

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
**ENERGY DIVISION**  
**I.D. # 9987**  
**RESOLUTION E-4387**  
**December 16, 2010**

**R E S O L U T I O N**

Resolution E-4387. Pacific Gas and Electric Company (PG&E) proposes to permanently close the Humboldt Bay Power Plant.

PROPOSED OUTCOME: Authorizes PGE to retire Humboldt Bay Power Plant ("HBPP") Units 1, 2, Mobile Emergency Power Plant (MEPP) 3, and Mobile Emergency Power Plant (MEPP) 4. Any issues that the Commission must address relating to ratemaking, decommissioning, or disposition of the plant and related assets shall be addressed by separate Commission orders.

Estimated Cost: None.

By Advice Letter 3740-E, filed October 12, 2010.

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**SUMMARY**

PG&E's Advice Letter 3740-E, proposing to permanently close its Humboldt Bay Power Plant (HBPP) Units 1, 2, MEPP3, and MEPP 4, is approved. Any issues that the Commission must address relating to ratemaking, decommissioning, or disposition of the plant and related assets shall be addressed by separate Commission orders.

**BACKGROUND**

By Advice Letter 3740-E, PG&E announces its intent to retire Humboldt Bay Power Plant ("HBPP") Units 1 and 2. PG&E also plans to shut down Mobile Emergency Power Plant (MEPP) Units 3 and 4 at HBPP.<sup>1</sup> The Advice Letter does not discuss the 65

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<sup>1</sup> PG&E's June 2, 2010 letter to the Executive Director.

megawatt (MW) nuclear unit at the same site, which is already in decommissioning status.

The retiring HBPP includes two fossil-fueled boiler steam turbine generator units of 50 MWs each (Units 1 and 2), and two simple cycle gas turbine generators of 15 MWs each (MEPPs 3 and 4), with a total capacity of 130 MWs. In D.06-11-048, the Commission previously approved the new Humboldt Bay Generating Station ("HBGS" or "replacement units"), which consists of ten diesel engine-powered units with a combined capacity of 165 MWs. PG&E will fuel the replacement units with natural gas as the primary fuel and diesel fuel (distillate) as a backup. HBGS became commercially operational as of September 30, 2010.

In General Order 167, the Commission adopted Operation Standards for Power Plants. Operation Standard 24 requires Generating Asset Owners (GAO's) covered by GO 167 to obtain an affirmative declaration from the Commission prior to closing a generating facility or making any long-term changes in operating status.<sup>2</sup> The GAO must also confirm with the Control Area Operator that a generation facility is no longer needed for reliability.

On June 2, 2010, PG&E sent a letter notifying Commission Executive Director Paul Clanon of PG&E's intent to permanently shut down all remaining units at HBPP in the third quarter of 2010. PG&E states that the HBPP closure coincides with the estimated commercial operation date of the new HBGS. PG&E's letter states that HBPP is no longer needed to meet demand in PG&E's service territory, as the HBGS replacement units will perform the same functions as the retiring HBPP.

In D. 06-11-048, *Opinion Approving Results of Long-Term Request for Offers* (PG&E's Long Term RFO), the Commission granted PG&E's unopposed request for a Certificate of Public Convenience and Necessity (CPCN), a power purchase agreement and a construction contract for the new HBGS facility, to replace the existing HBPP units, now at the end of their useful life<sup>3</sup>. In September 2008, the California Energy Commission

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<sup>2</sup> Operating Standard 24 reads as follows: OS 24 – Approval of changes in Long-Term Status of a Unit. The GAO maintains a unit in readiness for service in conformance with Standard 22 unless the Commission, after consultation with the Control Area Operator, affirmatively declares that a generation facility is unneeded during a specified period of time. This standard is applicable only to the extent that the regulatory body with relevant ratemaking authority has instituted a mechanism to compensate the GAO for readiness services provided.

<sup>3</sup> CPUC D.06-11-048, *Opinion Approving Results of Long-Term Request for Offers* (Nov.30, 2006), Ordering Paragraphs 1 and 2, p.45 and Finding of Fact 29.

(CEC) approved PG&E's Application and Certificate to construct and operate the new HBGS.<sup>4</sup>

On October 12, 2010, PG&E filed Advice Letter 3740-E, which proposes to permanently shut down the retiring HBPP units. The Advice Letter affirms that PG&E's resource planning process has already factored in the closure of HBPP. PG&E also provided correspondence between the utility, the California Independent System Operator (CAISO) and the Federal Energy Regulatory Commission (FERC) regarding the retirement of HBPP. PG&E's June 18, 2010 letter to the CAISO proposes to transfer two agreements, the Interim Dual Fuel Agreement and the Interim Black Start Agreement, from the retiring HBPP to the new HBGS within a late September-early October timeframe. On July 29, 2010, PG&E filed the proposed Agreements with FERC. FERC accepted the revised agreements on September 9, 2010. The CAISO's October 1, 2010 *Decision on Conditional Approval to Extend Existing RMR Contracts for 2011* extends the black start and dual fuel contracts to the replacement units, conditional upon the operational start of the replacement units, and the subsequent retirement of the existing units.

Finally, PG&E states that the Commission need not address any Section 851 issues to approve the HBPP closure, as PG&E retains ownership of the land, and the Commission will address the decommissioning and salvage value in other ratemaking proceedings.<sup>5</sup>

## **NOTICE**

Notice of AL 3740-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A. PG&E also served the advice letter to all parties in the G.O. 96-B advice letter service list.

## **PROTESTS**

No protests were filed.

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<sup>4</sup> CEC Order No.08-0924-5, CMF.PDF. <http://www.energy.ca.gov/2008publications/CEC-800-2008-005/CEC-800-2008-005-CMF.PDF>, pg.17.

<sup>5</sup> PG&E filed a separate Advice Letter, AL 3734-E on September 16, 2010 regarding the new Humboldt Bay revenue requirement.

## **DISCUSSION**

By this resolution we authorize PG&E to permanently close the HBPP. In so doing, we note that PG&E is a Generating Asset Owner (GAO) as defined in GO 167, and the filing of this advice letter by PG&E is appropriate in order to ensure compliance with Operation Standard 24, which requires Commission approval before a GAO makes a long term change in the status of HBPP.<sup>6</sup> PG&E has provided the requisite notice to the Commission, and taken appropriate steps to consult with the California Independent System Operator (CAISO) regarding the need determination, as set forth in PG&E's Advice Letter and its June 2, 2010 letter to Executive Director Paul Clanon. PG&E's proposed closure of HBPP is also supported by the following actions:

In D. 06-11-048, the Commission granted PG&E's request for a CPCN, approved PG&E's PPA to construct the new HBGS, and acknowledged that "The facility will replace the existing power plant at Humboldt Bay, which is at the end of its useful life."<sup>7</sup> The CEC's approval of the HBGS in September 2008 also affirmed that the new Humboldt Bay units were built to replace the old HBPP.<sup>8</sup>

The new Humboldt Bay Plant began commercial operation September 30, 2010. PG&E confirms that it no longer relies on the retiring HBPP to meet resource planning needs in its service territory, as the new replacement plant will provide for the same approximate capacity, and therefore fulfills the same reliability functions as the retiring HBPP.

In addition, both the FERC<sup>9</sup> and the CAISO<sup>10</sup> have reviewed and approved PG&E's request to revise existing contract provisions applicable to HBPP concerning interim blackstart and dual fuel capabilities, such that these provisions would be applicable to HBGS once HBPP retires. Thus, the CAISO has been notified and consulted regarding

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<sup>6</sup> Under GO 167, the term Generating Asset Owner (GAO) refers to any person or entity owning, controlling, operating or managing electric generating facilities located in California or owned by an electrical corporation. (GO 167 §§ 2.8, 2.9.)

<sup>7</sup> CPUC D.06-11-048, p. 32.

<sup>8</sup> CEC Order No.08-0924-5, p.17.

<sup>9</sup> FERC Docket Nos: ER10-2054-000 and ER 10-2055-000 (September 9, 2010).

<sup>10</sup> CAISO's Memorandum Re: Decision on Conditional Approval to Extend Existing RMR Contracts for 2011 (September 1, 2010).

PG&E's plans to close HBPP and open HBGS. Both CAISO and FERC have approved of the transfer of contract conditions to HBGS. Therefore, it is reasonable for the Commission to conclude that HBPP is no longer needed for reliability once the HBGS is operational.

In its advice letter, PG&E states that it does not contemplate a need for the Commission to address any asset disposition matters pursuant to Public Utilities Code Section (Section) 851. PG&E states that assets that remain useful will be redeployed by PG&E in other areas, and that any remaining assets that are no longer necessary or useful will be disposed of as salvage.

We agree that ratemaking matters associated with closure of HBPP, if any, shall be addressed by the Commission in other appropriate proceedings. By authorizing PG&E to close the HBPP we do not prejudge any ratemaking or decommissioning issues related to the plant. We also do not prejudge any issue associated with disposition of plant assets, including matters addressed pursuant to Section 851. Those issues will be addressed in separate Commission proceedings.

### **COMMENTS**

Public Utilities Code section 311(g) (1) requires that draft resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda on December 16, 2010.

### **FINDINGS AND CONCLUSIONS**

1. Operation Standard 24 of GO 167 requires PG&E to seek Commission approval before retiring HBPP.
2. PG&E filed AL 3740-E on October 12, 2010, proposing to permanently shut down HBPP.
3. In D.06-11-048 Commission stated its approval of PG&E's CPCN for the new Humboldt Bay Power Plant. The Commission stated in granting approval of the CPCN for the replacement Humboldt Project, that the new plant will replace the existing HBPP, which is at the end of its useful life.

4. In CAISO's October 1, 2010 *Decision on Conditional Approval to Extend Existing RMR Contracts for 2011*, the CAISO extended the Interim Blackstart and Interim Dual Fuel capability contracts to HBPP and provided for the substitution of the soon-to-be retired HBPP units with the new replacement Humboldt Bay Generating Station in those agreements.
5. FERC approved PG&E's requests to revise its Interim Dual Fuel Agreement and Interim Black Start Agreement with the CAISO to account for the replacement of the old HBPP with the new replacement Humboldt Bay Generating units.
6. PG&E sought and obtained CAISO and FERC approval to modify its CAISO dual-fuel and blackstart contracts, to provide for the substitution of the retiring HBPP with the new replacement Humboldt Bay units.
7. With the completion and commercial operation of the new replacement Humboldt Bay Power Plant, and the agreement of the CAISO, it is reasonable for the Commission to conclude that HBPP is no longer needed for reliability purposes.
8. Any issues related to the shut-down of the HBPP site involving plant and related asset disposition, including matters that the Commission must address pursuant to Section 851, should be considered in separate Commission proceedings.
9. Issues related to ratemaking and decommissioning of the HBPP should be addressed by the Commission in separate orders in other appropriate proceedings.

**THEREFORE IT IS ORDERED THAT:**

1. PG&E is authorized to permanently close the Humboldt Bay Power Plant (HBPP).
2. This Resolution does not resolve any issues related to the shut-down of the HBPP site that involve plant and related asset disposition, including matters that the Commission must address pursuant to Section 851. Those issues shall be addressed in separate Commission orders.
3. This Resolution does not resolve any issues related to ratemaking and decommissioning of the HBPP. Those issues shall be addressed by the Commission in separate orders in the appropriate proceedings.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 16, 2010, the following Commissioners voting favorably thereon:

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Paul Clanon  
Executive Director

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



**I.D.# 9987**

**November 16, 2010**                      **Resolution E-4387**  
**Commission Meeting Date: December 16, 2010**

**TO: SERVICE LIST FOR DRAFT RESOLUTION  
E-4387**

Enclosed is draft Resolution E-4387 prepared by the Energy Division. It will be on the agenda at the December 16, 2010 Commission meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution no later than December 6, 2010.

Comments should be submitted to:

Honesto Gatchalian and Maria Salinas  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
[gnj@cpuc.ca.gov](mailto:gnj@cpuc.ca.gov); [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)



A copy of the comments should also be submitted to:

Lana Tran and Don Lafrenz  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Fax: 415-703-5621  
Email: [ltt@cpuc.ca.gov](mailto:ltt@cpuc.ca.gov); [dlf@cpuc.ca.gov](mailto:dlf@cpuc.ca.gov)

Comments may be served by email. Any comments on the draft Resolution must be received by the Energy Division by December 6, 2010. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, the Chief Administrative Law Judge and the General Counsel, on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to fifteen pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal, or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Late submitted comments will not be considered.

/s/ Gurbux Kahlon

Gurbux Kahlon  
Program Manager  
Energy Division

Enclosure: Service List  
Certificate of Service

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of Draft Resolution E-4387 on all parties in these filings or their attorneys as shown on the attached list.

Dated November 16, 2010 at San Francisco, California.

/s/ Margarita Lezcano

*Margarita Lezcano*

**NOTICE**

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

Service List for Draft Resolution E-4387

Jane K. Yura, Vice-President, Regulation and Rates  
Pacific Gas and Electric Company  
77 Beale Street, Mail Code B10B  
P.O. Box 770000  
San Francisco, CA 94177  
[PGETariffs@pge.com](mailto:PGETariffs@pge.com)

CAISO  
LEGAL & REGULATORY DEPT.  
151 BLUE RAVINE ROAD  
FOLSOM, CA 95630  
[e-recipient@caiso.com](mailto:e-recipient@caiso.com)

Antonio, Sonny	<a href="mailto:s.antonio@sunshinedesignllc.net">s.antonio@sunshinedesignllc.net</a>
Ardison, Candice	<a href="mailto:cardison@mercedid.org">cardison@mercedid.org</a>
Barkovich, Barbara	<a href="mailto:brbarkovich@earthlink.com">brbarkovich@earthlink.com</a>
Bateman, Dean	<a href="mailto:dbateman@recsolar.com">dbateman@recsolar.com</a>
Beach, Tom	<a href="mailto:tomb@crossborderenergy.com">tomb@crossborderenergy.com</a>
Bergmann, Dan	<a href="mailto:dbergmann@igservice.com">dbergmann@igservice.com</a>
Black, Andy	<a href="mailto:andy@ongrid.net">andy@ongrid.net</a>
Blaising, Scott	<a href="mailto:blaising@braunlegal.com">blaising@braunlegal.com</a>
Bloch, Lan	<a href="mailto:enfile@csc.com">enfile@csc.com</a>
Booth, William	<a href="mailto:wbooth@booth-law.com">wbooth@booth-law.com</a>
CAISO	<a href="mailto:e-recipient@caiso.com">e-recipient@caiso.com</a>
Cameron, Doug	<a href="mailto:dcameron@cleanenergyfuels.com">dcameron@cleanenergyfuels.com</a>
Carroll, Dan	<a href="mailto:dcarroll@downeybrand.com">dcarroll@downeybrand.com</a>
Casner, Steve	<a href="mailto:casner@acm.org">casner@acm.org</a>
Caulson, Megan	<a href="mailto:mcaulson@semprautilities.com">mcaulson@semprautilities.com</a>
Clark, Avis	<a href="mailto:aclark@calpine.com">aclark@calpine.com</a>
Clark, Marshall	<a href="mailto:mclark@dgs.ca.gov">mclark@dgs.ca.gov</a>
Conte, Cliff	<a href="mailto:Cliff_Conte@oxy.com">Cliff_Conte@oxy.com</a>
Cunningham, Mark	<a href="mailto:mac_lighting@bak.rr.com">mac_lighting@bak.rr.com</a>
Day, Michael	<a href="mailto:hpatrick@gmssr.com">hpatrick@gmssr.com</a>
Dey, Sheila	<a href="mailto:sheila@wma.org">sheila@wma.org</a>
DiAlto, Gretchen	<a href="mailto:GDiAlto@semprautilities.com">GDiAlto@semprautilities.com</a>
Doan, Chi	<a href="mailto:chi@water.ca.gov">chi@water.ca.gov</a>
Dodson, David	<a href="mailto:david_dodson@transcanada.com">david_dodson@transcanada.com</a>
Douglas & Liddell	<a href="mailto:liddell@energyattorney.com">liddell@energyattorney.com</a>
Douglass, Dan	<a href="mailto:douglass@energyattorney.com">douglass@energyattorney.com</a>

Eisdorfer, Ken	keisdorfer@ameresco.com
Fellman, Diane	diane.fellman@nrgenergy.com
Fic, Bob	bobfic@verizon.net
Finne, Larry	lfinne@unitedcogen.com
Fisher, Greg	gfisher@caiso.com
Gansecki, Karyn	karyn.gansecki@sce.com
Gillette, Melanie	mlgillette@duke-energy.com
Greene, Phillip	greenep@fosterfarms.com
Hanschen, Peter	phanschen@mofo.com
Hilen, Christopher	chilen@sppc.com
Hines, Brian	brian@ncsr.com
House, Lon	lwhouse@innercite.com
Huard, David	dhuard@manatt.com
Huhman, Steve	steve.huhman@mirant.com
Hunter, Randy	Randy_Hunter@transcanada.com
Isom, Roger	roger@ccgga.org
Jansen, Eric	ericj@eslawfirm.com
Jaske, Mike	mjaske@energy.state.ca.us
Keen, Randall	PUCService@manatt.com
Keniston, Eric	eric.keniston@cityofpaloalto.org
Kerkorian, Michael	mk@utilitycostmanagement.com
King, Chris	ckingaei@yahoo.com
Kjosnes, Ole	ole.kjosnes@seattle.gov
Lara, Vanessa	vlara@mercedid.org
Lawrence, Scott	scottlawrence@earthlink.net
Leslie, John	jleslie@luce.com
Lloyd, Connie	clloyd@bart.gov
Lloyd, Debra	debra.lloyd@cityofpaloalto.org
Lower, C.	clower@earthlink.net
McCoy, Patrick	robert.mccoy@dgs.ca.gov
McCrea, Keith	kmccrea@sablau.com
McFeron, Sue	suem@calpine.com
McGuire, Patrick	patrickm@crossborderenergy.com
McKenzie, Steve	steve@mckenzie-associates.com
Minchin, Lori	glj@gljpublications.com
Monier, Wes	fwmonier@tid.org
Morris, Gregory	gmorris@emf.net
Muller, Phillip	philm@scdenergy.com
Neenan, Rob	rob@clfp.com
Newsom, Sid	SNewsom@SemptraUtilities.com
Noger, Rick	rick_noger@praxair.com
Norris, Paul	w6bd@msn.com
O'Brien, Ed	EdO@mid.org
O'Neill, Edward	edwardoneill@dwt.com
Pau, Judy	pauj@dwt.com
Pedersen, Norman	npedersen@hanmor.com
Perry, Ron	ron.perry@commercialenergy.net
Poole, Edward	epoole@adplaw.com
Porter, Douglas	porterdk@sce.com
Raymer, Bob	rraymer@cbia.org
Rochman, Michael	rochmanm@spurr.org
SCE	AdviceTariffManager@sce.com

Scheuerman, Paul	pgs@ieee.org
Schmidt, Reed	rschmidt@bartlewells.com
Schoenbeck, Donald	dws@r-c-s-inc.com
Sims, Ken	ksims@siliconvalleypower.com
Squeri, James	jsqueri@gmssr.com
Stange, Annie	sas@a-klaw.com
Stewart, Michael	michael@santafejets.com
Tornoe, Gini	g.tornoe@intpower.com
Toyama, Nathan	ntoyama@smud.org
Trowbridge, Ann	atrowbridge@daycartermurphy.com
Ubavich, Nina	Nevenka.Ubavich@ladwp.com
Valeri, J.	jvaleri@semprautilities.com
Villanueva, Danny	Villanueva_Danny@laoe.edu
Weisenmiller, Robert	mrw@mrwassoc.com
White, David	david_white@transcanada.com
Williams, Gene	gwilliams@sppc.com
Williams, Shyletha	shyletha.williams@dla.mil
Wodtke, Alexis	lex@consumercal.org
Wood, William	bwood@energy.state.ca.us
Yap, Catherine	ceyap@earthlink.com
Austin, Steve	saustin@bostonproperties.com
Bell, Michael	wwwmbell@mbellmc.com
Blake, Nicole	blake@consumercal.org
Bohn, Ken	ken@in-houseenergy.com
Burkom, Jack	jack.burkom@brookfieldpower.com
Cade, Mike	wmc@a-klaw.com
Castracane, Steve	steven.castracane@linde.com
Chediak, Mark	mchediak@bloomberg.net
Colvin, Steven	scolvin@bostonproperties.com
Connolly, Ipek	Ipek.Connolly@CityofPaloAlto.org
Davie, Doug	ddavie@wellhead.com
Fang, Cynthia	cfang@semprautilities.com
Flory, John	jflory@necclear.com
Goossens, Ehren	egoossens1@bloomberg.net
Hamlin, Corey	CHamlin@ghirardelli.lindt.com
Helen ?	helen@econsci.net
Huhman, Steven	steven.huhman@morganstanley.com
Jones, Sunita	skjones@sfwater.org
Keele, Dustin	utilities@photonenergyservices.com
Kingerski, Harry	hkingerski@sparkenergy.com
Martini, William	william.martini@tecogen.com
Maye, Shelly-Ann	smaye@nappartners.com
Miller, Matt	matthew.miller@recurrentenergy.com
Nalley, Lori	lnalley@tigernaturalgas.com
Nanjo, Henry	henry.nanjo@dgs.ca.gov
PG&E Regulation & Rates	<a href="mailto:PGETariffs@pge.com">PGETariffs@pge.com</a>
Prabhakaran, Vid	vprabhakaran@goodinmacbride.com
Reid, Jan	janreid@coastecon.com
Reinero, Paula	preinero@mercedid.org
Roberts, Bill	bill@econsci.com
Roesser, Randy	rroesser@energy.state.ca.us
Ross, Jim	jimross@r-c-s-inc.com

Rutherford, Reid	reidrutherford@gmail.com
Salazar, Julie	julie.salazar@ge.com
Schenk, Jenine	eslight@apsc.com
Seperas, Danielle	dmatthews@calpine.com
Sharma, Ravi	ravis@siloenergy.com
Shaw, Tim	opudmgr@opud.org
Sheriff, Nora	nes@a-klaw.com
Smith, Allison	afsmith@semprautilities.com
Soares, Brian	pgeadvice@wellhead.com
Srinivasan, Seema	sls@a-klaw.com
Swindle, Matthew	mswindle@nlineenergy.com
Terranova, Karen	filings@a-klaw.com
Watson, David	dwatson@lbl.gov
Welch, Ray	ray.welch@navigantconsulting.com
Yura, Jane K., Vice-President PG&E Regulation and Rates	<a href="mailto:pgetariffs@pge.com">pgetariffs@pge.com</a>