deny the Oakley Project at this time, we understand that developing and building a power plant in California is a long proces fraught with pitfalls. Given this risk and the fact that we believe plant has numerous beneficial attributes.

Prior to the next PG&E LTRFO the conditions under which PG&E may resubmit the Oakley Project:

1. Demonstrate that the Oakley Project has received the necessary permits CEC permits are final and non-appealable
2. If the final results from the CAISO Renewable Integration Study demonstrates that, even with the projects approved by the Commission, there are significant negative reliability risks fr integrating a 33% Renewable Portfolio Standard." (D.10-07-045, p.40-41) CAISO studies filed at FERC

Oakley is viable and beneficial

Favorable compared to other flexible generation alternatives

Timing and viability:

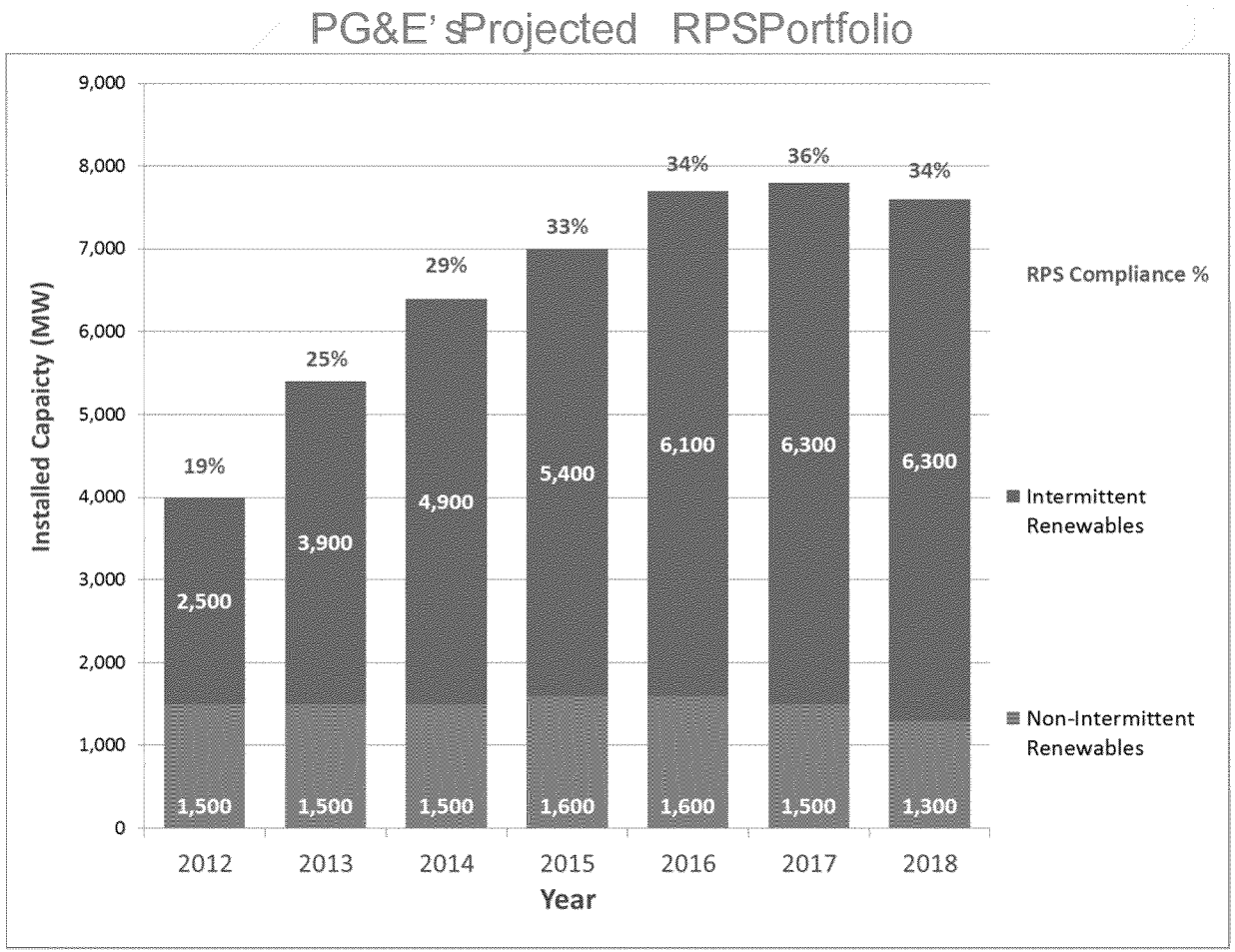
- Oakley is fully permitted and under construction
  - Construction started on site
  - Signed interconnection agreement. Construction needs to start on network upgrades to keep current schedule
  - Millions already invested in project
- CEC and BAAQMD permits are final and non-appealable

Oakley environmental footprint and technology are superior to existing alternatives:

- Lower GHG emissions
  - Lower heat rate and lower minimum load
- Located on an existing industrial site
- Uses less water than other conventional resources
- Will have a beneficial impact of reducing electricity market prices
- Faster starts and faster ramping
- Permits do not constrain plant operations

Increasing Challenge to Integrate Significant Amounts of Intermittent RenewableCapacity

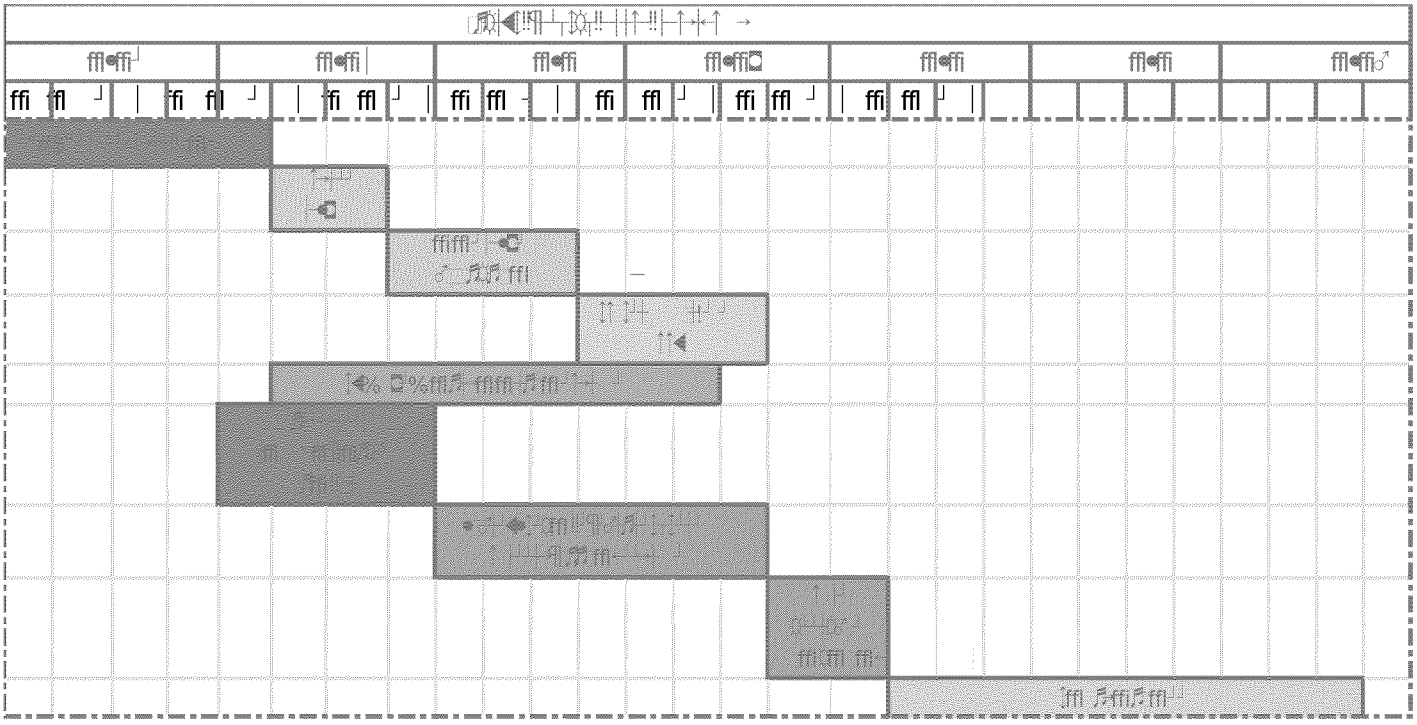
Significant renewable capacity coming on line – faster than expected



Note: Graphic created November7, 2012; capacity values in the chart are rounded to the nearest hundreds place. Assumesa 100%contract success rate.

Approve now, Don't wait

- Consideration of Oakley now is appropriate pursuant to D.10-07-045
- Waiting for resolution of 2012 LTPPwill not meet flexibility needs in the 2017-2018 timeframe.
- Oakley is more cost effective than other alternatives to meet 2017-2018 needs.
  - More viable and cost effective than any new generation alternatives.
  - Preferable to delaying retirement of older, less efficient OTCunits.



Oakley Project
PG&E's Reply to IEP Ex Parte Assertions

IEP Assertion [Ex parte Notice 11/19/12]	Facts	Evidentiary Support
The Oakley Project was not the product of a competitive solicitation	The Oakley Project was a winning offer in PG&E's 2008 LTRFO	Ex. 1 at pp. 5-14 D.10-07-045
PG&E has failed to demonstrate that the Oakley Project qualifies for one of the exceptions identified in D.07-12-052 for utility-owned generation ("UOG") being procured outside of an RFO	PG&E does not believe that the requirements of D.07-12-052 for procurement of UOG outside of an RFO necessarily apply to the Oakley Project. However, even if all of the requirements of D.07-12-052 for UOG outside of an RFO applied, the Oakley Project satisfies these requirements. The Oakley Project is needed to meet a unique reliability need and an RFO is infeasible given the timing of the need and the lengthy process for conducting an RFO and permitting and developing generation in California.	Ex. 1 at pp. 5-5 to 5-12; Ex. 2 at pp. 7-16 (an RFO is infeasible) Even other intervenors, such as Fairfield/Madera, agree that an RFO is infeasible. See Ex. 11 at p. 15. Ex. 1 at pp. 5-2 to 5-4; Ex. 2 at pp. 16-18 (the Oakley Project meets a unique reliability need) See also Record Evidence identified below concerning reliability need associated with once-though cooling ("OTC") retirements and the 33% renewable Portfolio Standard ("RPS")
PG&E has not met the conditions in D.10-07-045 for re-submitting the Amended Purchase and Sale Agreement ("Amended PSA") for the Oakley Project	D.10-07-045 established two relevant requirements for re-submission of the Amended PSA: (1) that the Oakley Project has all necessary permits; and (2) that final results from the CAISO's Renewable Integration Study demonstrate that there are significant negative reliability risks from 33% RPS integration. Record evidence solidly demonstrates that both of these criteria have been met.	Ex. 1 at pp. 3-2 to 3-8; Ex. 2 at pp. 20-33 (demonstrating that the Oakley Project has all necessary permits) Ex. 2 at pp. 23-31 (describing the final results of CAISO studies)
PG&E seeks to preempt the Commission's decision in the LTPP proceeding	The Commission has already determined that the Oakley Project may be reconsidered prior to PG&E's next LTRFO. No such LTRFO has occurred.	D.10-07-045, p.40

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IEP Assertion [Ex parte Notice 11/19/12]	Facts	Evidentiary Support
The Oakley Project's existing permit constraints severely limit its value for renewable integration. Serious questions have arisen as to whether the Oakley Project can operate in the manner needed to integrate renewable resources	The Oakley Project's permit does not limit its value for renewable integration. The permit limitations by BAAQMD are for overall emissions and do not limit unit starts and stops. The unit is capable of many more than 300 starts a year by simply trading off operating hour emissions for starts in the annual emissions calculations. According to BAAQMD, its Authority to Construct will allow the Oakley Project to provide "operational flexibility to efficiently address grid fluctuations due to the intermittent nature of renewable generation such as wind and solar. This is supported by the CEC's assessment that finds the Oakley project "would provide short-starting and fast-ramping… and is likely to serve as an important firming source for intermittent renewable resources in support of California's RPS and GHG goals." Furthermore, the Oakley Project is less constrained than many other projects that have recently been permitted.	Ex. 2 at pp. 68-70 adopted BAAQMD FDOC, issued January 2011, pp. 1-3 and Ex. 2, Attachment N (Authority to Construct issued by the BAAQMD) Ex. 2 at pp. 50 to 51 (quoting the CEC Final Decision) and Ex. 32 (BAAQMD operating scenarios) Hearing transcript, pp. 554-555
Oakley will not enable the retirement of OTC resources	The Oakley Project will facilitate the retirement of aging, inefficient OTC units, especially units in Northern California. Inefficient OTC plants expected to retire in PG&E's service territory include: 674 MW by 12/31/14 for Contra Costa 6-7; 650 MW by 12/31/15 for Morro Bay 3-4; 629 MW by 12/31/17 for Pittsburg 5-6; and 1,510 MW by 12/31/17 for Moss Landing 6-7.	Ex. 2 at pp. 47-50 2010 LTPP CPUC Standardized Planning Assumptions (Part 1) for System Resource Plans, Attachment 1 to February 10, 2011 ruling, p. 40
The CAISO reliability studies are not complete	In his declaration in support of the CAISO's Sutter Waiver Petition at FERC, Mr. Rothleder states "As I will explain, the ISO's <u>analysis</u> concludes that, under an analysis using the assumptions described above consistent with good utility practice, there will be a shortage or gap of 3,570 MW for meeting system-wide needs in California by the end of 2017." (emphasis added). The CAISO studies submitted in the Sutter Waiver Petition to FERC were final and complete. Furthermore, as ALJ Yacknin stated during hearings, "And I think it is quite clear on the record and in life itself that the ISO has not yet developed a study that predicts with certainty the future and that it's going to continue to do so for its entire being and existence. It's never going to be done. And so I recognize all of this. It's possible that the parties might wish to argue that this decision implied that PG&E could not bring the Oakley application until the ISO was done with its work. That would be cruel."	Ex. 1, Attachment 5-1 at p. 30 Ex. 2 at pp. 23-28 (describing in detail CAISO studies) Ex. 2, Attachment B (CAISO Sutter Waiver Petition) Hearing transcript, pp. 435, lines 15-26.

IEP Assertion [Ex parte Notice 11/19/12]	Facts	Evidentiary Support
The Commission can accelerate the RFO and development process to meet any reliability need	This is inconsistent with IEP's statements in other proceedings. In the 2012 LTPP proceeding, IEP's witness submitted testimony expressing significant concerns about delays in procurement decisions. IEP also stated that the "lead-time for constructing new resources can be 6-8 years or more." In other pleadings in that proceeding, IEP has stated that "[i]n an environment where new generation facilities typically take 5-7 years to build, California must plan far enough in advance to have adequate resources available to meet growing electricity demands." Waiting for resolution of the 2012 LTPP will not meet flexibility needs in the 2017-2018 timeframe.	Exhibit 2, Attachment O at p. 19 (IEP testimony in 2012 LTPP) IEP Exhibit 39 at p. 2 (IEP pleadings in the 2012 LTPP proceeding)
Oakley is too costly	Oakley is a cost effective option and was a winning participant in PG&E's 2008 LTRFO. PG&E's economic assessment shows the Oakley Project has greater market value than other projects the CPUC has approved during the last two years. PG&E's analysis also shows that customers will save millions of dollars relative to payments to keep aging, inefficient units on-line to facilitate renewable integration. CUE testimony also indicates that the efficiency of the Oakley Project will have the net effect of lowering overall market prices, benefitting all customers.	Exhibit 1 at p. 5-15 Ex. 2 at pp. 40-46 Exhibit 3 at p. 10
The Lodi Energy Center costs are approximately 35% less than Oakley	The basis for this cost estimate is a short press release by NCPA. It is not known what costs are excluded from this estimate (e.g., transmission interconnection) and no adjustments have been made to reflect differences such as the cost of financing.	Exhibit 44
The Oakley Revenue Requirement totals $1.5 billion	This is only one side of the equation. IEP looks at the costs, but fails to consider the benefits including energy, resource adequacy and ancillary services. When market valuation benefits are factored in, the Oakley Project's net costs are significantly lower. Compared to other recently built projects, the Oakley Project's net market value is substantially higher, better than all of the other winning projects in the 2008 LTRFO.	Exhibit 2 at p. 41, Table E-1 (showing Oakley Project net costs to other projects)

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