



77 Beale St., Mail Code B10C
P.O. Box 770000
San Francisco, CA 94105
Fax : 415.973.7226

March 12, 2013

California Public Utilities Commission
Energy Division
ED Tariff Unit
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Re: Substitute Sheets for Advice 4190-E

Dear Energy Division Tariff Unit:

An original and four copies of substitute sheets are attached for Advice 4190-E ("Approval of Pacific Gas and Electric Company's Power Purchase Agreement with Kern River Cogeneration Company ["KRCC"] for Procurement of Combined Heat and Power Energy and Capacity"), submitted to Energy Division on Wednesday, February 6, 2013. These substitute sheets correct a ministerial error and do not change any of the material facts involved in the subject of PG&E's Advice 4190-E.

In Advice 4190-E, PG&E erroneously listed the amount of capacity that the KRCC transaction contributes toward PG&E's procurement target adopted under the Qualifying Facility/Combined Heat and Power ("QF/CHP") Settlement (hereinafter, "MW Target"). Under the QF/CHP Settlement, PG&E is allowed to count KRCC's contract capacity listed in Southern California Edison Company's ("SCE") July 2010 Cogeneration and Small Power Production Semi-Annual Report ("Cogen Report") toward PG&E's MW Target. PG&E had mistakenly used the contract capacity listed for KRCC in SCE's July 2009 Cogen Report, rather than the contract capacity listed for KRCC in SCE's July 2010 Cogen Report. The correct capacity number for purposes of the MWs counted toward PG&E's CHP MW Target is 296 MW as opposed to the 303.5 MW used in Advice 4190-E. The correction is required on several pages in the main body of the advice letter and Confidential Appendices A and C. For administrative convenience, complete, corrected versions of the main body of the advice letter and Confidential Appendices A and C, are being submitted. Please discard the previously submitted main text and Appendices A and C of Advice 4190-E and use the corresponding attachments instead. A declaration supporting confidential treatment for Confidential Appendices A and C is attached.

Also, Wayne Oliver of Merrimack Energy, the Independent Evaluator (IE) for PG&E's CHP RFO, has provided an Addendum describing the needed correction in the IE Report and its applicability within the current IE Report.

In accordance with GO 96-B, Section 7.5.1, the substitute sheets and supporting material are being served in the same manner as the original advice letter. Please telephone me at (415) 972-5472 should you have any questions regarding the substitute sheets.

/S/ Kimberly Chang

Kimberly Chang
Regulatory Relations

Attachments



February 6, 2013

Advice 4190-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Approval of Pacific Gas and Electric Company's Power Purchase Agreement with Kern River Cogeneration Company for Procurement of Combined Heat and Power Energy and Capacity

I. INTRODUCTION

A. Purpose of the Advice Letter

Pacific Gas and Electric Company ("PG&E") seeks California Public Utilities Commission ("Commission" or "CPUC") approval of the Power Purchase Agreement ("PPA") that PG&E has executed with Kern River Cogeneration Company ("KRCC") for deliveries from an existing 304 megawatt ("MW") cogeneration facility located in Bakersfield, California ("KRCC Agreement").

The KRCC Agreement is a baseload combined heat and power-dispatchable ("CHP-dispatchable") agreement based on PG&E's form tolling power purchase agreement ("Toll PPA"). The agreement provides significant benefits to PG&E's customers, including:

- The advantages of the reliability requirements, performance requirements, and operational flexibility terms of PG&E's standard form Toll PPA;
- Significant reduction in greenhouse gas ("GHG") emissions through a change in operations;
- Operational flexibility resulting from (1) the conversion of baseload generation to generation that can be economically dispatched into the California Independent System Operator ("CAISO") markets, (2) curtailment rights on baseload CHP, and (3) additional dispatch rights on as-available CHP capacity whenever that capacity is not scheduled for baseload CHP generation; and,
- Contribution toward the MW and GHG Targets as set forth in the CHP Program Settlement Agreement Term Sheet ("Term Sheet").

Subject to CPUC approval and the satisfaction of other conditions precedent, the KRCC Agreement delivery term will start on January 1, 2014. The delivery term is 84 months

for Units 1, 2, and 3 and 81 months for Unit 4. The KRCC Agreement contributes to the goals of the CHP Request for Offers (“RFO”) through reasonable terms and conditions and merits the Commission’s unconditional approval. PG&E requests the Commission to issue a resolution approving the KRCC Agreement by no later than July 9, 2013, as set forth in Section V, below.

B. Background

The KRCC Agreement is a product of PG&E’s first CHP RFO in compliance with the Qualifying Facility/Combined Heat and Power Settlement Agreement (“QF/CHP Settlement”). The operative provisions of the QF/CHP Settlement are contained in the Term Sheet, which requires the investor-owned utilities (“IOUs”) to conduct RFOs exclusively for CHP resources.¹ PG&E seeks to acquire at least 1,387 MW of eligible CHP capacity under PPAs through three RFOs and other procurement alternatives during the Initial Program Period.²

On December 7, 2011, PG&E issued its first CHP RFO to procure resources to meet its MW procurement target and to address its GHG Emissions Reduction Target under the QF/CHP Settlement.³ The *Combined Heat and Power Request for Offers -- Protocol for First Solicitation* (“CHP RFO Protocol”) sets forth the terms and conditions of PG&E’s first competitive solicitation for CHP resources.⁴ PG&E requested offers for existing, new, repowered and expanded CHP facilities, Utility Prescheduled Facilities and CHP capacity-only products. PG&E stated a strong preference for offers that are low cost and that are from facilities with efficient operations and either have low associated GHG emissions or provide GHG emissions reductions through changes in operations or technology.

KRCC, which is currently under contract with Southern California Edison (“SCE”), submitted an offer for generation from its four-unit CHP facility whereby three of the units would be dispatchable and the fourth unit would provide a mixture of firm and as-available CHP capacity. PG&E reviewed the merits of each offer received in the CHP RFO and compiled a shortlist of the most attractive offers. On April 30, 2012, PG&E informed KRCC that the KRCC offer was on the shortlist. The parties subsequently engaged in negotiations over the terms of the offer. On December 19, 2012, PG&E and KRCC executed the KRCC Agreement.

¹ Term Sheet, Section 4.2.1 specifies that each IOU shall conduct RFOs exclusively for CHP resources (CHP RFOs) for achieving its CHP MW and GHG Emissions Reduction Target.

² Term Sheet, Section 2.2.2.2.

³ The procurement targets defined in Section 6 of the Term Sheet.

⁴ The CHP RFO Protocol is available for public review on PG&E’s website at:

http://www.pge.com/includes/docs/word_xls/b2b/wholesaleelectricssuppliersolicitation/CHP/CHP_RFO_Protocol_Document_rev012612%20CLEAN.doc

The KRCC Agreement will contribute toward both PG&E's MW Target and its GHG Target.

C. General Project Summary

Project Name	Kern River Cogeneration Company
Owner/Developer	Kern River Cogeneration Company
Technology	Four GE Frame 7 EA units
Contract Capacity (MW)	280 MW- 304 MW ⁵
Expected Generation (MWh/Year)	Unit 4 generation is up to 653 GWh/year; dispatch of Units 1-3 depends on market conditions
Delivery Pattern (As-available, Firm, Utility Prescheduled Facility)	Units 1-3: Dispatchable Unit 4: Baseload and Dispatchable
Delivery Term (number of months)	Units 1-3: 84 months Unit 4: 81 months
Vintage (New, Existing, Repower, Expanded, Utility Prescheduled Facility)	Utility Prescheduled Facility, Operational Change
Location (city and state)	Bakersfield, CA
Source of Agreement (e.g., RFO or Bilateral Negotiations)	RFO

A summary of the KRCC Agreement is attached as Confidential Appendix C. A comparison of the KRCC Agreement with PG&E's Pro Forma Tolling Agreement is attached as Confidential Appendix D. The KRCC Agreement is attached as Confidential Appendix E.

D. General Project Description

KRCC is a natural gas-fired qualifying cogeneration facility that has supplied electricity to SCE and steam for enhanced oil recovery to Chevron U.S.A. Inc's Kern River oil field

⁵ Contract Capacity varies by month because of ambient conditions.

continuously as a QF since 1985.⁶ KRCC consists of four identical, operationally independent General Electric Frame 7 EA combustion turbines which have a combined PMax of 317 MW.⁷ Each unit is paired with a heat recovery steam generator (HRSG) that, under baseload CHP operations, is used to turn treated water produced from the oil field into steam for use in enhanced oil recovery. Each unit is also capable of operating in simple cycle mode if the useful thermal output is not needed. All electrical energy in excess of station load flows to the grid. Each unit has its own CAISO meter and identifier.

KRCC currently sells electricity to SCE under a QF agreement entered into in 1984.⁸ In 2005, KRCC and SCE amended the original baseload agreement to allow KRCC to operate with two of the units as dispatchable and two of the units as baseload CHP. Each of the four units currently cycles in CHP or dispatchable operational mode; all of the units serve steam to Chevron during the year.

While the enhanced oil recovery operations require steam on a continuous basis, the steam needs for the Kern River oil field are unknown over the long term. In the first five years of the KRCC Agreement term, KRCC will supply Chevron with a constant amount of steam. During this period, Units 1, 2, and 3 will operate solely as dispatchable units, and Unit 4 will operate as baseload CHP. Chevron has not informed KRCC how much steam will be required during the last two years of the PPA term. The PPA is structured to allow KRCC to serve steam with Unit 4 as a baseload CHP facility or to be available for market dispatch if steam is not needed. This arrangement preserves the operational flexibility of the tolling arrangement while allowing KRCC to operate Unit 4 as baseload CHP if the steam is needed. Additional information on the steam host needs is in Confidential Appendix C.

Furthermore, PG&E will have additional limited curtailment rights on Unit 4 when it operates as baseload CHP.

E. QF/CHP Settlement Targets

The KRCC Agreement contributes 296 MW of capacity towards the CHP MW Target assigned to PG&E under the QF/CHP Settlement. The MW Counting Rule applicable to

⁶ KRCC was certified as a QF in Federal Energy Regulatory Commission ("FERC") Docket No. QF83-423-000 on December 19, 1983 and is an existing CHP QF.

⁷ "PMax" is defined in the CAISO Tariff as "[t]he maximum normal capability of the Generating Unit. PMax should not be confused as an emergency rating of the Generating Unit."

⁸ On December 14, 2012, SCE submitted Advice 2825-E to seek approval of a Transition Agreement between SCE and KRCC. This Transition Agreement would replace the existing legacy QF Agreement with SCE and would expire on the day before the delivery term with PG&E starts.

the KRCC Agreement appears at Section 5.2.3.1 of the Term Sheet.

Section 5.2.3.1. of the Term Sheet states:

For the purposes of Section 5.2 regarding MW counting, Existing CHP Facilities are gas-fired Topping Cycle CHP Facilities that exported and delivered electric power to an IOU listed by QF ID number in each IOU's July 2010 Cogeneration and Small Power Production Report (July 2010 Semi-Annual Report) – "Contract Nameplate," as amended, if necessary. The MWs counted for New PPAs executed with Existing CHP Facilities will be the published Contract Nameplate value, unless otherwise noted in this Settlement.

KRCC was listed in SCE's July 2010 Semi-Annual Report with a contract capacity of 296 MW.

Table A
PG&E's MW Target as Prescribed by the QF/CHP Settlement

Project Name	PG&E's MW Target by the End of the Initial Program Period	MWs Procured from Project to Count towards PG&E's Settlement MW Target	As-Available Average MWs (AMWs) (where applicable)
KRCC	1,387	296	N/A

The KRCC Agreement will also count towards PG&E's GHG Emissions Reduction Target. Section 7.3.1.3 of the Term Sheet states that a CHP Facility Change in Operations or Conversion to a Utility Prescheduled Facility counts as a GHG Credit. Per the Term Sheet, "[m]easurement is based on the Baseline year emissions minus the projected PPA emissions and emissions associated with replacing one hundred percent (100%) of the decreased electric generation at a time differentiated Heat Rate. The Baseline year emissions are the average of the previous two (2) calendar years of operational data." The KRCC Agreement's contribution towards the target is presented in Table B, below.

Table B
GHG Target as Prescribed by the QF/CHP Settlement

Project Name	PG&E's GHG Target by 2020 (MTCO ₂ e)	GHG Credit/Debit of Project to Count towards the Settlement GHG Target (MTCO ₂ e)
KRCC	currently 2.17 million	148,171

The Energy Division's December 3, 2012 update of PG&E's 2020 GHG Target is used as "PG&E's GHG Target by 2020." This number is subject to revision based on conditions in effect on the deadline for GHG Target compliance.⁹

F. Additional Information

The KRCC Agreement is a CHP-dispatchable agreement that is based on the form of PG&E's Toll PPA. The CHP pro forma adopted in the QF/CHP Settlement was designed for facilities providing firm or as-available CHP capacity and not for a facility providing sizable dispatchable capacity. Modifications were made to the Toll PPA to accommodate the uncertainty around steam need in the later years of the Delivery Term.

While the contract allows KRCC to submit to PG&E a schedule for the baseload CHP generation, the agreement represents significant additional operational flexibility over KRCC's current operations:

- Conversion of baseload generation to economically dispatchable generation;
- Limited curtailment rights on Unit 4 when it operates as baseload CHP; and
- Additional dispatch rights on Unit 4 if baseload CHP operations cannot be supported due to a lack of steam requirement.

In addition, the Toll PPA contains PG&E's preferred terms on reliability, performance requirements, scheduling and operations, and consequences for deviations from schedule. The dispatchable portion of KRCC may be scheduled into the day ahead and real time CAISO markets and may be dispatched in response to CAISO market signals, thereby only generating in response to economic signals or market reliability needs. Additional information on contract terms is included in Confidential Appendix C.

KRCC has a strong reliability record. The KRCC agreement allows the facility to continue serving California energy needs in a manner that accommodates uncertain

⁹ Term Sheet, Section 6.1.1.4.

future steam needs, provides flexibility to help mitigate overgeneration and renewable integration concerns, and serves the increased needs for operationally flexible economic dispatch of modern electricity markets.

II. CONSISTENCY WITH COMMISSION DECISIONS

A. Consistency with PG&E's Requirements during the Initial Program Period Adopted in the QF/CHP Settlement

PG&E's obligations under the QF/CHP Settlement are set forth in the Term Sheet. Specifically, during the Initial Program Period¹⁰ adopted in the Settlement, the MW Target for PG&E is 1,387 MW.¹¹ The MW Targets may be met through a variety of procurement mechanisms, including any of the CHP Procurement Processes described in Term Sheet Section 4.¹² PG&E must conduct three RFOs exclusively for CHP resources as a means of achieving its MW Target and its GHG Emissions Reduction Targets.¹³ Participants in CHP RFOs must meet specific eligibility criteria.¹⁴ CHP RFO PPAs are subject to maximum terms¹⁵ and must be found to be reasonable when evaluated in accordance with specified criteria.¹⁶ As part of the offer package for each CHP-Only RFO, each IOU may request offers with specific dispatchability terms that differ from the Pro Forma PPA.¹⁷ While the QF/CHP Settlement included a CHP Form PPA to be used in CHP RFOs, pursuant to Sections 4.2.6 and 4.2.12 of the Term Sheet, IOUs are able to offer and sign other contract options in the CHP RFO. PG&E's selection and execution of the KRCC Agreement is consistent with all of these obligations.

KRCC is an existing natural gas fired qualifying cogeneration facility that met Public Utility Regulatory Policies Act (PURPA) efficiency requirements as of September 20, 2007. The KRCC Agreement resulted from the first of the three CHP RFOs that PG&E is required to hold during the Initial Program Period. PG&E's RFO Protocol solicited offers based on PG&E's "Pro Forma Tolling Agreement for CHP Facilities RFO

¹⁰ The "Initial Program Period" commenced on the Settlement Effective Date, November, 23, 2011, and will conclude November 22, 2015. Term Sheet, Section 2.2.1.

¹¹ Term Sheet, Section 2.2.2.2.

¹² Term Sheet, Section 5.1.1.

¹³ Term Sheet, Sections 4.2.1 and 5.1.2.

¹⁴ Term Sheet, Section 4.2.2.

¹⁵ Term Sheet, Section 4.2.3.

¹⁶ Term Sheet, Sections 4.2.5.3 through 4.2.5.7.

¹⁷ Term Sheet, Section 4.2.12.

Program.”¹⁸ As previously discussed, PG&E’s agreement with KRCC is eligible to contribute 148,171 MT per year toward PG&E’s GHG Emissions Reduction Target and 296 MW to the MW Target.

A closer evaluation of commercially sensitive terms, such as pricing and operational requirements, supports PG&E’s decision to execute the KRCC Agreement. PG&E’s evaluation and selection of the KRCC Agreement is described in Confidential Appendix A.

B. Confidentiality

In support of this request for approval, PG&E has attached materials that describe the KRCC transaction and its benefits. Certain information in these documents, such as the price, terms and conditions of performance, the parties’ negotiations, and other factors, could affect the price that PG&E subsequently pays for energy and is deemed to be confidential market sensitive information that should be protected from public disclosure. The following documents, some of which contain confidential information, are appended to and constitute a part of this advice letter:

Appendix 1:	Final Independent Evaluator Report of Merrimack Energy Group, Inc. (Redacted)
Confidential Appendix A:	Consistency with Commission Decisions and Rules and Project Development Status
Confidential Appendix B:	Final Independent Evaluator Report of Merrimack Energy Group, Inc.
Confidential Appendix C:	Contract Summary
Confidential Appendix D:	Comparison of KRCC Agreement with PG&E’s Pro Forma Tolling Agreement
Confidential Appendix E:	KRCC Agreement

This information is being submitted in the manner directed by the *Decision Adopting Model Protective Order and Non-Disclosure Agreement, Resolving Petition For Modification and Ratifying Administrative Law Judge Ruling*, D.08-04-023 (issued on April 18, 2008), to demonstrate the confidentiality of the material and to invoke the protection of confidential utility information provided under either the terms of the IOU Matrix, Appendix 1 of D.06-06-066 and Appendix C of D.08-04-023 or General

¹⁸ PG&E’s “Combined Heat and Power Request for Offers Protocol for First Solicitation” is available for public review on PG&E’s website at:
http://www.pge.com/includes/docs/word_xls/b2b/wholesaleelectricssuppliersolicitation/CHP/CHP_RFO_Protocol_Document_rev012612%20CLEAN.doc

Order 66-C. In support of this request for confidential treatment, the *Declaration of Soumya Sastry Seeking Confidential Treatment and the IOU Matrix* is attached as Appendix 2 to this advice letter.

C. Interim Emissions Performance Standard

Pursuant to Section 4.10.4 of the Term Sheet, PPAs that are equal to or greater than five years in length that are submitted by Tier 2 or Tier 3 advice letter must demonstrate compliance with the Emissions Performance Standard (“EPS”).¹⁹ In D.07-01-039, the Commission adopted an EPS that applies to new or renewed contracts for a term of five or more years for baseload generation, which is electricity generation from a powerplant that is designed and intended to provide electricity at an annualized plant capacity factor of at least 60 percent.²⁰

The KRCC Agreement has a term greater than 5 years and is a “covered procurement” under D.07-01-039. According to D.07-01-039, for purposes of applying the EPS rule, a power plant “is considered to be a generation facility comprised of more than one generating unit if (1) the units are at the same location *and* (2) each unit utilizes the same resource (fuel) or technology, *and* (3) one or more of the units are operationally dependent on another.”²¹ While the generating units at KRCC are at the same location and use the same technology, the units are not dependent on one another. Accordingly, PG&E analyzed the four units separately to determine EPS compliance of each unit.

Units 1-3 have an expected annualized plant capacity factor over the life of the Agreement that is less than 60%. If Unit 4 runs baseload, it will have a capacity factor greater than 60% and is covered procurement under the EPS. Unit 4 is compliant with the EPS as the net emissions of Unit 4 are below 1,100 pounds of carbon dioxide per MWh. Additional detail on calculations supporting compliance with the EPS are shown in Confidential Appendix A.

Accordingly, the Commission should find that the KRCC Agreement is compliant with the EPS for purposes of Section 4.10.4.1 of the Term Sheet.

¹⁹ Public Utilities (“Pub. Util.”) Code Section 8341(b)(1) states: “The commission shall not approve a long-term financial commitment by an electrical corporation unless any baseload generation supplied under the long-term financial commitment complies with the greenhouse gases emission performance standard established by the commission....”

²⁰ Pub. Util. Code Section 8340(a).

²¹ D.07-01-039, pg. 56

D. Procurement Review Group (“PRG”) or Cost Allocation Mechanism Group (“CAM”) Participation

The Term Sheet provides that each IOU’s Procurement Review Group (“PRG”) shall advise the CHP RFO process.²² PG&E’s Cost Allocation Mechanism (“CAM”) Group is also consulted because procurement under the QF/CHP Settlement will be allocated to all benefiting customers in accordance with D.10-12-035, Ordering Paragraph 5. When procuring or potentially procuring CHP resources under D.10-12-035 where the costs are allocated to all benefitting customers, PG&E will utilize an advisory CAM Group.²³

PG&E’s CAM includes the members of PG&E’s PRG, that is, representatives of Commission’s Energy Division and Division of Ratepayer Advocates (“DRA”), The Utility Reform Network (“TURN”), the Coalition of California Utility Employees (“CCUE”), Department of Water Resources (“DWR”), the Union of Concerned Scientists (“UCS”), and Coast Economic Consulting, which comprise the PRG, plus one member representing CCA customers and one member representing Direct Access (“DA”) customers. PG&E’s consultative group will be referred to as the “CAM Group” for purposes of this discussion, unless specifically stated otherwise.

PG&E presented its CHP RFO to its consultative groups at four meetings: July 12, 2011 to the PRG; November 8, 2011 to the CAM Group; December 13, 2011 to the PRG; and February 28, 2012 to the CAM Group.

On November 8, 2011, PG&E presented its draft CHP RFO Protocol to the CAM and sought comments and questions. CAM members were also invited to attend the CHP RFO Bidder’s Conference, which was publicly held on January 12, 2012. After performing an initial review of the submitted offers, on February 28, 2012, PG&E provided the CAM with the number and types of offers it had received in general terms and an overview of its CHP RFO offer evaluation methodology.

On April 25, 2012, PG&E presented its ranked list of CHP RFO offers to the CAM Group. The KRCC transaction was included on the shortlist of offers. Following several months of negotiation, on August 14, 2012, PG&E presented the essential agreed-upon terms of the KRCC Agreement to its CAM Group. Members of the CAM Group did not comment on the KRCC transaction at that time. On October 9, 2012, PG&E updated the CAM Group on the status of the KRCC transaction and received no additional comments. PG&E further addresses PRG and CAM Group feedback in Confidential Appendix A.

During each of these information sessions, CAM members assembled and were briefed either in person or telephonically. There was ample opportunity for a complete discussion

²² Term Sheet Section 4.2.5.8.

²³ See PG&E’s Long Term Procurement Plan, filed May 21, 2012, Sheet 175.

of the terms and conditions under which the solicitation was undertaken, the features and merits of the offers received, and the methodology and reasons for PG&E's ranking of the offers. Throughout this process, PG&E provided answers in response to any comments or questions from its CAM Group members.

E. Independent Evaluator

As required by D.10-12-035 and D.07-12-052, PG&E engages an Independent Evaluator ("IE") to monitor the integrity of its competitive solicitations, selection, and contracting for electric supply-side resources with a delivery term of two years or more. The IE for PG&E's first CHP RFO is Merrimack Energy Group, Inc. ("Merrimack Energy"). In the course of its CHP RFO evaluation, Merrimack Energy also evaluates the integrity of the means by which PG&E executed any agreement with a participant in the CHP RFO and the merit of the resulting agreement. In this case, Merrimack Energy was represented by Wayne Oliver.

Before offers received in response to the CHP RFO were opened, the IE reviewed the development of the evaluation criteria and protocols for the evaluation of offers. A representative of the IE was present at offer opening, received a copy of all offer documents, and performed an independent evaluation of the offers. In addition to attending and monitoring the substantive negotiations between the parties and discussions within PG&E, the IE's representative participated in every CAM Group meeting related to PG&E's CHP RFO solicitation. Based upon his comprehensive knowledge of the CHP RFO and its objectives, Mr. Oliver issued his "IE Report," which provides his findings on the CHP RFO solicitation, the offers, his concurrence with the ranking and shortlist, his critique of the contract negotiation process, and his evaluation of the key terms of the KRCC Agreement. His observations were shared with the PRG and CAM Group on April 25, 2012 and August 14, 2012. The IE concluded that the KRCC Agreement merits Commission approval.

The public version of the IE Report on the KRCC Agreement is attached as Appendix 1; the confidential version of the IE Report is attached as Confidential Appendix B.

III. REGULATORY PROCESS

PG&E requests that the Commission issue a resolution approving the KRCC Agreement no later than July 9, 2013.

IV. COST RECOVERY MECHANISM

In its decision approving the QF/CHP Settlement, the Commission determined that the utilities should procure "CHP resources on behalf of non-IOU LSEs [i.e., load serving

entities] and [allocated the] net capacity costs and associated benefits as described in Section 13.1.2.2 of the Term Sheet.”²⁴ Section 13.1.2.2 of the Term Sheet provides:

If the CPUC determines that the IOUs should purchase CHP generation on behalf of DA and CCA customers, then D.06-07-029 (and D.08-09-012 if necessary) shall be superseded to the extent necessary to authorize the IOUs to recover the net capacity costs associated with the CHP Program from all bundled service, DA and CCA customers and all Departing Load Customers except for CHP Departing Load Customers and from Municipal Departing Load (MDL) Customers only to the extent as described below, on a non-bypassable basis. The net capacity costs of the CHP Program shall be defined as the total costs paid by the IOU under the CHP Program less the value of the energy and any ancillary services supplied to the IOU under the CHP Program. No energy auction shall be required to value such energy and ancillary services. In exchange for paying a share of the net costs of the CHP Program, the LSEs serving DA and CCA customers will receive a pro-rata share of the RA [Resource Adequacy] credits procured via the CHP Program.²⁵

Because PG&E is entering into the KRCC Agreement pursuant to the terms of the QF/CHP Settlement and to satisfy the QF/CHP Settlement requirements for MW and GHG Emissions Reduction associated with ESP and CCA customers as well as its own MW and GHG Emissions Reduction Targets, the net capacity costs associated with the KRCC Agreement must be proportionately allocated to all bundled, DA, CCA, and specified Departing Load Customers. These costs are recovered through PG&E’s New System Generation Balancing Account (“NSGBA”). In addition to this proportionate allocation of costs, bundled, DA, CCA and other nonexempt Departing Load Customers will receive a commensurate portion of RA benefits associated with the KRCC Agreement. Finally, PG&E requests authorization to recover its costs associated with the KRCC Agreement through its Energy Resource Recovery Account (“ERRA”).

²⁴ The Commission adopted IOU procurement of CHP resources as a means of meeting the ESP and CCA portion of the State’s GHG Emissions Reduction Targets and stated that “ESP and CCA customers would be responsible for the costs of CHP resources procured on their behalf by the IOUs.” D.10-12-035, at p. 56.

²⁵ Term Sheet, Section 13.1.2.2., as modified by D.11-07-010, OP 3.

V. REQUEST FOR COMMISSION APPROVAL

PG&E requests that the Commission issue a resolution no later than July 9, 2013, that:

1. Approves the KRCC Agreement in its entirety, including payments to be made thereunder, subject only to Commission review of the reasonableness of PG&E's administration of the contract.
2. Determines that the rates and other terms and conditions set forth in the KRCC Agreement are reasonable.
3. Finds that the 296 megawatts ("MW") associated with the KRCC Agreement apply toward PG&E's procurement target of 1,387 MW of CHP capacity in the Initial Program Period, as established by the QF/CHP Settlement.
4. Finds that the 148,171 MT per year of GHG emissions reduction resulting from the KRCC Agreement applies toward PG&E's GHG Emissions Reduction Target as established by the QF/CHP Settlement.
5. Finds that PG&E's costs under the KRCC Agreement shall be recovered through PG&E's ERRA.
6. Adopts the following finding of fact and conclusions of law in support of cost recovery for the KRCC Agreement:
 - a. PG&E shall be entitled to allocate the net capacity costs and associated RA benefits to bundled, DA, CCA, and departing load (to the extent not exempted) customers consistent with D.10-12-035, as modified by D.11-07-010, and PG&E's Advice 3922-E, approved December 19, 2011.
 - b. The costs of the KRCC Agreement are recoverable through ERRA less the net capacity costs, which are recovered through PG&E's NSGBA.
7. Find that because the expected annualized capacity factor of KRCC Units 1-3 is below 60 percent and because the net emissions rate of Unit 4 is below 1,100 lbs/MWh, the KRCC Agreement is compliant with the EPS adopted in D.07-01-039.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, facsimile or E-mail, no later than **February 26, 2013**, which is 20 days after the date of this filing. Protests must be submitted to:

CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: EDTariffUnit@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest shall also be sent to PG&E either via E-mail or U.S. mail (and by facsimile, if possible) at the address shown below on the same date it is mailed or delivered to the Commission:

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

Any person (including individuals, groups, or organizations) may protest or respond to an advice letter (General Order 96-B, Rule 7.4). The protest shall contain the following information: specification of the advice letter protested; grounds for the protest; supporting factual information or legal argument; name, telephone number, postal address, and (where appropriate) e-mail address of the protestant; and statement that the protest was sent to the utility no later than the day on which the protest was submitted to the reviewing Industry Division (General Order 96-B, Rule 3.11).

Effective Date

PG&E requests that this advice filing be effective on or before **July 9, 2013**. PG&E submits this request as a Tier 3 advice letter.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for R.12-03-014. Address changes to the General Order 96-B service list should be directed to PG&E at email address PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.



Vice President, Regulatory Relations

Attachments:

Appendix 1: Final Independent Evaluator Report of Merrimack Energy Group, Inc. (Redacted)

Appendix 2: Declaration of Soumya Sastry Seeking Confidential Treatment and the IOU Matrix

Confidential Appendix A: Consistency with Commission Decisions and Rules and Project Development Status

Confidential Appendix B: Final Independent Evaluator Report of Merrimack Energy Group, Inc.

Confidential Appendix C: Contract Summary

Confidential Appendix D: Comparison of KRCC Agreement with PG&E's Pro Forma Tolling Agreement

Confidential Appendix E: KRCC Agreement

cc: Service List for R.12-03-014
Andrew Schwartz, Energy Division, CPUC
Jason Houck, Energy Division, CPUC
Cem Turhal, Energy Division, CPUC
Joseph Abhulimen, DRA, CPUC

Limited Access to Confidential Material:

The portions of this Advice Letter marked Confidential Protected Material are submitted under the confidentiality protection of Section 583 and 454.5(g) of the Public Utilities Code and General Order 66-C. This material is protected from public disclosure

because it consists of, among other items, the contracts themselves, price information, and analysis of the proposed energy procurement contracts, which are protected pursuant to D.06-06-066 and D.08-04-023. A declaration seeking confidential treatment of the following attachments is being submitted with this advice letter in accordance with D.08-04-023:

- Confidential Appendix A: Consistency with Commission Decisions and Rules and Project Development Status
- Confidential Appendix B: Final Independent Evaluator Report of Merrimack Energy Group, Inc
- Confidential Appendix C: Contract Summary
- Confidential Appendix D: Comparison of KRCC Agreement with PG&E's Pro Forma Tolling Agreement
- Confidential Appendix E: KRCC Agreement

Appendix 2
Declaration of Soumya Sastry Seeking Confidential
Treatment and the IOU Matrix

**DECLARATION OF SOUMYA SASTRY
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION CONTAINED IN
KERN COUNTY COGENERATION CENTER (KRCC) ADVICE LETTER
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Soumya Sastry, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee of PG&E since 2005. I am a principal in the Portfolio Management group in the Energy Procurement department within PG&E. I am responsible for negotiating transactions resulting from PG&E's Combined Heat and Power Request for Offers solicitation and negotiating power purchase agreements with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of such sellers in general and, based on my experience in dealing with facility owners and operators, I am familiar with the types of data and information about their operations that such owners and operators consider confidential and proprietary. I can also identify information that buyers and sellers of electricity would consider to be "market sensitive information" as defined by California Public Utilities Commission ("CPUC") Decision ("D.") 06-06-066 and D.09-12-020, that is, information that has the potential to materially impact a procuring party's market price for electricity if released to market participants.

2. Decision 08-04-023, ordering paragraph 8, requires that any advice letter containing information for which confidential treatment is requested must be accompanied by a declaration under penalty of perjury that justifies confidential treatment pursuant to D.06-06-066. I was the primary contract negotiator on behalf of PG&E in the PG&E-KRCC transaction. Based on my knowledge and experience, I make this declaration seeking confidential treatment of Appendices A, B, C, D, and E to PG&E's Advice Letter ("Confidential Information").

3. The Appendices are as follows:

- Confidential Appendix A: Consistency with Commission Decisions and Rules and Project Development Status
- Confidential Appendix B: Final Independent Evaluator Report of Merrimack Energy Group, Inc.
- Confidential Appendix C: Contract Summary
- Confidential Appendix D: Comparison of KRCC Agreement with PG&E's Pro Forma Tolling Agreement
- Confidential Appendix E: KRCC Agreement

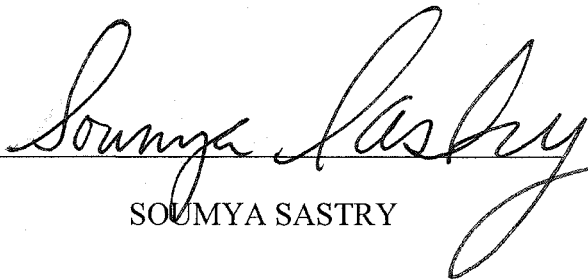
4. Attached to this declaration is a matrix that describes the Confidential Information for which PG&E seeks continued protection against public disclosure, states whether PG&E seeks to protect the confidentiality of the Confidential Information pursuant to D.06-06-066 and/or other authority; and where PG&E seeks protection under D.06-06-066, the category of market sensitive information in D.06-06-066 Appendix I Matrix ("Matrix") to which the Confidential Information corresponds.

5. The attached matrix demonstrates that the Confidential Information (1) constitutes a particular type of confidentiality-protected data listed in the Matrix; (2) corresponds to a category or categories of market sensitive information listed in the Matrix; (3) may be treated as confidential consistent with the limitations on confidentiality specified in the Matrix for that type of data; (4) is not already public; and (5) cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. In the column labeled, "PG&E's Justification for Confidential Treatment", PG&E explains why the Confidential Information is not subject to public disclosure under either or both D.06-06-066 and

General Order 66-C. The confidentiality protection period is stated in the column labeled, "Length of Time."

6. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix.

I declare under penalty of perjury, under the laws of the State of California, that to the best of my knowledge, the foregoing is true and correct. Executed on February 4, 2013, at San Francisco, California.


SOUMYA SASTRY

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
KERN COUNTY COGENERATION CENTER (KRCC) ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix A – Consistency with Commission Decisions and Rules and Project Development Status							
Entire document	Y	Items VIII.B – Specific quantitative analysis involved in scoring and evaluation of participating bids and VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's Combined Heat and Power (CHP) Request for Offers (RFO). This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected. It also describes terms and conditions from the KRCC Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first. Now that the KRCC Agreement has been signed, the 3 year protection period begins when deliveries begin under the Agreement.	3 years from the commencement of deliveries under the Agreement
Document: Confidential Appendix B – Final Independent Evaluator Report of Merrimack Energy Group, Inc.							
Redacted portion	Y Also constitutes data protected by GO 66-C, Exclusion 2.8.	Items VIII.A – Bid Information, VIII.B – Specific quantitative analysis involved in scoring and evaluation of participating bids and VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This is the confidential Independent Evaluator Report for the KRCC transaction. The redacted portion of this confidential appendix provides the participating bids in PG&E's Combined Heat and Power (CHP) Request for Offers, of which the participating bids, counter-party names, prices and quantities offered are confidential. In addition, the redacted portion of this confidential appendix describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's CHP RFO. This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning	3 years from the commencement of deliveries under the Agreement

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
KERN COUNTY COGENERATION CENTER (KRCC) ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix C – Contract Summary							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS), VIII.B – Specific quantitative analysis involved in scoring and evaluation of participating bids	Y	Y	Y	This confidential appendix is a contract summary that describes terms and conditions from the KRCC Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first. It also describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's CHP RFO. This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected.	3 years from the commencement of deliveries under the Agreement

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
KERN COUNTY COGENERATION CENTER (KRCC) ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix D – Comparison of KRCC Agreement with PG&E's Pro Forma Tolling Agreement							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix is a redline of the KRCC Agreement against PG&E's Pro Forma RA Confirmation Agreement. It contains the terms and conditions from the KRCC Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first.	3 years from the commencement of deliveries under the Agreement
Document: Confidential Appendix E – KRCC Agreement							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix is the KRCC Agreement which contains the terms and conditions of the agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first.	3 years from the commencement of deliveries under the Agreement

**DECLARATION OF SOUMYA SASTRY
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION CONTAINED IN
KERN RIVER COGENERATION CENTER (KRCC) ADVICE LETTER
SUBSTITUTE SHEETS FILING
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Soumya Sastry, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee of PG&E since 2005. I am a principal in the Portfolio Management group in the Energy Procurement department within PG&E. I am responsible for negotiating transactions resulting from PG&E's Combined Heat and Power Request for Offers solicitation and negotiating power purchase agreements with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of such sellers in general and, based on my experience in dealing with facility owners and operators, I am familiar with the types of data and information about their operations that such owners and operators consider confidential and proprietary. I can also identify information that buyers and sellers of electricity would consider to be "market sensitive information" as defined by California Public Utilities Commission ("CPUC") Decision ("D.") 06-06-066 and D.09-12-020, that is, information that has the potential to materially impact a procuring party's market price for electricity if released to market participants.

2. Decision 08-04-023, ordering paragraph 8, requires that any advice letter containing information for which confidential treatment is requested must be accompanied by a declaration under penalty of perjury that justifies confidential treatment pursuant to D.06-06-066. I was the primary contract negotiator on behalf of PG&E in the PG&E-KRCC transaction. Based on my knowledge and experience, I make this declaration seeking confidential treatment

of Appendices A and C (Redline and Clean versions) to PG&E's Advice Letter ("Confidential Information").

3. The Appendices are as follows:

Confidential Appendix A: Consistency with Commission Decisions and Rules and Project Development Status (Redline and Clean)

Confidential Appendix C: Contract Summary (Redline and Clean)

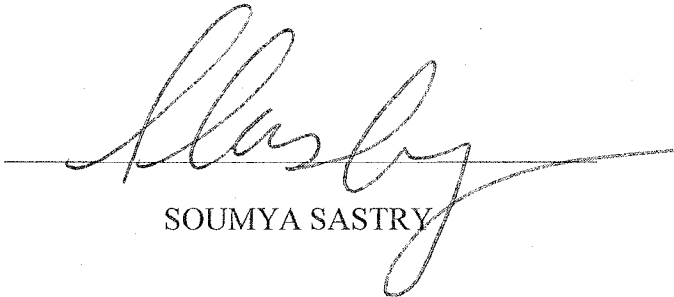
4. Attached to this declaration is a matrix that describes the Confidential Information for which PG&E seeks continued protection against public disclosure, states whether PG&E seeks to protect the confidentiality of the Confidential Information pursuant to D.06-06-066 and/or other authority; and where PG&E seeks protection under D.06-06-066, the category of market sensitive information in D.06-06-066 Appendix I Matrix ("Matrix") to which the Confidential Information corresponds.

5. The attached matrix demonstrates that the Confidential Information (1) constitutes a particular type of confidentiality-protected data listed in the Matrix; (2) corresponds to a category or categories of market sensitive information listed in the Matrix; (3) may be treated as confidential consistent with the limitations on confidentiality specified in the Matrix for that type of data; (4) is not already public; and (5) cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. In the column labeled, "PG&E's Justification for Confidential Treatment", PG&E explains why the Confidential Information is not subject to public disclosure under either or both D.06-06-066 and General Order 66-C. The confidentiality protection period is stated in the column labeled, "Length of Time."

6. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix.

6. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix.

I declare under penalty of perjury, under the laws of the State of California, that to the best of my knowledge, the foregoing is true and correct. Executed on March 12, 2013, at San Francisco, California.



Soumya Sastry's handwritten signature is written in black ink over a horizontal line. The signature is stylized and cursive. Below the signature, the name "SOUMYA SASTRY" is printed in a simple, black, sans-serif font.

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
KERN RIVER COGENERATION CENTER (KRCC) ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix A (Redline and Clean) – Consistency with Commission Decisions and Rules and Project Development Status							
Entire document	Y	Items VIII.B –Specific quantitative analysis involved in scoring and evaluation of participating bids and VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's Combined Heat and Power (CHP) Request for Offers (RFO). This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected. It also describes terms and conditions from the KRCC Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first. Now that the KRCC Agreement has been signed, the 3 year protection period begins when deliveries begin under the Agreement.	3 years from the commencement of deliveries under the Agreement
Document: Confidential Appendix C (Redline and Clean) – Contract Summary							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS), VIII.B – Specific quantitative analysis involved in scoring and evaluation of participating bids	Y	Y	Y	This confidential appendix is a contract summary that describes terms and conditions from the KRCC Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first. It also describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's CHP RFO. This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected.	3 years from the commencement of deliveries under the Agreement