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Commissioner	:	<u>Peevey</u>
ALJ	:	<u>Fukutome</u>
Witness	:	<u>Burns</u>



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations  
for  
Pacific Gas and Electric Company  
General Rate Case  
Test Year 2011**

Energy Supply Costs

**\*\* Redacted, Public Version \*\***

San Francisco, California  
May 5, 2010

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# ENERGY SUPPLY COSTS

## I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding Pacific Gas and Electric Company's (PG&E) forecasts of Energy Supply operation and maintenance (O&M) expenses for Test Year (TY) 2011 and capital expenditures for 2009 through 2011.

Energy Supply O&M expenses are for work activities related to operating and maintaining PG&E's generation facilities (i.e., hydroelectric, nuclear, and fossil fuel power plants), as well as the utility's energy procurement administration costs and generation support costs. This includes the cost of acquiring power to meet customer demands, such as power trading, administering PG&E's contracts with qualifying facilities (QFs) and other power purchase agreements (PPAs), as well as costs associated with obtaining long-term electric supply resources.

Electric generation capital expenditures include plant investment in PG&E's hydroelectric, nuclear, and fossil fuel power plants. This includes capital outlays associated with generation facilities equipment such as turbines, pumps, boilers, instrumentation and controls, information technology, tools, etc.

This exhibit does not address fuel costs for PG&E's generation facilities, power costs for the Department of Water Resources (DWR) contracts, nuclear decommissioning or SAFSTOR operations costs.

## II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations regarding Hydroelectric Generation O&M expenses and capital expenditures:

- DRA recommends that PG&E's Hydro O&M for TY 2011 should be capped at the 2009 funding level of \$115.5 million (p. 5).
- DRA recommends that the Commission reject PG&E's request for all five new small hydro generation projects (p. 14).
- DRA recommends that the Commission reject PG&E's request for new Hydro generation and pumped storage development O&M (p. 9).

- 1 • DRA recommends that the Commission reject PG&E's Lime Saddle and  
2 Coal Canyon penstock and flume replacement projects (p. 15).
- 3 • DRA opposes PG&E's request for an enhanced rate of return for the  
4 Kilarc-Cow Creek decommissioning project (p. 17).

5 The following summarizes DRA's recommendations regarding Nuclear  
6 Generation O&M expenses and capital expenditures:

- 7 • DRA recommends that the Commission adopt an adjustment of \$3.5  
8 million for aging workforce to PG&E's Nuclear O&M request of \$331.6  
9 million for TY 2011, resulting in a total of \$328.1 million (p. 18).
- 10 • DRA recommends that the Commission reject PG&E's request for \$3.5  
11 million for additional staffing (p. 22).
- 12 • DRA opposes PG&E's request to include Diablo Canyon's nuclear fuel  
13 inventory in rate base, see Exhibit DRA-20 (p. 23).

14 The following summarizes DRA's recommendations regarding Fossil Fuel  
15 Generation O&M expenses and capital expenditures:

- 16 • DRA recommends that PG&E's Fossil O&M for TY 2011 should be \$40.5  
17 million, compared to PG&E's request of \$47.7 million (p. 27).
- 18 • DRA adjusted \$xxx million from PG&E's request for Gateway, Colusa and  
19 Humboldt Bay Generating Station's O&M (p. 29).
- 20 • DRA recommends that the xxx% contingency for Gateway O&M be  
21 reduced to \$0 (p. 29).
- 22 • DRA recommends that PG&E reduce the Fossil decommissioning  
23 contingency to 10 percent (p. 30).

24 The following summarizes DRA's recommendations regarding Energy  
25 Procurement Administration expenses:

- 26 • DRA recommends that PG&E's TY 2011 energy procurement  
27 administration O&M expenses be capped at PG&E's actual 2009 costs of  
28 \$48.1 million (p. 35).
- 29 • DRA opposes PG&E's request for a \$27 million one-way Renewable  
30 Resource Development (RDD) balancing account and for \$10 million for  
31 Strategic Renewables Investments (SRI) (p. 38).
- 32 • DRA opposes PG&E's request to increase its energy procurement costs in  
33 TY 2011 to deal with the "potential expansion" of the Renewable Portfolio  
34 Standard (RPS) in 2020 (p. 39).

- 1 • DRA opposes PG&E's request to increase its energy procurement costs in  
2 TY 2011 based on an expectation by PG&E that the Western Climate  
3 Initiative's cap and trade program may begin in 2012 (p. 41).
- 4 • DRA opposes PG&E's request to include Tesla's \$28.3 million site  
5 acquisition and development costs as Plant Held for Future Use (PHFU)  
6 (p. 43).
- 7 • DRA opposes PG&E's recovery of \$4.8 million in Tesla project  
8 cancellation costs (p. 44).

9 Table 9-1 compares DRA's and PG&E's TY 2011 forecasts of Energy Supply  
10 O&M expenses:

11 **Table 9-1**  
12 **Energy Supply O&M Expenses for TY 2011**  
13 **(In Millions of Dollars)**

Description (a)	DRA Recommended (b)	PG&E Proposed <sup>1</sup> (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Hydroelectric	\$115.5	\$159.7	\$44.2	38%
Nuclear	\$328.1	\$331.6	\$3.5	1%
Fossil Fuel	\$40.5	\$47.7	\$7.2	18%
Energy Procurement Administration	\$48.1	\$96.0	\$47.9	99%
Total	\$532.1	\$634.9	\$102.8	19%

14 Table 9-2 compares DRA's and PG&E's 2009-2011 forecasts of Energy  
15 Supply capital expenditures:

16 **Table 9-2**  
17 **Energy Supply Capital Expenditures for 2009-2011**  
18 **(In Millions of Dollars)**

Description	DRA Recommended			PG&E Proposed <sup>2</sup>		
	2009	2010	2011	2009	2010	2011
Hydroelectric	\$137.5	\$162.4	\$198.9	\$146.6	\$189.9	\$210.5
Nuclear	\$311.3	\$170.3	\$154.2	\$295.9	\$170.3	\$154.2
Fossil Fuel	\$392.5	\$258.8	\$1.7	\$414.5	\$258.8	\$1.7
Total	\$841.3	\$591.5	\$354.8	\$857.0	\$619.0	\$366.4

<sup>1</sup> Ex. PG&E-5 at 3-56, 4-2, 5-20 and 6-88.

<sup>2</sup> Ex. PG&E-5 at 3-55, 4-62 and 5-19.

1 **III. DISCUSSION / ANALYSIS OF HYDROELECTRIC GENERATION**  
2 **COSTS**

3 **A. Overview of PG&E's Request**

4 PG&E requests \$159.7 million in nominal dollars for TY 2011 for Hydroelectric  
5 O&M expenses.<sup>3</sup> PG&E's Hydro O&M request represents a substantial increase  
6 over 2008 base expenses of \$113.3 million. For capital expenditures, PG&E  
7 requests \$146.6 million for 2009, \$189.9 million for 2010 and \$210.5 million for TY  
8 2011 (nominal dollars).<sup>4</sup>

9 **B. Hydro Operation & Maintenance Expenses**

10 Table 9-3 below shows PG&E's total historical Hydro O&M expenses.

11 **Table 9-3**  
12 **PG&E Hydro O&M Expenses**  
13 **2004-2009 Recorded Data<sup>5</sup>**  
14 **(in Thousands of Nominal Dollars)**

<b>PG&amp;E Hydro O&amp;M</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total	\$90,593	\$90,754	\$86,566	\$105,956	\$113,283	\$115,524

15 Figure 9-1 below shows PG&E Hydro O&M costs in constant 2008 dollars.<sup>6</sup>  
16 DRA reviewed PG&E's historical and forecast Hydro O&M costs by MWC, along with  
17 Hydro headcounts. DRA notes that while PG&E forecast a 2009 hydro O&M total of  
18 \$130.3 million, the 2009 recorded actual was only \$115.5 million (nominal), a  
19 difference of \$14.8 million.<sup>7</sup>

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<sup>3</sup> Ex. PG&E-5 at 3-56.

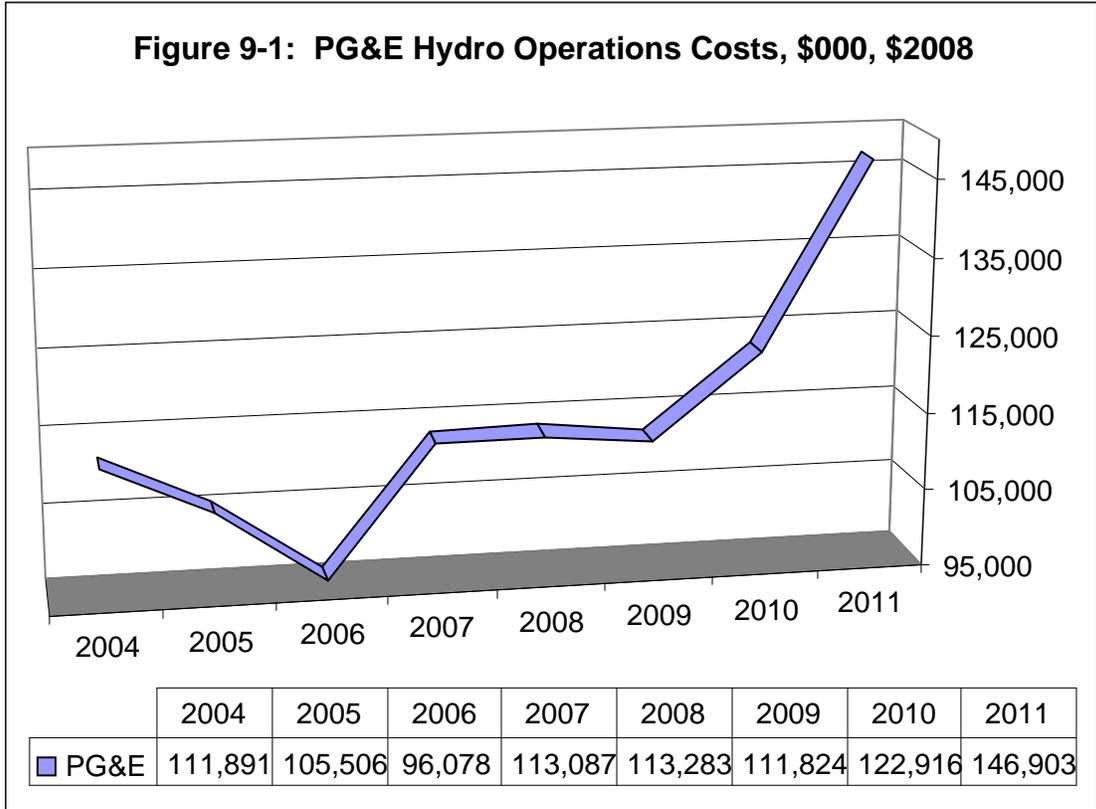
<sup>4</sup> Ex. PG&E-5 at 3-55, Table 3-5.

<sup>5</sup> Ex. PG&E-2 workpapers at WP 2-69, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

<sup>6</sup> Ex. PG&E-2, workpapers at WP 2-161 to 2-173, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

<sup>7</sup> PG&E response to DRA Data Request 122, Q.1, Supp. 1.

**Figure 9-1: PG&E Hydro Operations Costs, \$000, \$2008**



1

2           Taking into consideration the recent constant dollar increase in 2007, along  
 3 with the Hydro O&M funding reallocated to Distribution in 2007 and 2008 as  
 4 discussed below, PG&E’s recorded 2009 Hydro O&M expenses, PG&E’s 2010 O&M  
 5 forecast and PG&E’s overall Hydro testimony, DRA recommends that PG&E’s  
 6 overall Hydro O&M for TY 2011 should be capped at the 2009 funding level of  
 7 \$115.5 million, a difference of \$44.2 million compared to PG&E’s \$159.7 million  
 8 request. Table 9-4 below compares PG&E’s TY 2011 request and DRA’s  
 9 recommendation.

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2  
3

**Table 9-4**  
**Comparison on PG&E's TY 2011 Request and DRA's Recommendation**  
**(in Thousands of Nominal Dollars)**

		<b>PG&amp;E</b>	<b>DRA</b>	
		<b>TY 2011</b>	<b>TY 2011</b>	
		<b>\$ 000</b>	<b>\$ 000</b>	
		<b>nominal \$</b>	<b>nominal \$</b>	<b>Difference</b>
	<b>MWC</b>	<b>A</b>	<b>B</b>	<b>A-B</b>
1	<b>HZ</b>	\$1,759	\$921	\$838
2	<b>AK</b>	1,210	1,156	54
3	<b>AY</b>	117	86	31
4	<b>CR</b>	250	220	30
5	<b>ES</b>	205	178	27
6	<b>IE</b>	215	27	188
7	<b>DL</b>	40,257	25,602	14,655
8	<b>DP</b>	1,608	1,667	-59
9	<b>AW</b>	36,870	29,858	7,012
10	<b>EP</b>	(28)	77	-105
11	<b>AI</b>	7,054	3,772	3,282
12	<b>AX</b>	27,673	16,525	11,148
13	<b>AZ</b>	7,595	4,063	3,532
14	<b>BB</b>	19,247	22,366	-3,119
15	<b>BK</b>	9,558	6,822	2,736
16	<b>AB</b>	6,726	2,667	4,059
17	<b>BC</b>	(580)	-483	-97
18	<b>Total</b>	\$159,736	\$115,524	\$44,212

4

1                                   **1. PG&E’s Reallocation of Hydro O&M Funding to**  
2                                   **Distribution**

3                   PG&E’s testimony discusses the reallocation of Hydro O&M funding to  
4 Distribution Operations: “[a]s the result of emergent, high-priority distribution system  
5 work over the last several years, the Company reallocated a portion of the Hydro  
6 O&M funding that has been adopted for Hydro Operations to Distribution  
7 Operations.”<sup>8</sup>

8                   According to PG&E, in 2007, PG&E spent \$31.1 million less on Hydro  
9 expenses than its expense target, while in 2008, PG&E spent \$23.9 million less than  
10 its expense target, a total of \$55 million over two years.<sup>9</sup> As can be seen in Figure  
11 9-1 above, PG&E’s Hydro expenses held steady in 2007, 2008 and 2009. The  
12 Commission should not feel obligated to replace PG&E’s Hydro O&M funding that  
13 was reallocated by PG&E to Distribution Operations.

14                                   **2. PG&E’s Hydro Staffing**

15                   Figure 9-2 below shows PG&E’s recent Hydro staffing levels.<sup>10</sup> While  
16 relatively static through 2008, staffing levels began escalating in 2009 and are  
17 forecast by PG&E to increase in both 2010 and TY 2011. DRA notes that, while  
18 PG&E reallocated Hydro O&M funding to Distribution in 2007 and 2008, Hydro  
19 staffing increased in 2007 and 2009.

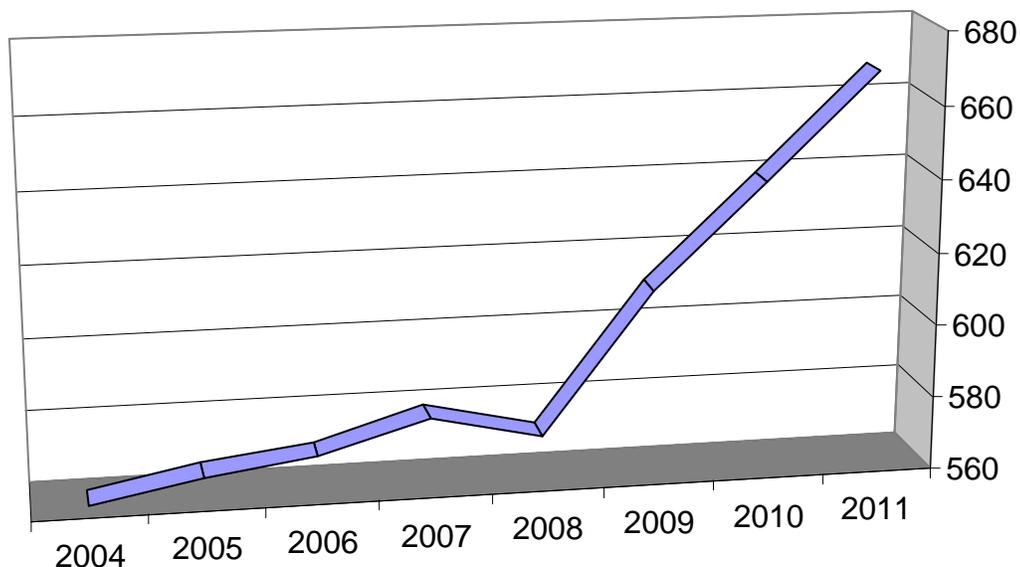
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<sup>8</sup> Ex. PG&E-5 at 3-4.

<sup>9</sup> PG&E response to DRA Deficiency 038-E, Q.1.

<sup>10</sup> PG&E deficiency 38-D.

**Figure 9-2: PG&E Hydro Headcount**



	2004	2005	2006	2007	2008	2009	2010	2011
Headcount	560	566	570	579	572	611	639	668

1

**3. New Hydro Generation and Pumped Storage Development**

2  
3

4 PG&E proposes to add \$1 million in TY 2011 for “feasibility studies, including  
5 preliminary siting, permitting, and engineering evaluations, for potential new small  
6 hydro generating units. The area of focus for these feasibility studies is new hydro  
7 sites at existing PG&E dams or diversions.”<sup>11</sup> DRA requested additional  
8 workpapers supporting PG&E’s request; PG&E provided this response and no  
9 additional workpapers:

10  
11

The requested funding for New Generation Development is not for a specific project, but rather for a small staff (2-4 individuals) and consulting

<sup>11</sup> Ex. PG&E-5 workpapers at WP 3-209; Ex. PG&E-5 at 3-52.

1 dollars to perform feasibility studies and preliminary design and  
2 engineering for potential new small hydro facilities.<sup>12</sup>

3 PG&E also proposes to add \$775,000 in TY 2011 for new pumped storage  
4 development.<sup>13</sup> DRA requested additional workpapers supporting PG&E's request;  
5 PG&E provided this response and no additional workpapers:

6 The requested funding for New Pumped Storage Development is not for a  
7 specific project, but rather for consulting dollars to perform feasibility  
8 studies and preliminary design and engineering for potential new pumped  
9 storage facilities.<sup>14</sup>

10 DRA recommends that the Commission reject both proposals. PG&E was  
11 able to develop its new small hydro projects discussed below without additional  
12 feasibility study funding. PG&E's lack of supporting workpapers indicates these  
13 proposals have not been fully developed. Furthermore, if PG&E needs additional  
14 renewable generation, it should solicit proposals through the Long Term Planning  
15 Proceeding (LTPP), instead of developing it on its own. The recommended funding  
16 reductions are incorporated in DRA's Hydro O&M recommendation.

### 17 **C. Hydro Capital Expenditures**

18 PG&E proposes \$210.5 million in Hydro-related capital expenditures for TY  
19 2011, \$146.6 million for 2009 and \$189.9 million for 2010. As discussed below,  
20 DRA recommends capital expenditure reductions related to PG&E's proposed new  
21 small Hydro projects and penstock replacements at 2 MW Lime Saddle and 0.9 MW  
22 Coal Canyon; closer scrutiny of the relicensing of 3.5 MW Merced Falls and rejection  
23 of an enhanced rate of return for the decommissioning of the Kilarc-Cow Creek

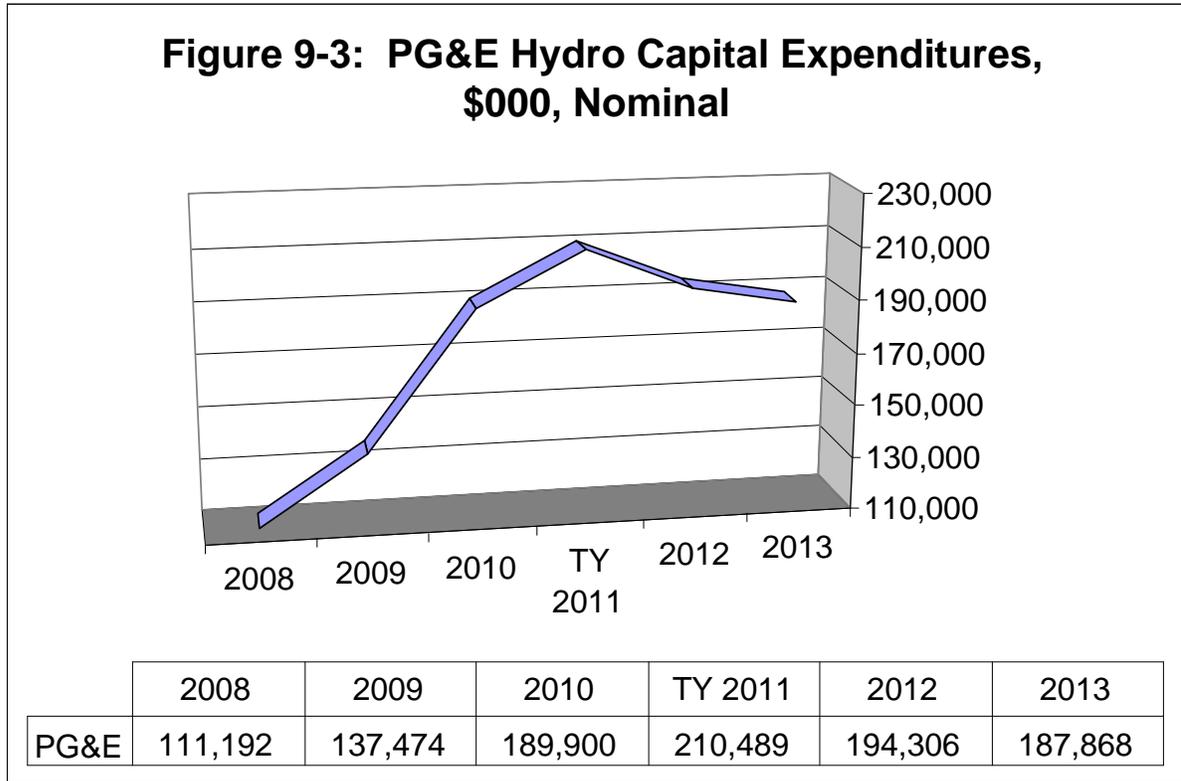
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<sup>12</sup> PG&E response to DRA Data Request 105, Q.14.

<sup>13</sup> Ex. PG&E-5 workpapers at WP 3-210; Ex. PG&E-5 at 3-52.

<sup>14</sup> PG&E response to DRA Data Request 105, Q.15.

- 1 project. DRA has accepted PG&E's recorded 2009 capital expenditures. Figure 9-3  
 2 below shows PG&E's Hydro capital expenditures in nominal dollars.<sup>15</sup>



3

- 4 Table 9-5 below compares PG&E's requests for 2009-TY 2011 with DRA's  
 5 recommendations.

<sup>15</sup> Ex. PG&E-5 workpapers, Table 3-1 at WP 3-1; PG&E response to data request DRA-122, Q.1, Supp.1.

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**Table 9-5**  
**Comparison on PG&E's TY 2011 Request and DRA's Recommendation**  
**(in Thousands of Nominal Dollars)**

PG&E Hydro Capital Expenditures					
		MWC	2009	2010	TY 2011
1		3, 5, 85	1,219	820	1,080
2		11	53,410	36,539	28,643
3		12	5,418	5,975	6,140
4		13	21,117	49,017	49,372
5		81	65,450	97,549	125,254
6	<b>PG&amp;E Total</b>		146,614	189,900	210,489
7	<b>DRA Adjustments</b>	81	9,140	27,466	11,621
8	<b>DRA's Forecast</b>		137,474	162,434	198,868

4

5

**1. PG&E's New Small Hydro Projects**

6

PG&E's testimony discusses five new RPS-eligible small Hydro projects:

7

Britton Powerhouse, Chalk Mountain Powerhouse, Rock Creek Dam  
Powerhouse, McCloud Dam Powerhouse, and the Pit 7 Weir

8

Powerhouse. These new RPS powerhouses will be located at the

9

downstream toe of existing PG&E dams, and will not require any new

10

water diversions. The design and construction for the 2.8 MW Britton

11

Powerhouse is ongoing with a planned commercial operation date of

12

December 2010. Permitting and design is commencing for the 2.2 MW

13

Chalk Mountain and 3.6 MW Rock Creek Dam powerhouses. The

14

commercial operation date for these two RPS units is the fourth quarter

15

of 2013. The permitting and design for the McCloud Dam and Pit 7

16

Weir Powerhouses is planned to begin in 2012, with commercial

17

operation to begin by the end of 2014.<sup>16</sup>

18

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<sup>16</sup>

Ex. PG&E-5 at 3-51 to 3-52. PG&E's workpapers address the McCloud Dam Powerhouse at Ex. PG&E-5 workpapers at WP 3-125; the Britton Powerhouse at WP 3-126; the Chalk Mountain Powerhouse at WP-3-127; the Rock Creek Dam at WP 3-153; and the Pit 7 Weir Powerhouse at WP 3-170.

1 The total estimated capital cost for these five small Hydro projects, totaling  
 2 xxxxxxxxxx MW of capacity, is approximately \$xxxxx million.<sup>17</sup> PG&E did not submit  
 3 the five small Hydro projects to the Commission for approval as part of PG&E's  
 4 Renewable Procurement Plan, nor have they been reviewed by the Independent  
 5 Evaluator.<sup>18</sup>

6 PG&E's estimated cost of production for these projects is relatively high, and  
 7 in most cases exceeds the Commission approved 10.02 cents/kWh Market Price  
 8 Referent (MPR).<sup>19</sup>

	<u>cents/kWh</u>
10 Britton Powerhouse (2.8 MW)	14.9
11 Chalk Mountain Powerhouse (2.2 MW)	xxxx
12 Rock Creek Dam (3.6 MW)	xxxx
13 McCloud Dam (5.6-7.5 MW)	xxxx
14 Pit 7 Weir (5-10 MW)	xxxx <sup>20</sup>

15 Regarding the projects' benefit-cost ratios, PG&E's consultants estimated in  
 16 2007 that the benefit-cost ratio for Britton Powerhouse was xxxx.<sup>21</sup> An analysis of

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<sup>17</sup> PG&E's confidential response to DRA data request 68 Q. 10, Hydro Development (HD) Program, 2009 Program Funding ver. 1, Dec. 2, 2008, at 10 shows the following capital costs: Britton Powerhouse, \$xxxxxx million; Chalk Mountain Powerhouse, \$xxxx million; Rock Creek Dam, \$xxx million; McCloud Dam, \$xx million and Pit 7 Afterbay Weir, \$xx million. Exh. PG&E-5 workpapers at WP 3-255 shows an updated \$27 million capital cost for Britton Powerhouse.

<sup>18</sup> PG&E responses to DRA Data Request 138, Q.s 1 and 2.

<sup>19</sup> Commission Resolution E-4298, Dec. 17, 2009, shows a 10.02 c/kWh price for 25 year contracts started in 2010.

<sup>20</sup> PG&E's confidential response to DRA Data Request 68, Q.10, Hydro Development (HD) Program, 2009 Program Funding, Version 1, Dec. 2, 2008 at 10. Britten Powerhouse cents/kWh cost is shown on Ex. PG&E-5 workpaper WP 3-255.

<sup>21</sup> PG&E's confidential response to DRA data request 68, Q.10, Pit 3 Dam, Phase 2, Preliminary Feasibility Study (June 2007) at 7.

1 the Rock Creek Dam estimated a benefit-cost ratio range from xxxx to xxxx.<sup>22</sup> A  
2 2007 analysis of the Pit 7 Weir project estimated a benefit cost-range from xxxx to  
3 xxxx,<sup>23</sup> and raised additional questions about the Pit 7 Weir project:

4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED].<sup>24</sup>

10 Along with difficulties in finding strong benefit-cost ratios for these projects,  
11 PG&E has had difficulty containing costs. Regarding the Rock Creek Dam project,  
12 PG&E's consultant recorded some reservations in an October 2009 memo: "xxxxxx  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]."<sup>25</sup>  
16 While PG&E's response to a DRA data request shows a \$xxxxxx million total  
17 estimated capital cost for the Britton Powerhouse in December 2008, PG&E's  
18 current workpapers show a total of \$27 million.<sup>26</sup>

19 DRA notes that the proposed McCloud Dam project [REDACTED]  
20 [REDACTED]  
21 [REDACTED]

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<sup>22</sup> PG&E's confidential response to DRA data request 68, Q.10, Rock Creek Dam, Phase 2, Preliminary Feasibility Study (undated) at 37.

<sup>23</sup> PG&E's confidential response to DRA data request 68, Q.10, McCloud Dam and Pit 7 Afterbay, Phase 2, Preliminary Feasibility Study (July 2007) at 7.

<sup>24</sup> *Id.* at 39.

<sup>25</sup> PG&E's confidential response to DRA data request 68, Q.10, Conceptual Development of the Rock Creek Dam New Powerhouse, Phase 1A Interim Report (Oct. 27, 2009), Attachment, October 15, 2009 Phase 1A Teleconference Notes at 77.

<sup>26</sup> PG&E's confidential response to DRA data request 68, Q.10, Hydro Development (HD) Program, 2009 Program Funding, Version 1, Dec. 2, 2008 at 10; Ex. PG&E-5 workpapers at 3-126 and 3-255.

1 xxxxxxxx.<sup>27</sup> Over xxxxxxxx of the total cost of the McCloud Dam project would be  
2 consumed by the transmission interconnection and substation.<sup>28</sup>

3 DRA asked PG&E for copies of any environmental assessments performed  
4 by or for PG&E regarding the five new small Hydro powerhouses; PG&E responded  
5 that “[o]nly Britton Powerhouse has reached the point in its development to have an  
6 environmental assessment performed.”<sup>29</sup> PG&E provided a copy of FERC’s Order  
7 amending the Pit 3, 4 and 5 license to add the Britton Powerhouse, which included  
8 the environmental assessment.

9 Given the high expected costs of production, questionable benefit-cost ratios,  
10 meager added generating capacity, questions about maintenance difficulty and cost,  
11 and the potential for capital cost overruns, DRA recommends that the Commission  
12 reject PG&E’s request for all five new small Hydro generation projects. In the  
13 alternative, the Commission should cap PG&E’s capital cost recovery for the  
14 projects at the Commission approved MPR.

15 **2. Penstock Replacements: 2 MW Lime Saddle and 0.9 MW**  
16 **Coal Canyon**

17 PG&E proposes to replace the penstock supplying the 2 MW Lime Saddle  
18 Powerhouse at a cost of \$4 million.<sup>30</sup> According to PG&E, water flows through the  
19 penstock for power generation and consumptive purposes. DRA requested copies  
20 of any cost-benefit studies performed by PG&E on the Lime Saddle replacement

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<sup>27</sup> PG&E’s confidential response to DRA data request 68, Q.10, McCloud Dam and Pit 7 Afterbay Phase 2 – Preliminary Feasibility Study, July 2007 at 28.

<sup>28</sup> PG&E’s confidential response to DRA data request 68, Q.10, McCloud Dam and Pit 7 Afterbay Phase 2 – Preliminary Feasibility Study, July 2007 at 52, \$xxx million for substation/interconnection out of a McCloud Dam project total of \$xxx million.

<sup>29</sup> PG&E response to DRA Data Request 222, Q.1.

<sup>30</sup> Exh. PG&E-5 at 3-49, PG&E workpapers at WP 3-129.

1 project, and was informed that “[a] cost benefit analysis has not yet been performed  
2 on the Lime Saddle penstock replacement project.”<sup>31</sup>

3 PG&E also proposes to replace the penstock supplying the 0.9 MW Coal  
4 Canyon Powerhouse, which has been out of operation since April 2002.<sup>32</sup> The total  
5 estimated capital cost is \$3.6 million. According to PG&E, “[a]lthough water  
6 deliveries continue to be made, no electricity can be produced by the powerhouse  
7 until the penstock is repaired.” PG&E proposes to spend an additional \$1.5 million  
8 to replace the leaking Middle Miocene 9/1 Flume, which conveys water from the  
9 Lime Saddle Powerhouse tailrace to the Coal Canyon penstock.<sup>33</sup> DRA requested

10 copies of any cost-benefit studies performed by PG&E on the Coal Canyon penstock  
11 and Coal Canyon Middle Miocene 9/1 Flume replacement projects, and received an  
12 “XX  
13 XXX

14 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.”<sup>34</sup> The analysis shows Lime Saddle’s  
15 generation to have a XXXXXXXXXXXXXXXXXXXXXXX, while Coal Canyon’s generation has  
16 a XXXXXXXXXXXXXXXXXXXXXXX that overcomes the benefits from Lime Saddle.<sup>35</sup>

17 Given the interconnectedness of the 2 MW Lime Saddle and 0.9 MW Coal  
18 Canyon Hydro projects, their miniscule generating capacities and their overall  
19 negative net value, DRA recommends that the Commission reject PG&E’s Lime  
20 Saddle and Coal Canyon penstock and flume replacement projects.

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<sup>31</sup> PG&E response to DRA Data Request 105, Q.6.

<sup>32</sup> Exh. PG&E-5 at 3-49, PG&E workpapers at WP 3-105 to 3-106.

<sup>33</sup> PG&E workpapers at WP 3-104.

<sup>34</sup> PG&E’s confidential response to DRA Data Request 105, Q.3 and Q.4.

<sup>35</sup> PG&E confidential response to DRA Data Request 105, Q.3.

1                                   **3. 3.5 MW Merced Falls Relicensing**

2                   PG&E proposes to spend at least \$4.1 million to relicense the 3.5 MW  
3 Merced Falls Hydro project.<sup>36</sup> According to PG&E, the current FERC project license  
4 expires in February 2014. DRA requested any cost-benefit studies performed by  
5 PG&E on the Merced Falls relicensing project, and was given PG&E’s position on  
6 relicensing:

7                   Although PG&E has explored the idea of a sale/transfer with the most  
8 likely buyer, Merced Irrigation District (“MerID”), it is apparent that  
9 financially capable outside entities, including MerID, have little interest in  
10 acquiring the Project during or just preceding the statutory relicensing  
11 period. For this reason, PG&E has not found it prudent at this time to  
12 pursue an initial market solicitation of the Project. Currently, PG&E plans  
13 to continue relicensing and, if at any point in the process the Project  
14 become uneconomic, (i.e., license conditions are too expensive or are  
15 infeasible) PG&E may attempt a sale/transfer or discontinue relicensing  
16 and follow FERC’s Orphan Project process.<sup>37</sup>  
17

18                   According to PG&E, Merced Falls has a net book value of \$3.5 million, and  
19 decommissioning costs could range from \$xxx million to \$xxxx million.<sup>38</sup> PG&E’s  
20 analysis raises doubts about Merced Falls’ future:

21                   *Relicensing Merced Falls could result in a high cost energy producer.*  
22                   *Cost-effective operation of Merced Falls has depended on MID’s*  
23                   *assistance. It is unknown if the company will be successful in negotiating*  
24                   *a new, cost-effective operations agreement with MID. Relicensing and*  
25                   *continuing to operate Merced Falls may not be economic on a going-*  
26                   *forward basis.*<sup>39</sup>

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<sup>36</sup> PG&E workpapers at WP 3-65. In response to DRA Data Request 105, Q.3, PG&E provided an Advance Job Estimate (Rev.1) that states “[t]he estimated total cost to obtain a new license is expected to range from \$3.5 to \$5.7 million.”

<sup>37</sup> PG&E response to DRA Data Request 105, Q.1 (excerpt). PG&E’s Merced Falls Hydro project is immediately downstream from Merced Irrigation District’s 104.5 MW Merced River Hydro project. PG&E contracts with MID to provide day-to-day operations at Merced Falls.

<sup>38</sup> *Id.*, confidential page.

<sup>39</sup> *Id.*, PG&E Advance Job Estimate, Rev. 1, Sept. 2, 2008 at 3 (emphasis added).

1 DRA agrees that for the time being, going forward with the relicensing of 3.5  
2 MW Merced Falls makes sense. However, considering the small amount of  
3 generation capacity involved and the uncertainty about whether Merced Falls will be  
4 economic to continue operating, DRA recommends that PG&E consider selling  
5 Merced Falls or decommissioning the project.

6 **4. Kilarc-Cow Creek Decommissioning, Enhanced Rate of**  
7 **Return**

8 PG&E proposes an enhanced rate of return, pursuant to California Pub. Util.  
9 Code Sec. 454.3, for the environmental benefits resulting from decommissioning its  
10 5 MW Kilarc-Cow Creek Hydro project.<sup>40</sup> Although the enhanced rate of return  
11 would amount to about \$74,000, DRA opposes PG&E's request as a misapplication  
12 of Section 454.3.

13 **IV. DISCUSSION / ANALYSIS OF NUCLEAR GENERATION COSTS**

14 **A. Overview of PG&E's Request**

15 PG&E requests \$331.6 million in nominal dollars for TY 2011 for Nuclear  
16 Generation O&M expenses.<sup>41</sup> PG&E's Nuclear O&M request represents a  
17 significant increase over 2008 base expenses of \$294.8 million. For capital  
18 expenditures, PG&E requests \$295.9 million in 2009, \$170.3 million in 2010 and  
19 \$154.2 million in 2011 (nominal dollars).

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<sup>40</sup> Ex. PG&E-5 at 2-3 to 2-5 and 3-40.

<sup>41</sup> Ex. PG&E-5 at 4-62, Table 4-4.

1 **B. Nuclear Operation & Maintenance Expenses**

2 Table 9-6 shows PG&E's total historical Nuclear O&M expenses.

3 **Table 9-6**  
4 **2004-2009 Recorded Data<sup>42</sup>**  
5 **(in Thousands of Nominal Dollars)**

<b>Nuclear O&amp;M</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total	\$331,818	\$264,968	\$287,324	\$284,083	\$294,853	\$329,081

6 Figure 9-4 below shows PG&E's Nuclear O&M expenses in constant 2008  
7 dollars.<sup>43</sup> DRA notes that Nuclear O&M has been relatively flat in recent years, with  
8 the exception of years that include a second refueling outage at Diablo Canyon.

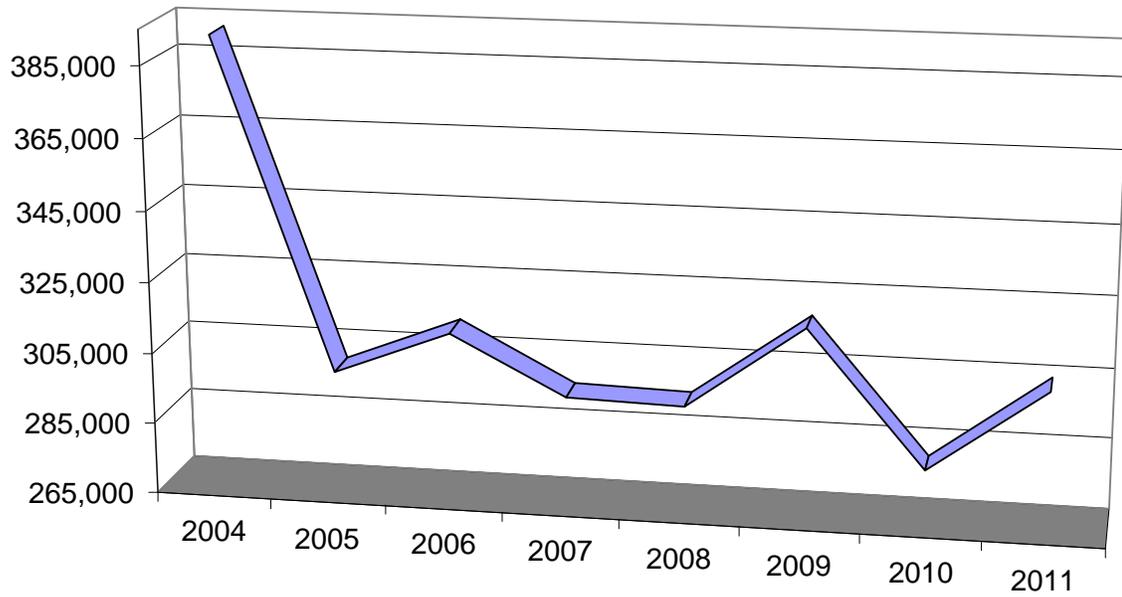
9 Taking into consideration recent flat constant dollar O&M trends and PG&E's  
10 actual 2009 nuclear O&M expenses, DRA recommends that the Commission adopt  
11 PG&E's nuclear O&M request of \$331.6 million for TY 2011, minus \$3.5 million for  
12 aging workforce as discussed below, resulting in a total of \$328.1 million.

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<sup>42</sup> Ex. PG&E-2 workpapers at WP 2-77, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

<sup>43</sup> Ex. PG&E-2 workpapers at WP 2-181, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

**Figure 9-4: PG&E Nuclear Operations Costs,  
\$000, \$2008**



	2004	2005	2006	2007	2008	2009	2010	2011
PG&E	392,433	299,605	312,249	295,873	294,854	318,574	280,346	304,313

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1 Table 9-7 below compares PG&E's TY 2011 request and DRA's  
 2 recommendation.

3 **Table 9-7**  
 4 **Comparison on PG&E's TY 2011 Request and DRA's Recommendation**  
 5 **(in Thousands of Nominal Dollars)**

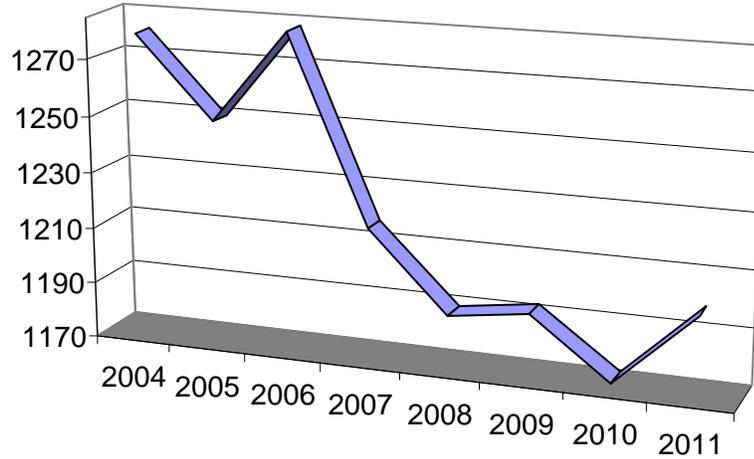
		<b>PG&amp;E</b>	<b>DRA</b>	
		<b>TY 2011</b>	<b>TY 2011</b>	
		<b>\$ 000</b>	<b>\$ 000</b>	
		<b>nominal \$</b>	<b>nominal \$</b>	<b>Difference</b>
		<b>A</b>	<b>B</b>	<b>A-B</b>
1	<b>AB</b>	2,510	2,510	0
2	<b>AK</b>	4,724	4,724	0
3	<b>BP</b>	10,401	10,401	0
4	<b>BQ</b>	10,993	10,993	0
5	<b>BR</b>	101,896	98,396	3,500
6	<b>BS</b>	125,552	125,552	0
7	<b>BT</b>	15,486	15,486	0
8	<b>BU</b>			
9	<b>BV</b>	59,985	59,985	0
10	<b>CR</b>			
11	<b>EO</b>			
12	<b>IE</b>	50	50	0
13	<b>Total</b>	\$331,597	\$328,097	\$3,500

6 Figure 9-5 below shows PG&E's Nuclear historical and forecast headcount.<sup>44</sup>  
 7 DRA notes that headcounts have been relatively flat in recent years.

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<sup>44</sup> PG&E Deficiencies 51-D, 51-B and PG&E response to DRA Data Request 50, Q.1.

**Figure 9-5: PG&E Nuclear Headcount**



	2004	2005	2006	2007	2008	2009	2010	2011
Headcount	1279	1250	1283	1217	1189	1193	1172	1199

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### **1. Aging Workforce**

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PG&E expects to “add 27 positions to offset future attrition” resulting from retirements of its aging workforce.<sup>45</sup> PG&E’s testimony admits that as part of the TY 2007 GRC, the company received additional funding “to hire in advance of anticipated attrition.”<sup>46</sup> PG&E expects that “[t]he impact of added staffing is expected to cause a temporary increase in labor expense of \$3.5 million in 2011.”<sup>47</sup>

PG&E provided additional workpapers breaking down the \$3.5 million labor expense.<sup>48</sup> PG&E’s workpapers included forecasts of staff attrition by cost

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<sup>45</sup> Ex. PG&E-5 at 4-22.

<sup>46</sup> *Id.*

<sup>47</sup> *Id.*

<sup>48</sup> PG&E response to DRA Data Request 121, Q.5.

1 center.<sup>49</sup> DRA asked PG&E to provide the actual staff attrition by cost center in  
2 2009.<sup>50</sup> Table 9-8 below compares PG&E's 2009 staff attrition forecast with the  
3 actual 2009 attrition.

4 **Table 9-8**

5 **Comparison of PG&E's 2009 Forecast Staffing Attrition with Actual 2009 Attrition**

<b>PG&amp;E Nuclear Cost Centers</b>	<b>2009 PG&amp;E Forecast Attrition</b>	<b>2009 Actual Attrition</b>
Operations	8	1
Mechanical Systems	2	1
Design Engineering	2	1
Project Engineering	2	0
Technical Support Engineering	2	0
ICE Systems	3	0
Mechanical Maintenance	4	3
I&C Maintenance	5	1
Security	8	4
General Services	5	3
<b>Totals</b>	<b>41</b>	<b>14</b>

6 DRA notes that PG&E's forecast of staff attrition for 2009 greatly exceeded  
7 the actual attrition in 2009. Based on PG&E's inaccurate staff attrition forecasting  
8 capabilities and the fact that PG&E already received additional funding in the TY  
9 2007 GRC in anticipation of staff attrition, DRA recommends that the Commission  
10 reject PG&E's request for \$3.5 million for additional staffing.

## 11 **2. Nuclear Fuel Inventory**

12 PG&E proposes to include the Diablo Canyon nuclear fuel inventory in rate  
13 base.<sup>51</sup> PG&E admits that this treatment is contrary to the Commission's treatment

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<sup>49</sup> Ex. PG&E-5 workpapers at WP 4-168 to 4-177.

<sup>50</sup> PG&E responses to DRA Data Request 121, Qs. 6-15.

<sup>51</sup> Ex. PG&E-5 at 4-33 to 4-34.

1 of nuclear fuel in the decision in Southern California Edison’s most recent GRC,  
 2 D.06-05-016.<sup>52</sup> PG&E’s testimony states that Diablo Canyon’s “fuel assemblies are  
 3 fully amortized over two cycles or approximately three years, which is the time they  
 4 remain in the reactor core. Once assemblies are transferred to the spent fuel pool  
 5 for cooling, they have zero value.”<sup>53</sup>

6 DRA opposes PG&E’s request. The removal of nuclear fuel inventory from  
 7 rate base is discussed in Exhibit DRA-20.

8 **C. Nuclear Capital Expenditures**

9 PG&E requests Nuclear capital expenditures of \$295.9 million in 2009,  
 10 \$170.3 million in 2010 and \$154.2 million in TY 2011.<sup>54</sup> Table 9-9 below shows  
 11 PG&E’s historical capital expenditures.

12 **Table 9-9**  
 13 **2004-2009 Recorded Data<sup>55</sup>**  
 14 **(in Thousands of Dollars)**

Description	2004	2005	2006	2007	2008	2009
PG&E Nuclear Capital Expenditures	\$113.3	\$139.7	\$169.4	\$219.1	\$367.0	\$311.3

15 Figure 9-6 below shows PG&E’s nuclear capital expenditures. After major  
 16 capital additions for steam generator replacement (2008 and 2009), Unit 2 reactor  
 17 vessel head replacement (2009) and the Independent Spent Fuel Storage  
 18 Installation (ISFSI, 2009), PG&E forecasts that capital expenditures will decrease  
 19 significantly. DRA has accepted PG&E’s 2009 recorded capital expenditures. DRA  
 20 does not oppose PG&E’s Nuclear capital expenditure request.

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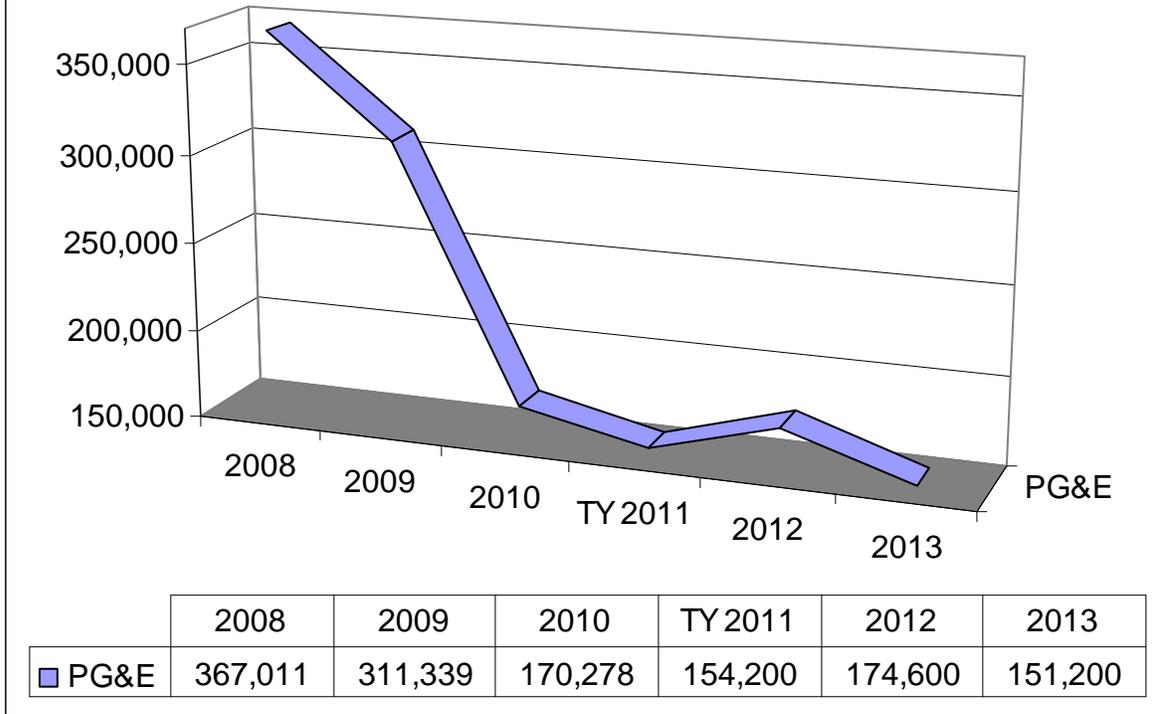
<sup>52</sup> Ex. PG&E-5 at 2-5 to 2-6.

<sup>53</sup> Ex. PG&E-5 at 4-34.

<sup>54</sup> Ex. PG&E-5 at 4-62, Table 4-3.

<sup>55</sup> Ex. PG&E-5 workpapers at WP 4-1 and 4-2, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

**Fig. 9-6: PG&E Nuclear Capital Expenditures,  
\$000, Nominal**



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**1. Replace Control Room HVAC Project**

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PG&E’s workpapers state that the Replace Control Room HVAC project “will significantly reduce Maintenance costs caused by trips and equipment failures.”<sup>56</sup> DRA asked whether PG&E had an estimate of maintenance cost savings resulting from the project, and whether those savings were included in the TY 2011 costs. PG&E replied that it “does not have an estimate of maintenance cost savings resulting from the project. The costs are not ‘hard dollar’ savings because this is a resource allocation issue during the same period of time. Replacing this equipment will prevent the build up of ‘back-log’ and reduce the need to defer other

<sup>56</sup> Ex. PG&E-5 workpapers at WP 4-42 and 4-109 (emphasis added).

1 maintenance and project activities.”<sup>57</sup> PG&E should not claim “significant”  
2 maintenance cost savings when it cannot demonstrate them.

3 **V. DISCUSSION / ANALYSIS OF FOSSIL FUEL GENERATION**  
4 **COSTS**

5 **A. Overview of PG&E’s Request**

6 PG&E requests \$47.7 million in nominal dollars for TY 2011 for Fossil Fuel  
7 Generation O&M expenses.<sup>58</sup> PG&E’s Fossil O&M request represents a substantial  
8 increase over 2008 base expenses of \$11.8 million. For capital expenditures, PG&E  
9 requests Fossil Fuel capital expenditures of \$414.5 million in 2009, \$258.8 million in  
10 2010 and \$1.7 million in TY 2011.

11 **B. Fossil Fuel Operation & Maintenance Expenses**

12 Table 9-10 below shows PG&E’s total historical Fossil O&M expenses.

13 **Table 9-10**  
14 **PG&E Fossil O&M Expenses<sup>59</sup>**  
15 **2004-2009 Recorded Data**  
16 **(in Thousands of Dollars)**

<b>PG&amp;E Fossil O&amp;M</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total	\$21,482	\$20,287	\$15,734	\$11,068	\$11,793	\$27,263

17 Figure 9-7 below shows PG&E’s Fossil O&M costs in constant 2008  
18 dollars.<sup>60</sup> DRA reviewed PG&E’s historical and forecast Fossil O&M costs by MWC,  
19 along with forecast power plant staffing.

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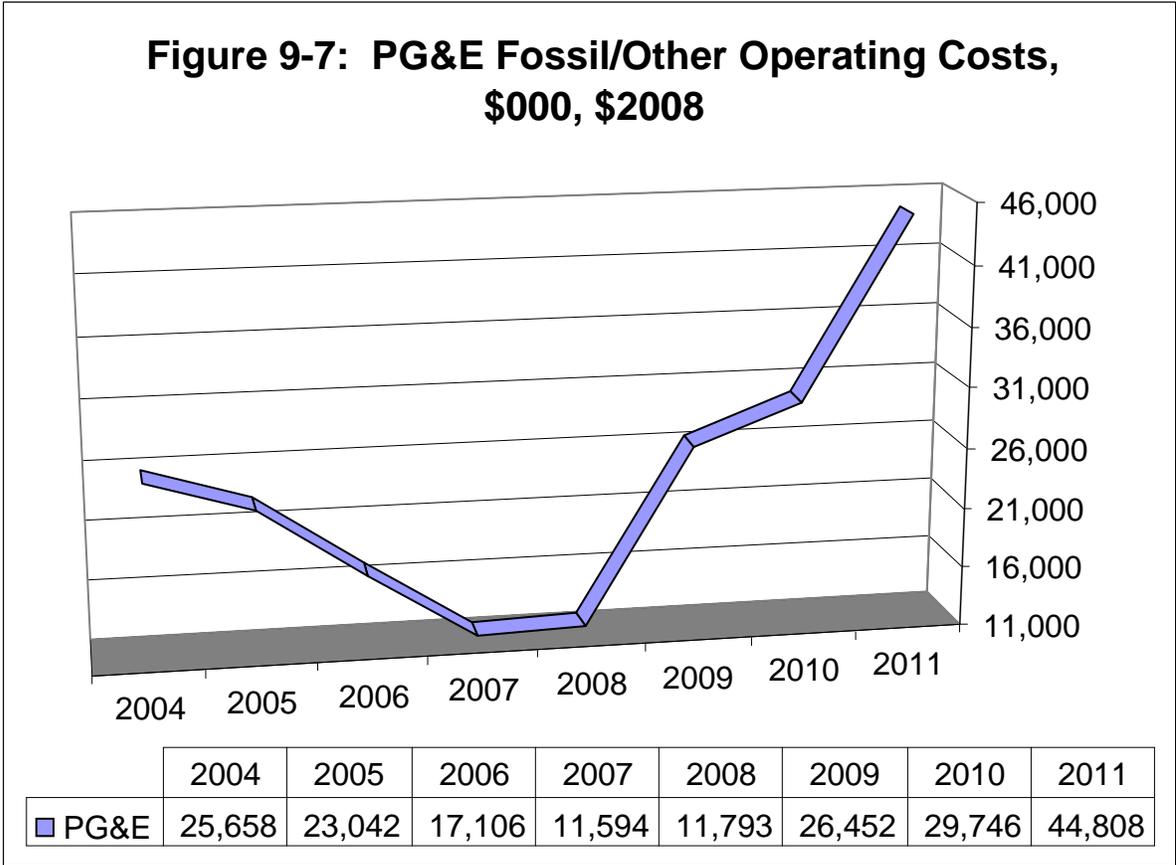
<sup>57</sup> PG&E response to DRA Data Request 121, Q.1.

<sup>58</sup> Ex. PG&E-5 at 5-20, Table 5-3.

<sup>59</sup> Ex. PG&E-2, Workpapers at WP 2-89, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

<sup>60</sup> Ex. PG&E-2, Workpapers at WP 2-192, PG&E response to DRA Data Request 122, Q.1, Attachment 1.

**Figure 9-7: PG&E Fossil/Other Operating Costs, \$000, \$2008**



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2            Taking into consideration the recent commercial operation of Gateway (2009)  
 3 and the expected commercial operation of Colusa (November 2010) and Humboldt  
 4 Bay Generating Station (July 2010), plus the adjustments discussed below, DRA  
 5 recommends that PG&E’s Fossil O&M for TY 2011 should be reduced to \$40.5  
 6 million, a difference of \$7.2 million from PG&E’s \$47.7 million request. With the  
 7 addition of Gateway, Colusa and Humboldt Bay Generating Station, along with the  
 8 eventual decommissioning of PG&E’s Humboldt Bay Power Plant, PG&E’s historical  
 9 Fossil O&M costs from 2004 to 2008 are of little use in forecasting Fossil O&M for  
 10 TY 2011. Table 9-11 below compares PG&E’s TY 2011 request and DRA’s  
 11 recommendation.

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**Table 9-11**  
**Comparison on PG&E's TY 2011 Request and DRA's Recommendation**  
**(in Thousands of Nominal Dollars)**

		PG&E	DRA	
		TY 2011	TY 2011	
		\$ 000	\$ 000	
		nominal \$	nominal \$	Difference
	MWC	A	B	A-B
1	AB	113	113	0
2	AI	309	309	0
3	AK	2,138	2,138	0
4	AW			
5	BC			
6	BI			
7	BJ			
8	BK			
9	BY	10,208	10,208	0
10	BZ	34,217	27,017	7,200
11	CJ	300	300	0
12	CO			
13	CP	105	105	0
14	CR	266	266	0
15	DM			
16	HZ			
17	<b>Total</b>	\$47,656	\$40,456	\$7,200

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**1. Long Term Service Agreements (LTSAs)**

PG&E entered into Long Term Service Agreements (LTSAs) for Gateway and Colusa, and has yet to enter into a LTSA for the unfinished Humboldt Bay Generating Station.<sup>61</sup> A significant portion of Gateway's LTSA is for the so-called "hot gas path milestone payment", which is expected to cost \$xxx million in both 2011 and 2014.<sup>62</sup> For Gateway, "PG&E proposes to spread out or levelize the hot gas path milestone payment that is due in 2011 over years 2011 to 2013. PG&E

<sup>61</sup> Ex. PG&E-5 at 5-8 to 5-10.

<sup>62</sup> Ex. PG&E-5 confidential workpapers at WP 5-41, Ins. 33-34.

1 also proposes to spread out the Gateway hot gas path milestone payment that is  
 2 due in 2014 over years 2011 to 2014.”<sup>63</sup>

3 For Colusa, PG&E “proposes to spread out or levelize the hot gas path  
 4 milestone payment forecast that is due in 2013 over years 2011 to 2013.”<sup>64</sup> PG&E’s  
 5 workpapers show a \$xxx million LTSA payment for Colusa in 2013, amortized at  
 6 \$xxxxx million per year.<sup>65</sup>

7 For Humboldt Bay Generating Station, PG&E “proposes to spread out or  
 8 levelize the LTSA milestone payment that is due in 2014 over years 2011 to  
 9 2014.”<sup>66</sup> PG&E’s workpapers show a \$xxx million cost in 2014 for Humboldt Bay  
 10 Generating Station’s milestone payment; amortized at \$xxxxxxx per year.<sup>67</sup> Figure  
 11 9-8 below illustrates PG&E’s proposal and DRA’s position.

12 **Figure 9-8**  
 13 **PG&E’s Proposal to Levelize Fossil Powerplant Long Term Service Agreement (LTSA)**  
 14 **Payments & DRA’s Position**

	DRA	Gateway (COD 1/2009)			Next GRC
	Position	TY 2011	2012	2013	2014
1	OK	LTSA Payment -----	-----	-----]	
2	Oppose	[-----	-----	-----	LTSA Payment
		<b>Colusa (COD 11/2010)</b>			
3	Oppose	[-----	-----	LTSA Payment	
		<b>Humboldt Bay Generating Station (COD 7/2010)</b>			
4	Oppose	[-----	-----	-----	LTSA Payment

<sup>63</sup> Ex. PG&E-5 at 5-9.

<sup>64</sup> Ex. PG&E-5 at 5-9. PG&E’s confidential workpapers show an identical \$xxx million amount for Colusa’s hot gas path milestone payment as for Gateway, Ex. PG&E-5 confidential workpapers at WP 5-57, ln. 38.

<sup>65</sup> PG&E confidential workpapers at WP 5-57, ln. 38.

<sup>66</sup> Ex. PG&E-5 at 5-10.

<sup>67</sup> Ex. PG&E-5 confidential workpapers at WP 5-50, ln. 7.

1 DRA does not oppose the levelization of the Gateway hot gas path milestone  
2 payment due in 2011. DRA does oppose the levelization of the Gateway hot gas  
3 path milestone payment due in 2014, which should be addressed in the next GRC.  
4 DRA opposes the levelization of the Colusa hot gas path milestone payment due in  
5 2013, since PG&E is asking ratepayers to pay for the servicing of a powerplant that  
6 has not yet entered into commercial service. Colusa's hot gas path milestone  
7 payment could be levelized into rates beginning in 2013, if needed, through an  
8 Advice Letter request. DRA also opposes the levelization of Humboldt Bay  
9 Generating Station's 2014 milestone payment, since PG&E is asking ratepayers to  
10 pay for the servicing of a powerplant that has not yet entered into commercial  
11 service; Humboldt Bay Generating Station's milestone payment could be levelized  
12 into rates beginning in 2014, which is the expected Test Year for PG&E's next GRC.  
13 Based on the above recommendation, DRA adjusted \$xxx million from PG&E's  
14 request for Gateway, Colusa and Humboldt Bay Generating Station's O&M.

## 15 2. Gateway O&M Contingencies

16 PG&E's workpapers show a xxxx% contingency for Gateway's fixed and  
17 variable O&M costs.<sup>68</sup> The Gateway settlement, adopted in Commission Decision  
18 D.06-06-035, included a total of \$xxxx million for O&M for 2011.<sup>69</sup> PG&E is  
19 requesting an O&M total for Gateway of \$xxxx million in TY 2011,<sup>70</sup> an increase of  
20 \$4.9 million. The xxxx% contingencies represent \$xxx million of the difference. By  
21 TY 2011, Gateway will be in its third year of operation, so it is appropriate to  
22 eliminate its O&M contingency. DRA recommends that the xxxx% contingency for  
23 Gateway O&M be reduced to \$0, a reduction of \$xxx million.

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<sup>68</sup> Ex. PG&E-5 confidential workpapers at WP 5-39, Ins. 7 and 12.

<sup>69</sup> Ex. PG&E-5 confidential workpapers at WP 5-38, In. 14.

<sup>70</sup> Ex. PG&E-5 confidential workpapers at WP 5-39, In. 14.

1 **3. Decommissioning Contingencies**

2 PG&E's decommissioning consultants included a xx% contingency in the  
3 Gateway and Humboldt Bay Generating Station decommissioning studies.<sup>71</sup> For  
4 the Humboldt Bay Power Plant, the consultants included a xx% contingency for  
5 asbestos remediation activities and a 15% contingency for all remaining dismantling-  
6 related costs.<sup>72</sup> For Colusa, PG&E did not obtain a separate decommissioning  
7 study; instead PG&E took the estimated decommissioning cost from 580 MW  
8 Gateway (including a xx% contingency) and ratioed it up to take into account 657  
9 MW Colusa's larger generating capacity.<sup>73</sup> PG&E's workpapers show that PG&E  
10 uniformly increased the contingency percentage to xx% for each power plant.<sup>74</sup>  
11 PG&E's testimony does not explain this contingency percentage increase, but in  
12 response to DRA data requests, PG&E stated that for Gateway and Humboldt Bay  
13 Generating Station, PG&E based its "decommissioning contingency percentage on  
14 the percentage used in its 2009 Nuclear Decommissioning Cost Triennial  
15 Proceeding for Diablo Canyon and Humboldt Bay Unit 3."<sup>75</sup>

16 DRA recommends that PG&E reduce the Fossil decommissioning  
17 contingency to 10 percent. PG&E's testimony did not explain why it rejected its  
18 consultants' xx% contingency recommendation, and PG&E's use of the 25%  
19 contingency it applied to its riskier nuclear facilities, Diablo Canyon and Humboldt  
20 Bay Unit 3, is inappropriate for decommissioning non-nuclear fossil facilities. In lieu

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<sup>71</sup> Ex. PG&E-5, confidential workpapers at WP 5-104 (Gateway); WP 5-144 (Humboldt Bay Generating Station). While the heading at the top of the work paper page states "xxxxxxxxxxxxx", the consultant's report refers to the new Humboldt Bay Generating Station).

<sup>72</sup> Ex. PG&E-5 confidential workpapers at WP 5-184.

<sup>73</sup> Ex. PG&E-5 confidential workpapers at WP 5-80.

<sup>74</sup> Ex. PG&E-5 confidential workpapers, p. WP 5-76 (Humboldt Bay Power Plant); WP 5-79 (Gateway); WP 5-80 (Colusa) and WP 5-81 (Humboldt Bay Generating Station).

<sup>75</sup> PG&E responses to DRA Data Request 177, Qs.6-7.

1 of a more precise calculation, DRA reduced the Fossil decommissioning revenue  
2 requirement by 15 percent, a total of \$6 million.<sup>76</sup>

### 3 **C. Fossil Fuel Capital Expenditures**

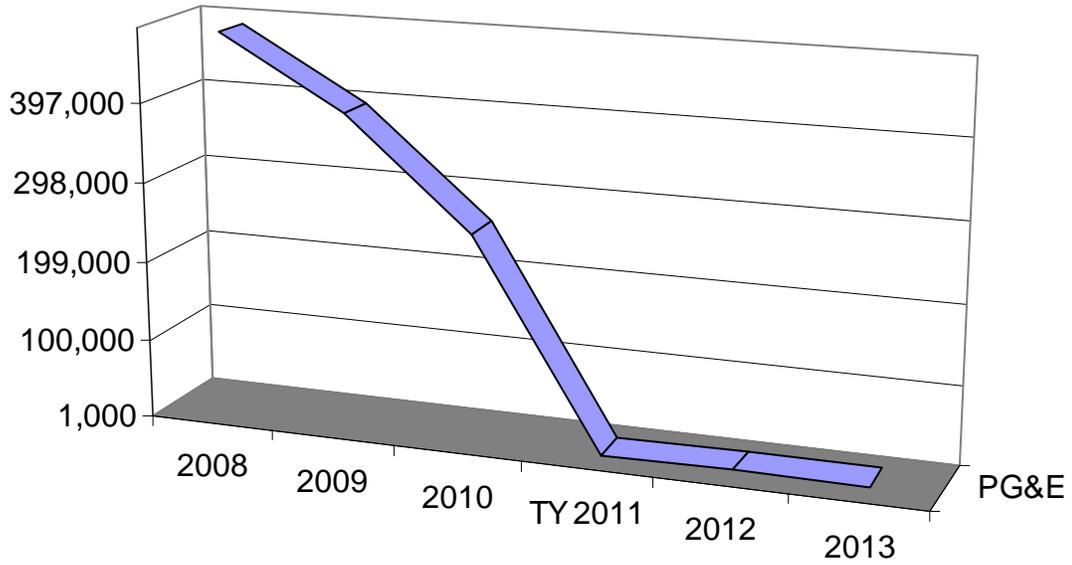
4 PG&E requests Fossil Fuel capital expenditure forecasts of \$414.5 million in  
5 2009, \$258.8 million in 2010 and \$1.7 million in TY 2011. PG&E's forecasts reflect  
6 the commercial operation of the Gateway (2009), Colusa (2010) and Humboldt Bay  
7 Generating Station (2010). DRA has accepted PG&E's 2009 recorded capital  
8 expenditures. Figure 9-9 below shows PG&E's Fossil capital expenditures in  
9 nominal dollars. DRA does not oppose PG&E's Fossil capital expenditure  
10 request.<sup>77</sup>

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<sup>76</sup> Ex. PG&E-2 at Table 18-5, ln. 28 shows TY 2011 Fossil decommissioning of \$40.8 million.

<sup>77</sup> Ex. PG&E-5 at 5-19, Table 5-2, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

**Fig. 9-9: PG&E Fossil Capital Expenditures,  
\$000, Nominal**



	2008	2009	2010	TY 2011	2012	2013
■ PG&E	480,684	392,494	258,752	1,658	3,060	3,137

1

1 **VI. DISCUSSION / ANALYSIS OF ENERGY PROCUREMENT**  
2 **ADMINISTRATION COSTS**

3 **A. Overview of PG&E's Request**

4 PG&E requests \$96.0 million in nominal dollars for TY 2011 for energy  
5 procurement administration expenses.<sup>78</sup> PG&E energy procurement administration  
6 O&M request represents a substantial increase over 2008 base expenses of \$34.9  
7 million.<sup>79</sup>

8 **B. Energy Procurement Administration Expenses**

9 **1. Summary**

10 Table 9-12 below shows PG&E's total historical energy procurement  
11 administration O&M expenses.

12 **Table 9-12**  
13 **2004-2009 Recorded Data<sup>80</sup>**  
14 **(in Thousands of Nominal Dollars)**

<b>Description</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total	\$21,425	\$25,702	\$30,246	\$30,596	\$34,951	\$48,121

15

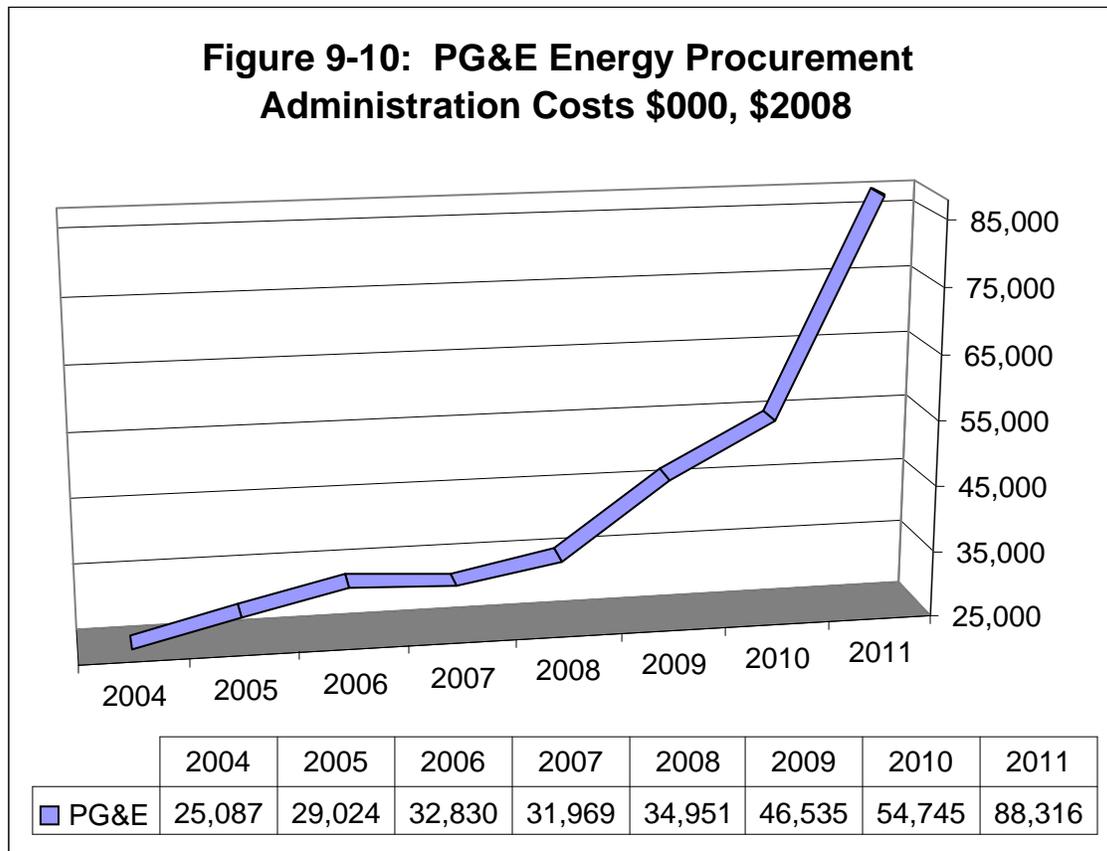
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<sup>78</sup> Ex. PG&E-5 at 6-2, Table 6-1.

<sup>79</sup> Ex. PG&E-2 workpapers at WP 2-92.

<sup>80</sup> Ex. PG&E-2 workpapers at WP 2-92, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

1 Figure 9-10 below shows PG&E's energy procurement administration O&M in  
 2 2008 constant dollars,<sup>81</sup> with huge increases from 2008 to 2009 to 2010 to TY 2011.  
 3 PG&E forecasted a 2009 energy procurement administration O&M total of \$46.9  
 4 million; 2009 recorded costs were \$48.1 million (nominal), a difference of \$1.2  
 5 million.<sup>82</sup>

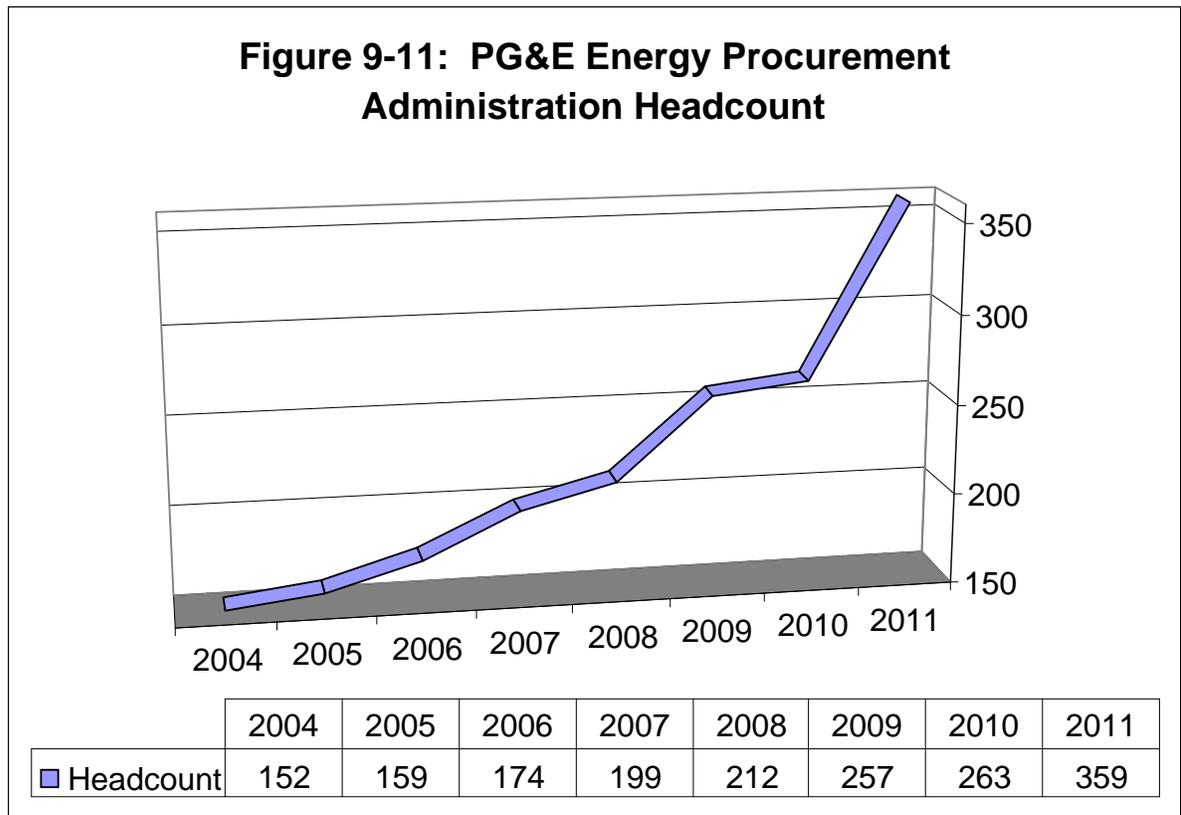


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<sup>81</sup> Ex. PG&E-2 workpapers at WP 2-195, PG&E response to DRA Data Request 122, Q.1, Supp. 1.

<sup>82</sup> PG&E response to DRA Data Request 122, Q.1, Attachment 1.

1 Figure 9-11 below shows PG&E's energy procurement administration  
 2 headcount, which also shows huge increases from 2008 to 2009 and 2010 to  
 3 2011.<sup>83</sup>



4

5 Considering the huge staffing increases and constant dollar O&M increases in  
 6 recent years, the unnecessary Renewable Resource Development/Strategic  
 7 Renewables Investments spending proposed by PG&E and the uncertainty related  
 8 to RPS goals, AB 32 implementation and the Western Climate Initiative, DRA  
 9 recommends that PG&E's TY 2011 energy procurement administration O&M  
 10 expenses be capped at PG&E's recorded 2009 costs of \$48.1 million (nominal), a  
 11 difference of \$47.9 million. DRA's adjustments in this area can be summarized as

<sup>83</sup> PG&E workpapers at WP 6-11 and 6-12.

1 follows: DRA opposes PG&E’s request for a \$27 million one-way balancing account  
 2 for Renewable Resource Development (RRD), a \$10 million request for Strategic  
 3 Renewables Investments (SRI) and that additional staffing in this area be rejected,  
 4 which amounts to an adjustment of approximately \$10.9 million. DRA opposes  
 5 PG&E’s proposal to include Tesla site acquisition and development costs as Plant  
 6 Held for Future Use (PHFU) and recovery of Tesla abandoned project costs. Table  
 7 9-13 below compares PG&E’s TY 2011 request and DRA’s recommendation.

8 **Table 9-13**  
 9 **Comparison on PG&E’s TY 2011 Request and DRA’s Recommendation**  
 10 **(in Thousands of Nominal Dollars)**

		<b>PG&amp;E</b>	<b>DRA</b>	
		<b>TY 2011</b>	<b>TY 2011</b>	
		<b>\$ 000</b>	<b>\$ 000</b>	
		<b>nominal \$</b>	<b>nominal \$</b>	<b>Difference</b>
	<b>MWC</b>	<b>A</b>	<b>B</b>	<b>A-B</b>
1	<b>AB</b>	2,404	2,028	376
2	<b>CT</b>	89,060	42,618	46,442
3	<b>CV</b>	4,535	3,475	1,060
4	<b>Total</b>	\$95,999	\$48,121	\$47,878

11 **2. Renewable Resource Development (RRD) Balancing**  
 12 **Account & Strategic Renewable Investments (SRI)**

13 PG&E proposes a one-way balancing account for Renewable Resource  
 14 Development (RRD) of “approximately \$27 million annually over three years...for  
 15 external renewables development expenses to support strategic  
 16 investments/partnerships with third-party developers and greenfield development.”<sup>84</sup>  
 17 PG&E’s RRD balancing account proposal is separate from a request for \$10 million  
 18 for Strategic Renewables Investments (SRI).<sup>85</sup> DRA opposes PG&E’s request for  
 19 \$37 million for RRD and SRI.

<sup>84</sup> Ex. PG&E-5 at 6-36

<sup>85</sup> Ex. PG&E-5 at 6-32 to 6-34 PG&E’s testimony includes Figure 6-1 on p. 6-37, which shows the \$27 million estimate for the RDD balancing account and a \$10 million figure for so-called “Stage 1-  
 (continued on next page)

1           Regarding the SRI group, PG&E responded to a DRA data request for  
2           workpapers on the estimated cost of incremental FTEs.<sup>86</sup> The PG&E-provided  
3           workpaper includes costs for “Materials, Vehicle usage, IT & Facility Burdens and  
4           Other employee related expenses” that probably should be accounted for in A&G  
5           expenses. DRA asked for workpapers supporting PG&E’s \$2 million SRI consulting  
6           cost estimate; PG&E provided no workpapers.<sup>87</sup>

7           Regarding the RRD balancing account, DRA asked PG&E to provide  
8           workpapers supporting the \$27 million annual funding estimate; PG&E provided no  
9           workpapers.<sup>88</sup> DRA asked PG&E for workpapers on the assumed project  
10          development cost of \$1.2-\$3.9 million per project; PG&E referred DRA to a pre-  
11          existing workpaper, but offered no additional information.<sup>89</sup> DRA asked for  
12          additional workpapers regarding the RRD balancing account forecast cost  
13          assumptions, and received little in the way of details.<sup>90</sup> DRA asked PG&E for a  
14          spreadsheet explaining how PG&E derived the \$27 million annual cost estimate of  
15          the RRD balancing account, and was told that “[t]here is no spreadsheet.”<sup>91</sup>

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(continued from previous page)

Baseload Work”. PG&E’s testimony at p. 6-36 states “[a]ll costs incurred through Stage 1 are included in the GRC request and presented in Sections 3.3 [Strategic Renewable Investments] and 3.4 [Renewable Resource Development]. External costs incurred throughout Stage 2 will be recorded and recovered via the proposed one-way balancing account.” PG&E workpaper WP 6-14 shows Table 6-10, which attempts to explain the \$10 million cost of Stage 1-Baseload Work. PG&E also provided a response to DRA Data Request 129, Q.1, which provided some additional detail on PG&E’s Stage 1-Baseload Work cost estimates.

<sup>86</sup> PG&E response to DRA Data Request 83, Q.9.

<sup>87</sup> PG&E response to DRA Data Request 83, Q.10.

<sup>88</sup> PG&E response to DRA Data Request 83, Q.11 (a).

<sup>89</sup> PG&E response to DRA Data Request 83, Q. 11 (b). While the data response refers to WP 6-4, the correct workpaper page is WP 6-15.

<sup>90</sup> PG&E response to DRA Data Request 129, Q.2.

<sup>91</sup> PG&E response to DRA Data Request 129, Q.3 (excerpt).

1 DRA opposes PG&E’s request for a \$27 million one-way RRD balancing  
2 account and \$10 million for SRI. PG&E’s request is similar to Southern California  
3 Edison’s request for \$20 million for generation RD&D in its TY 2009 GRC, which  
4 was rejected by Commission Decision D.09-03-025 (mimeo at p. 42).

5 Utilities should not use ratepayer provided funds in base rates to invest in  
6 renewables development projects that should more properly be funded by  
7 generation manufacturers, venture capital, developers and governmental agencies,  
8 such as the CEC or DOE. Ratepayers pay investor-owned utilities for the provision  
9 of reliable electricity at reasonable rates; they should not be called upon to subsidize  
10 renewables development projects. The CEC administers up to \$83.5 million a year  
11 in public interest energy research funds through its RD&D Program; additional  
12 funding through PG&E’s proposed RDD balancing account is unnecessary.<sup>92</sup> The  
13 California Solar Initiative has a budget of \$2.1 billion (2007-2016), including a \$50  
14 million RD&D budget.<sup>93</sup> The Commission’s Self-Generation Incentive Program  
15 (SGIP) has had a total project investment of over \$1.7 billion.<sup>94</sup> Furthermore, PG&E  
16 already has an ongoing renewables solicitation process to meet the RPS  
17 standard.<sup>95</sup>

### 18 3. Forecasting the Future: RPS Goals, AB 32 and the 19 Western Climate Initiative

20 PG&E’s testimony states that one of the primary change drivers is “the effort  
21 to build a 20 percent renewable power portfolio by 2010 under the RPS [Renewable

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<sup>92</sup> <http://www.energy.ca.gov/research/index.html>

<sup>93</sup> <http://www.gosolarcalifornia.ca.gov/csi/index.html>

<sup>94</sup> CPUC Self-Generation Incentive Program Eighth Year Impact Evaluation, Revised Final Report, July 2009, at 1-1.

<sup>95</sup>  
<http://www.pge.com/b2b/energysupply/wholesaleelectricssuppliersolicitation/renewables2010/index.shtml>

1 Portfolio Standard] and potential expansion of this goal to 33 percent by 2020.”<sup>96</sup>  
2 DRA asked PG&E to explain how the potential expansion of the RPS goal to 33% by  
3 2020 is relevant to TY 2011. PG&E’s response essentially referred to “the long lead-  
4 time required to bring that additional generation online and to plan to integrate it into  
5 PG&E’s generation portfolio.”<sup>97</sup> Last year, the Governor vetoed AB 64 and SB 14,  
6 which would have increased the RPS target to 33% by 2020.<sup>98</sup> SB 722, currently  
7 being considered by the Legislature, would increase the RPS standard to 33% by  
8 2020, but “[a]s currently written, the bill would extend the 20 percent target to 2013  
9 from 2010. It would give utilities flexible compliance to meet the 2013 target and a  
10 25 percent-by-2016 target, but mandates a firm 2020 target with no flexible  
11 compliance.”<sup>99</sup>

12 Considering the fact that California law currently does not require a 33% RPS  
13 by 2020, and whether SB 722 will be passed by the Legislature and signed by the  
14 Governor is speculation, DRA opposes PG&E’s request to increase its energy  
15 procurement costs in TY 2011 to deal with the “potential expansion” of the RPS  
16 standard in 2020. PG&E already has an ongoing renewables solicitation process to  
17 meet the RPS standard.<sup>100</sup>

18 Regarding greenhouse gas emission reductions (AB 32), PG&E’s testimony  
19 states that “PG&E will begin to prepare itself for participation in this new market  
20 beginning in 2011 when we expect the first auctions associated with a cap and trade

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<sup>96</sup> Exh. PG&E-5 at 6-3.

<sup>97</sup> PG&E response to DRA data request 83, Q.3 9 (excerpt).

<sup>98</sup> AB 64 veto message: [http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab\\_0051-0100/ab\\_64\\_vt\\_20091012.html](http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_0051-0100/ab_64_vt_20091012.html) ; SB 14 veto message: [http://www.leginfo.ca.gov/pub/09-10/bill/sen/sb\\_0001-0050/sb\\_14\\_vt\\_20091012.html](http://www.leginfo.ca.gov/pub/09-10/bill/sen/sb_0001-0050/sb_14_vt_20091012.html)

<sup>99</sup> California Energy Markets #1069, March 12, 2010 at 13.

**100**

<http://www.pge.com/b2b/energysupply/wholesaleelectricssuppliersolicitation/renewables2010/index.shtml>

1 market to take place.”<sup>101</sup> The Air Resources Board has released a preliminary draft  
2 regulation for the proposed California Cap and Trade Program, but has yet to adopt  
3 it.<sup>102</sup> The Governor recently proposed a “phased approach to development of an  
4 auction system, beginning with a very small percentage of allowances subject to  
5 auction.”<sup>103</sup> DRA notes that three initiatives are currently in circulation to suspend  
6 AB 32.<sup>104</sup>

7 Regarding the Western Climate Initiative (WCI), PG&E’s testimony states that  
8 “[t]he above resource and infrastructure demands will increase if the *required*  
9 Western Climate Initiative’s cap and trade program is implemented starting in 2012  
10 or if the federal government adopts a national GHG regulatory program.”<sup>105</sup>

11 The Western Climate Initiative is having start-up difficulties: “[o]nly a few of  
12 the WCI partners – California, British Columbia, Ontario and Quebec – will likely be  
13 prepared to go forward with cap and trade programs starting in 2012”; “a bill to

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<sup>101</sup> Exh. PG&E-5 at 6-5.

<sup>102</sup> <http://www.arb.ca.gov/cc/capandtrade/meetings/121409/pdr.pdf>

<sup>103</sup> San Francisco Chronicle, Mar. 28, 2010 at D6, “Small start for auctions”: “California’s cap-and-trade program for greenhouse gases won’t force companies to buy large amounts of pollution allowances when it gets started in 2012, Gov. Arnold Schwarzenegger said last week. ‘I strongly support a phased approach to development of an auction system, beginning with a very small percentage of allowances subject to auction,’ he told the California Air Resources Board. Environmental groups support auctioning all the cap-and-trade program’s allowances. Companies that would be regulated under the effort, including San Ramon-based Chevron, oppose the auction plan. They say it will drive up their costs and give an edge to competitors outside California.” Link to Governor’s letter to California Air Resources Board:  
[http://www.climatechange.ca.gov/eaac/documents/2010-03-24\\_GOVERNOR\\_LETTER.PDF](http://www.climatechange.ca.gov/eaac/documents/2010-03-24_GOVERNOR_LETTER.PDF)

<sup>104</sup> <http://www.sos.ca.gov/elections/ballot-measures/cleared-for-circulation.htm> items 1449, 1454 and 1455.

<sup>105</sup> Ex. PG&E-5 at 6-5 (emphasis added). DRA asked PG&E about the use of the word “required” in its testimony; PG&E responded: “PG&E has used the word ‘required’ to reflect the fact that Assembly Bill 32 contains a statutory requirement to reduce California’s greenhouse gas emissions to 1990 levels by 2020. The California Air Resources Board’s December 2008 Scoping Plan anticipates that the cap and trade portion of AB 32 emission reduction requirements will be met by participation in the Western Climate Initiative cap and trade program (See [www.westernclimateinitiative.org](http://www.westernclimateinitiative.org) and [www.arb.ca.gov/cc.scopingplan/document/adopted\\_scoping\\_plan.pdf](http://www.arb.ca.gov/cc.scopingplan/document/adopted_scoping_plan.pdf)).” PG&E response to DRA Data Request 83, Q.5(a).

1 prepare New Mexico to launch cap and trade stalled in their Legislature.”<sup>106</sup> Also  
2 “on Feb. 2, [2010] Arizona’s new Republican governor, Jan Brewer, announced the  
3 state would not institute cap and trade, but would still participate in the WCI...neither  
4 Washington nor Oregon, though both are WCI members, has passed a cap-and-  
5 trade bill, and both are resistant because of perceived costs.”<sup>107</sup> Furthermore, the  
6 federal government has not implemented a national GHG regulatory program at this  
7 time.<sup>108</sup> DRA opposes PG&E’s request to increase its energy procurement costs in  
8 TY 2011 based on an expectation by PG&E that the WCI’s cap and trade program  
9 may begin in 2012.

10 **4. Space Resources: Energy Supply Departments**  
11 **Reconfiguration & Alternative Company Headquarters**  
12 **for the Energy Supply Operation**

13 PG&E’s testimony discusses a desire to reconfigure space housing the  
14 Electric Supply departments, to accommodate the “growth of the department and  
15 expected needs going forward”.<sup>109</sup> As Figure 9-11 above shows, PG&E’s Energy  
16 Procurement headcount increased significantly in 2009 and is forecast to grow by  
17 102 positions from 2009 to TY 2011. PG&E’s headcount already increased from  
18 152 FTEs in 2004 to 257 FTEs in 2009; this is an increase of 105 FTEs or 69% in  
19 five years. DRA’s recommendation that PG&E’s Energy Procurement Administration  
20 O&M costs be capped at its 2009 levels would reduce the need to reconfigure office  
21 space. PG&E should make do with its current staff and space.

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<sup>106</sup> California Energy Markets #1063, Jan. 29, 2010 at 8; California Energy Markets #1066, Feb. 19, 2010 at 4.

<sup>107</sup> California Energy Markets #1066, Feb. 19, 2010 at 4 and 5.

<sup>108</sup> “EPA affirms delay in regulating power plant emissions,” Washington Post, Mar. 29, 2010, states “The Environmental Protection Agency issued a rule [on March 29, 2010] affirming it won’t regulate greenhouse gas emissions from power plants under the Clear Air Act until Jan. 2 [2011].” [http://views.washingtonpost.com/climate-change/post-carbon/2010/03/epa\\_to\\_issue\\_johnson\\_memo.html](http://views.washingtonpost.com/climate-change/post-carbon/2010/03/epa_to_issue_johnson_memo.html)

<sup>109</sup> Ex. PG&E-5 at 6-73 to 6-74.

1 PG&E also proposes to establish an “Alternative Company Headquarters for  
2 the Energy Supply Operation”, targeting an existing PG&E building in Fresno.<sup>110</sup>  
3 PG&E currently has an alternative location for the Short-Term Electric Supply group  
4 in San Ramon, California.<sup>111</sup> Before selecting Fresno as its preferred site, PG&E  
5 “examined a range of existing company facilities that might serve as a location for  
6 ACHQ [Alternative Company Headquarters]: Fresno, Angels Camp, Auburn,  
7 Vacaville and Sacramento.”<sup>112</sup> PG&E has also stated that “if Fresno becomes the  
8 Alternative Company Headquarter[s] for Energy Trading, San Ramon would no  
9 longer be used to perform this function.”<sup>113</sup> DRA does not oppose PG&E’s proposal  
10 to move its alternative headquarters for energy trading from San Ramon to Fresno.

## 11 5. Tesla Plant Held For Future Use; Abandoned Project 12 Costs

13 PG&E proposes to include \$28.3 million in costs associated with the  
14 acquisition of the Tesla Power Project site and development permits in Electric Plant  
15 Held for Future Use (PHFU).<sup>114</sup> Commission Decision D.08-11-004 dismissed  
16 PG&E’s CPCN application for Tesla, stating  
17 “PG&E’s proposal fails to conform to Commission policies under  
18 which all long-term power should be obtained through ‘competitive  
19 procurements, rather than through preemptive actions by the  
20 Investor-owned Utilities, except in truly extraordinary  
21 circumstances.”<sup>115</sup>  
22

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<sup>110</sup> Ex. PG&E-5 at 6-74 to 6-75.

<sup>111</sup> Ex. PG&E-5 at 6-74.

<sup>112</sup> PG&E response to DRA Data Request 113, Q.2.

<sup>113</sup> PG&E response to DRA Data Request 113, Q.3.

<sup>114</sup> Ex. PG&E-5 at 6-75; Table 6-2 at 6-76.

<sup>115</sup> CPUC D.08-11-004 at 2, citing D.07-12-052 at 209 (emphasis in original).

1 We reiterate here that in D.07-12-052, we set a clear preference for  
2 a markets-first approach and set an intentionally high bar for UOG  
3 when chosen outside of a competitive bidding process. We find  
4 that PG&E’s application for Tesla Generation Station has not met  
5 that high threshold. Specifically, PG&E has not sufficiently  
6 demonstrated that conducting an RFO is infeasible; a central  
7 requirement to proposing UOG outside of a competitive process.  
8 We therefore find it reasonable to grant the motions to dismiss,  
9 therefore closing this proceeding.<sup>116</sup>

10 [Conclusion of Law] 1. The Application of PG&E for Expedited  
11 Approval of the Tesla Generating Station and Issuance of a CPCN  
12 does not meet the UOG exception of D.07-12-052.<sup>117</sup>

13 The CEC also rejected PG&E’s request to extend the deadline for  
14 commencement of construction at Tesla.<sup>118</sup>

15 DRA opposes PG&E’s request to include Tesla’s \$28.3 million site acquisition  
16 and development costs as PHFU. The Commission made quite clear to PG&E that  
17 long-term generation procurement should occur through competitive procurement,  
18 not preemptive actions by investor-owned utilities. PG&E took the risk of developing  
19 Tesla outside the normal competitive procurement process, and now PG&E’s  
20 shareholders should accept that risk. PG&E’s testimony states that “[t]he site could  
21 be sold to a third party to develop,” which would at least allow PG&E to recoup some  
22 of its investment.<sup>119</sup>

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<sup>116</sup> Id. at 24.

<sup>117</sup> Id.

<sup>118</sup> CEC Docket No. 01-AFC-21C, Order No. 09-923-11, Sept. 23, 2009.

<sup>119</sup> Ex. PG&E-5 at 6-80.

1 PG&E also requests that the Commission approve recovery of \$4.8 million in  
2 Tesla project cancellation costs as abandoned project costs.<sup>120</sup> Since PG&E took  
3 the risk of developing Tesla outside the normal competitive procurement process, it  
4 should accept the risk and costs associated with that decision. DRA notes that while  
5 \$4 million of the Tesla project cancellation costs are for turbine equipment, the other  
6 \$822,000 is for engineering, procurement and permitting.<sup>121</sup> DRA opposes PG&E's  
7 recovery of \$4.8 million in Tesla project cancellation costs.

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<sup>120</sup> Ex. PG&E-5 at 6-81.

<sup>121</sup> Ex. PG&E-5 at 6-87, Table 6-4.