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March 5, 2014

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

**RE: Pacific Gas and Electric Company's Comments to Draft Resolution E-4627
Approving the Proposed Amendment to PG&E's Power Purchase Agreement
with Chevron U.S.A., Inc. to include the Cymric Demonstration Project
(PG&E Advice 4253-E)**

Dear Energy Division Tariff Unit:

Pacific Gas and Electric Company ("PG&E") respectfully submits its comments on Draft Resolution E-4627 ("Resolution"), which approves, without modification, the agreement between PG&E and Chevron U.S.A. Inc. ("Chevron") pursuant to the terms of the Qualifying Facility and Combined Heat and Power ("CHP") Program Settlement Agreement.

Summary

The Chevron Cymric Demonstration Project is a unique bottoming-cycle CHP generating unit. PG&E and Chevron agreed to modify the existing power purchase agreement ("PPA") to facilitate this project and its potential benefits to ratepayers. The resulting agreement between PG&E and Chevron amends an existing Standard Offer 1 ("SO1") PPA. The Cymric Demonstration Project is not eligible for an Optional As-Available PPA because its nameplate capacity is less than 20 MW.

A. The Proposed Amendment Amends an Existing Standard Offer 1 PPA; However, PG&E is Not Proposing an Optional As-Available Agreement for either the Existing Cymric Facility or the New Demonstration Project.

The Resolution states on "The Cymric Optional As-Available agreement was negotiated through a bilateral agreement between Chevron U.S.A. Inc. and PG&E."¹ The Proposed Amendment is a bilaterally negotiated amendment to an existing SO1 PPA between Chevron U.S.A. Inc. and PG&E. Chevron did not request and PG&E is not

¹ Resolution, at p. 13.

proposing an Optional As-Available agreement for either the existing Cymric Facility or the new Demonstration Project.

The Resolution states “Since the Demonstration Project is has an Optional As-Available agreement, only the deliveries actually provided by the facility will be compensated, reducing risk and complexity associated with this agreement.”² The Proposed Agreement is an amendment to an existing SO1 PPA. However, the nature of the existing SO1 PPA is similar to the Optional As-Available pro forma PPA in that PG&E only pays for delivered energy and capacity. For this reason, PG&E agrees with Energy Division staff’s assessment regarding risk and complexity.

Furthermore, the Resolution states “Since the Cymric Agreement was a bilateral Pro-Forma agreement and was not a result of PG&E’s CHP RFO, PG&E did not use an Independent Evaluator.”³ The Proposed Amendment is a bilaterally negotiated amendment to a SO1 pro forma agreement, but it is not a pro forma agreement by itself. PG&E did not use an independent evaluator because the Proposed Amendment does not change the term of the existing SO1 PPA.

B. The Need for the Proposed Amendment Can Be Justified By the Need to Meet the MW Target and the GHG Emission Reduction Target, Not the Capacity of the Demonstration Project.

PG&E agrees with the staff’s assessment that the Proposed Amendment to facilitate the Cymric Demonstration Project “can be justified through the project’s contribution to PG&E MW and GHG reduction targets per the Settlement.” The Demonstration Project provides unique benefits to ratepayers and allows Chevron to investigate the potential of efficient CHP for EOR application in California. The Demonstration Project provides meaningful contributions towards PG&E’s Settlement Term Sheet targets and should be approved.

However, PG&E disagrees with the Energy Division staff’s statement that PG&E determined it would be impractical for Chevron to incur the cost of CAISO interconnection, metering, and scheduling required by the As-Available PPA, for a 950 kW unit. PG&E did not determine that the project should be appended to an existing facility due to interconnection costs, because all generating entities, regardless of total generation capacity, must bear the cost of interconnection and comply with the applicable tariffs that govern electrical interconnection and parallel operation of generation capacity. Rather, PG&E and Chevron agreed that the contract amendment would be a practical approach because the facility was too small to qualify for the applicable As-Available 20 MW PPA.

² Resolution, at p. 15.

³ Resolution, at p. 17.

Conclusion

The Chevron Cymric Demonstration Project is a unique bottoming-cycle CHP and merits the Commission's unconditional approval. The Resolution should be modified to correct and clarify the fact that the resulting agreement between PG&E and Chevron is not an Optional As-Available PPA, but modifies the existing PPA.

Sincerely,

Handwritten signature of Brian Cherry in black ink.

Vice President, Regulatory Relations

cc: President Michael R. Peevey
Commissioner Michel P. Florio
Commissioner Carla J. Peterman
Commissioner Michael Picker
Commissioner Catherine J. K. Sandoval
Karen V. Clopton – Acting General Counsel
Timothy J. Sullivan – Acting Chief Administrative Law Judge
Edward Randolph – Director, Energy Division
Energy Division Tariff Unit
Damon Franz – Energy Division
Jason Houck – Energy Division
Noel Crisostomo – Energy Division
Service List R.12-03-014 (superseding R.10-05-006, which was closed on April 24, 2012)

**Appendix
PG&E's Comments on Draft Resolution E-4627**

**Correction of Errors and
Recommended Revisions to Findings and Conclusions and Ordering Paragraphs**

Reference to Resolution	Corrections and Revisions
<p>(1) Discussion of Cost Reasonableness</p>	<p><u>Analysis:</u> The Chevron Amendment amends an existing SOI PPA. The Optional As-Available PPA is not applicable in this case. Chevron did not request and PG&E is not proposing an Optional As-Available PPA for the Cymric Demonstration Project.</p> <p><u>Recommendation:</u> Paragraph 1 should be amended as follows:</p> <p style="padding-left: 40px;">The Cymric Optional As-Available agreement <u>Amendment</u> was <u>bilaterally</u> negotiated through a bilateral agreement between Chevron U.S.A., Inc. and PG&E. The Optional As-Available PPA is one of the four pro forma contracts negotiated by the parties to the QF/CHP Settlement Agreement and was approved by D.10 12 035. This pro forma is available to CHP Facilities that have a nameplate capacity of over 20 MW, who are no longer entitled to a PURPA “must take” contract under a FERC order that was obtained pursuant to the Settlement Agreement. Generators are paid the negotiated price for as-available capacity and short run-avoided cost for energy, up to an annual limit of 131,500 MWh (15 AMW Cap applies to such as available facilities⁸). Excess deliveries are paid at market rates. Contract terms are limited to 7 years for existing facilities and 12 years for new facilities. Since the Cymric agreement <u>Amendment</u> is <u>amending</u> being added onto an evergreen contract it will not be limited to the maximum 7 to 12 year (existing CHP and new CHP respectively) purview of the Settlement. As a result staff reviewed the overall cost reasonableness of the plant with a “no end date” in mind. Still, staff found that the costs associated with the Cymric agreement are just and reasonable.</p> <p><u>Analysis:</u> The Cymric Demonstration Project would not be eligible for an Optional As-Available PPA since the PPA requires a nameplate capacity of at least 20 MW.</p> <p><u>Recommendation:</u> Paragraph 2 should be amended as follows:</p>

	<p>Through the Cymric Demonstration Project agreement, Chevron will study the unit’s use of waste heat to determine the technical, economic, and commercial feasibility of using the Organic Rankine Cycle to harness the waste heat from the enhanced oil recovery process to generate electricity. The nameplate capacity of the demonstration unit is only 4 percent of the total nameplate capacity of the enlarged Cymric facility. The actual output of this experimental demonstration unit cannot be predicted with any certainty. In this case, PG&E and Chevron determined that it would be impractical for Chevron to incur the cost of CAISO interconnection, metering and scheduling required by the As Available PPA, for a 950 kW unit. The Commission should confirm that the addition of a new CHP unit to an existing CHP Facility will count toward the IOU’s CHP Program targets and thereby provide incentives for IOUs to facilitate the type of efficient CHP development needed to advance the use of CHP. Since the Demonstration Project is has an Optional As Available agreement, o <u>Only the deliveries actually provided delivered to the grid</u> by the facility will be compensated, reducing the risk and complexity associated with this agreement.</p>
<p>(2) Discussion of Independent Evaluator Review</p>	<p><u>Analysis:</u> Chevron did not request and PG&E is not proposing an Optional As-Available PPA for the Cymric Demonstration Project.</p> <p><u>Recommendation:</u> Paragraph 2 should be amended as follows:</p> <p style="padding-left: 40px;">Since the Cymric Agreement was a bilateral Pro-Forma agreement amendment that did not change the term of the underlying PPA, and was not a result of PG&E’s CHP RFO, PG&E did not use an Independent Evaluator.</p>