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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company for Approval of Agreements Related to the Novation of the California Department of Water Resources Agreement with GWF Energy LLC, Power Purchase Agreement with GWF Energy II LLC, and Associated Cost Recovery (U39E).

**Application 09-10-022
(Filed October 16, 2009)**

Application of Pacific Gas and Electric Company for Approval of the Novation of the California Department of Water Resources Agreements Related to the Calpine Transaction, and Associated Cost Recovery (U39E).

**Application 09-10-034
(Filed October 30, 2009)**

**REPLY COMMENTS OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39-E)
ON PROPOSED DECISION OF ALJ KENNEY**

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Pacific Gas and Electric Company (“PG&E”) replies to the May 10, 2010 Opening Comments on the Proposed Decision of ALJ Kenney (“PD”) regarding PG&E’s Applications for approval of its novations of California Department of Water Resources (“DWR”) energy procurement contracts and the resultant Power Purchase Agreements (“PPAs”) with sellers GWF Energy LLC (“GWF”) and Calpine Energy Services LLC (“Calpine”).¹ In these Reply Comments, PG&E provides critical information and analysis to guide the Commission’s interpretation of the Opening Comments of the Parties on the PD.

¹ Opening Comments (“Comments”) were filed by Alliance for Retail Energy Markets and California Large Energy Consumers Association (“AReM/CLECA”), the Division of Ratepayer Advocates (“DRA”), Calpine Energy Services, Inc. (“Calpine”), GWF Energy LLC (“GWF”), Independent Energy Producers Association (“IEP”), Pacific Gas and Electric Company (“PG&E”), and The Utility Reform Network (“TURN”). These parties, with the exception of PG&E, are referred to herein as “the Parties”.

I. CALPINE AND GWF’S COMMENTS REGARDING COST-EFFECTIVENESS REQUIRE CLARIFICATION.

GWF and Calpine both assert that the Tracy and Los Esteros Critical Energy Facility (“LECEF”) Upgrades are cost-effective.² PG&E agrees and in this proceeding has provided detailed testimony demonstrating this point.³ Similarly, the Independent Evaluator’s Report (“IE Report”) concludes that the net market valuation of the Upgrade PPAs was reasonable and, based on this and other factors, the Independent Evaluator (“IE”) recommends Commission approval.⁴ This testimony and the IE Report were completely ignored by the PD. There are several statements in these parties’ Comments, however, that require correction.

First, Calpine asserts that, based on its review of certain public information, the LECEF Upgrade PPA appears to have lower costs than the Oakley Generating Station (“Oakley Project”), which was one of the winning bids in PG&E’s 2008 Long-Term Request for Offers (“2008 LTRFO”) and is currently being considered in A.09-09-021.⁵ This assertion is misplaced and erroneous. The total cost of the LECEF Upgrade is less than the Oakley Project because the LECEF Upgrade is only one-fifth the MW size of the Oakley Project, so of course it is less on a total cost basis. More importantly, what is notably absent from Calpine’s Comments is a discussion of market value. Market valuation is the appropriate metric for evaluating the customer benefits of a proposed project. In both this proceeding and A.09-09-021, PG&E has submitted undisputed evidence that the Oakley Project has a significantly better market value than the Tracy

² Calpine’s Comments at pp. 8-11; GWF’s Comments at pp. 12-13.

³ See Ex. 1 at pp. 3-2 – 4-3 (explaining benefits and market value of the Tracy Upgrade); Ex. 2 at pp. 3-3 – 3-5 (explaining the benefits and market value of the LECEF Upgrade); Ex. 3 at p. 1-4 - 1-11 (explaining cost benefits and effectiveness of Tracy Upgrade); pp. 2-2 and 2-8 – 2-9 (explaining cost benefits and effectiveness of the LECEF Upgrade).

⁴ Ex. 3, Appendix A-1, at p. A-1-2.

⁵ Calpine’s Comments at pp. 9-10.

and LECEF Upgrade PPAs.⁶ The misstatement and erroneous conclusion in Calpine’s Comments is likely because Calpine did not have access to this market-sensitive data. However, this misstatement does need to be corrected.

Second, Calpine and GWF reference testimony from TURN in A.09-09-021 that the Tracy and LECEF Upgrades might be better cost alternatives as a part of an overall “Lower Need Portfolio” and could replace the Oakley Project.⁷ However, as PG&E conclusively demonstrated in its reply testimony in A.09-09-021, TURN’s analysis was fundamentally flawed and was based on a faulty market valuation analysis.⁸

PG&E does not, by these statements, intend in any way to imply that the Tracy and LECEF Upgrade PPAs are not cost-effective. Instead, PG&E simply seeks to clarify misstatements made by Calpine and GWF based on a partial review of the record from another Commission proceeding. While the 2008 LTRFO winners are clearly the best value for PG&E customers, PG&E also believes that the Tracy and LECEF Upgrade PPAs are cost-effective, highly viable, and offer environmental and public policy benefits, and, on these bases, should be approved as well as the 2008 LTRFO winners.

II. TURN PROPOSES TO CLARIFY THAT THE CALPINE PEAKERS SERVE BUNDLED PORTFOLIO NEED.

TURN recommends that Section 7.3.1. of the PD (which describes the need to be fulfilled by Peakers’ capacity) be deleted because it does not distinguish between system need - which must be met by physical capacity and bundled service need – which can be addressed through PPAs.⁹

⁶ See Ex. 1-C, PG&E Prepared Testimony for A.09-10-022, Confidential Appendix 3 (showing market valuation of Oakley Project and Upgrade Projects), and Ex. 3-C, “Supplement to IE Report for PG&E’s 2008 LTRFO/All source Solicitation for New Power Supplies”, Confidential Appendix A-2.

⁷ Calpine’s Comments at p. 11, n. 38; GWF Comments at pp. 12-13.

⁸ A.09-09-021, PG&E Reply Testimony, submitted March 10, 2010 at pp. 31-32.

⁹ TURN’s Comments at pp. 2-4.

Section 7.3.2 (which notes that the Peakers PPA maintains resource adequacy) correctly describes the necessity for Peakers generation. The PD should be clarified by deleting Section 7.3.1 and its associated Finding of Fact, 11, except for the sentence “In light of these circumstances, we find that PG&E has a need for the capacity provided by the Peakers PPA”, which should be appended to the end of Section 7.3.2. PG&E also accepts TURN’s suggestions regarding Section 7.3.3 of the PD.¹⁰

III. AReM’S ATTEMPTS TO IMPOSE A NEW REASONABLENESS STANDARD ARE INAPPROPRIATE.

AReM claims that, in addition to rejecting the Tracy and LECEF Transactions, the PD should reject the Peakers Transaction because the PD erred in assuming that - without the Peakers - PG&E would face an additional 502 MW of need. This assumption appears in Section 7.3.1 and should be deleted for the reasons described above; therefore, AReM’s claims are moot.

The PD has found that the Peakers Transaction has a positive net market value that was achieved by extending an existing DWR contract through bilateral negotiations authorized by the DWR Novation Decision. AReM argues that the Peakers should be subject to standards other than those adopted for DWR novation contracts. Since AReM has not shown that the PD failed to apply the reasonableness standards adopted by D.08-11-056 or committed other error, AReM’s demands are groundless and should be rejected.

IV. DRA’S RELIANCE ON THE LTTP IS SHORT-SIGHTED.

DRA’s support for the PD’s theory that all long-term procurement for new resources must first fill a need established in the Long-Term Procurement Plan (“LTTP”) before it can address any other Commission policy is short-sighted. The 2010 LTTP will not be decided until the end of 2011¹¹ and, already, due to the new Once-Through Cooling (“OTC”) policy for thermal generation

¹⁰ TURN’s Comments at pp. 5-6.

¹¹ See R.10-05-006, Rulemaking to adopt 2010 Long-Term Procurement Plans.

**CERTIFICATE OF SERVICE
BY ELECTRONIC MAIL**

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 17th day of May, 2010, I served a true copy of:

**REPLY COMMENTS OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39-E)
ON PROPOSED DECISION OF ALJ KENNEY**

[XX] By Electronic Mail – serving the enclosed, via E-Mail transmission, to each of the parties listed on the Official Service list for CPUC Docket No's. A.09-10-022 and A.09-10-034 with an e-mail address.

[XX] By Hand Delivery to:

**Administrative Law Judge Timothy Kenney
CALIFORNIA PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue, 5th Floor
San Francisco, CA 94102**

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 17th day of May, 2010 at San Francisco, California.

/S/

ELIZABETH J. DIAMOND