Oakley Generating Station
A.12-03-026

November, 2012

Summary

- Oakley already approved once by Commission
- Meets two conditions for resubmittal and approval
- Accelerating renewable integration driving flexibility needs
- Oakley reduces reliability risks and should be approved now

Oakley approved once already

- Winning bid from 2008
- Application for approval of Oakley filed September 2009
  - D.10-07-045 found Oakley not needed at that time
  - Petition to modify led to D.10-12-050
- D.10-12-050 approved Oakley, finding (FOF 3-6):
  - Oakley is highly efficient (it has a very low heat rate) and will enable California to meet increasingly stringent GHG reduction goals.
  - Oakley would allow for the retirement of peaking resources with high heat rates.
  - Oakley would allow for renewable integration by providing load following capabilities. The combination of this generation attribute with a low heat rate is uncommon in the current generation fleet.
- Court of appeals annulled D.10-12-050 on procedural grounds
  - Procedural issues have been resolved
  - Project's benefits still valid today

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 fro 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

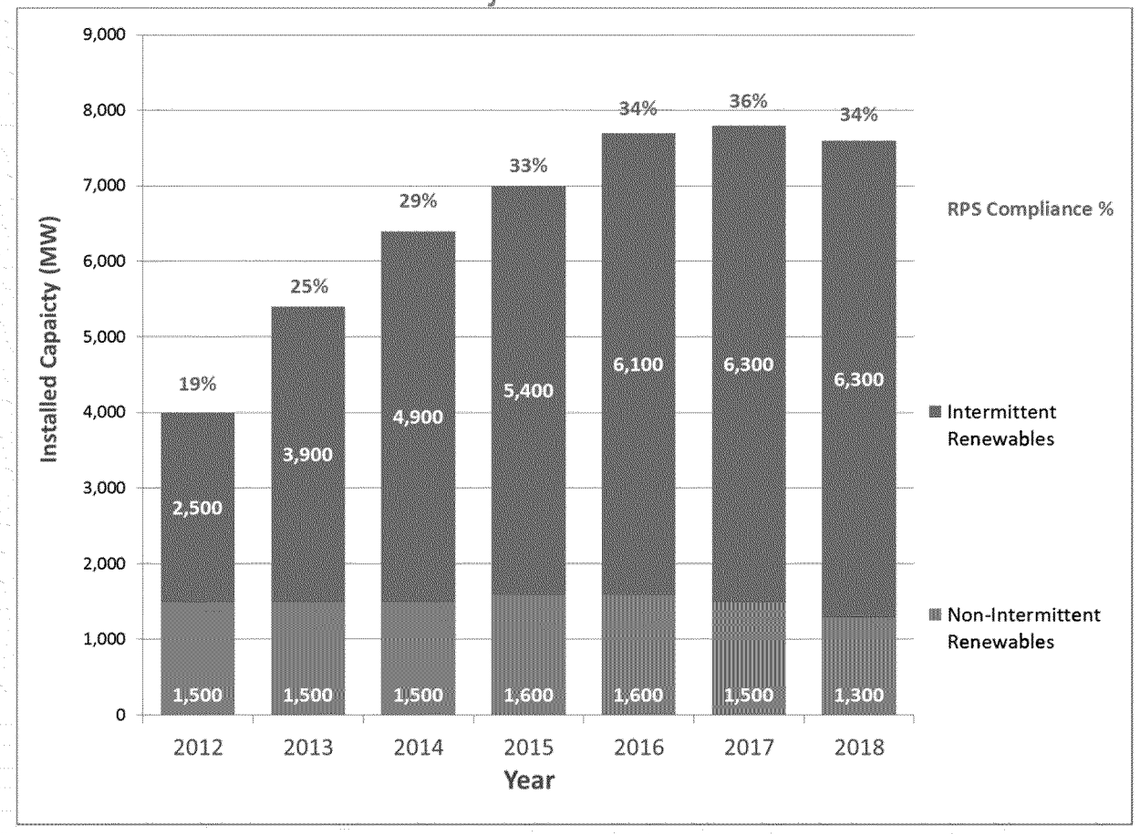
Oakley environmental footprint and technology are superior to existing alternatives:

- 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

PG&E's Projected RPS Portfolio



Note: Graphic created November 7, 2012; capacity values in the chart are rounded to the nearest hundreds place. Assumes a 100% contract success rate.

CAISO Studies - Significant Reliability Risk

Even with Oakley, challenge remains to meet flexibility need

- CAISO's Calpine Sutter waiver study shows need exists, assuming Oakley is approved (comments on Draft Resolution E-4471)
- Commission does not need to adopt CAISO's specific finding of 3,750 MW of flexible capacity needs in 2018 to conclude evidence of significant reliability risk.
- Existing Once Through Cooling retirements statewide expected:
  - 8,100 MW retired by 2018
  - 12,100 MW retired by 2020
- Oakley is a viable hedge against risks of significant 2017-2018 flexibility need.

Approve now, Don't wait

- Consideration of Oakley now is appropriate pursuant to D.10-07-045
- Waiting for resolution of 2012 LTPP will 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 OTC units.