PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

FILED
12-21-10
03:06 PM

December 21, 2010

Agenda ID #10061
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 09-12-002

This is the proposed decision of Administrative Law Judge (ALJ) Maryam Ebke. It will not appear on the Commission's agenda sooner than 30 days from the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Ebke at meb@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

__/s/ CHARLOTTE TERKEURST for__
Karen V. Clopton, Chief
Administrative Law Judge
KVC:jyc

Attachment

Decision **PROPOSED DECISION OF ALJ EBKE** (Mailed 12/21/2010)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of the Manzana Wind Project and Issuance of a Certificate of Public Convenience and Necessity (U39E).	Application 09-12-002 (Filed December 3, 2009)

DECISION DENYING A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE MANZANA WIND PROJECT

TABLE OF CONTENTS

Title **Page**

DECISION DENYING A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE MANZANA WIND PROJECT

1. Summary

This decision rejects the application of Pacific Gas and Electric Company (PG&E) for approval of and issuance of a certificate of public convenience and necessity for the Manzana Wind Project. PG&E's application seeks authorization to acquire, develop, and construct the Manzana Wind Project as utility-owned renewable generation and to recover the $911 million costs of the Manzana Wind Project in rates.

We reject the application because we find that the Manzana Wind Project is not cost-competitive and poses unacceptable risks to ratepayers. We find that the proposed cost of the Manzana Wind Project is significantly higher than other resources PG&E can procure to meet its RPS program goal. Moreover, it will subject the ratepayers to unacceptable risks due to potential cost increases resulting from project under-performance, less than forecasted project life, and any delays which might occur concerning transmission upgrades and commercial online date. As a proposed utility-owned generation project, ratepayers would pay a lump sum cost rather than a performance based cost for the Manzana Wind Project. Therefore, ratepayers would be at risk if the project underperforms. In particular, if the Manzana Wind Project fails to achieve production as expected for any reason such as construction delays or curtailments as a result of a collision with a California condor,[1] shareholders face no risks while customers could incur increased costs. In contrast, under a power

[1] The California condor is an endangered species under both State and Federal law and is fully protected under State law.

purchase agreement, project owners rather than ratepayers bear the risk of project performance.

The Commission also finds it unreasonable to approve PG&E's application because PG&E has not made an adequate showing of need to support its application. For example, there is no demonstration that the Manzana Wind Project is needed to meet reliability or forecasted electrical demand of PG&E's customers. There is also no demonstration that utility ownership of this project is needed to meet PG&E's California Renewables Portfolio Standard (RPS) goals or that this project is needed as a hedge against the development risks of other projects in PG&E's current RPS portfolio.[2] There is also no showing of a gap in the market for wind projects that must be filled by utility-owned projects to otherwise justify this application.

In short, although the project would contribute to the California renewable generation goals, given the availability of other lower-priced renewable projects in the competitive market that could impose far less risks on ratepayers, PG&E has failed to demonstrate a need for this project.

While we support clean, renewable generation and the development of utility-owned renewable generation in the utility's resource mix, approval of PG&E's application will not further Commission policies relating to utility-owned generation of renewable resources given the lack of a showing of a need, and the risks and costs the application poses to ratepayers.

---

[2] The RPS was established in 2002 under Senate Bill (SB) 1078, Stats. 2002, ch. 516, and accelerated in 2006 under SB 107, Stats. 2006, ch. 464.

2. Background

On December 3, 2009, Pacific Gas and Electric Company (PG&E) filed this application seeking Commission authorization to acquire, develop and construct the Manzana Wind Project and recover the associated costs in rates. Specifically, PG&E requests the Commission to:

- Grant a Certificate of Public Convenience and Necessity (CPCN) authorizing PG&E to construct the Manzana Wind Project, including a 246 megawatt (MW) wind facility and an approximately six-mile generator interconnection transmission line(Gen-tie);
- Determine, pursuant to Section 1005.5 (a) of the Public Utilities Code,[3] that the maximum reasonable and prudent cost for the Manzana Wind Project is $911.0 million;
- Approve a prudent initial capital cost estimate of $911.0 million for the Manzana Wind Project;
- Adopt an estimated annual revenue requirement for the Manzana Wind Project's first year of operations equal to $131.8 million;
- Authorize PG&E to recover in rates the actual costs of the Manzana Wind Project up to the Commission-adopted prudent initial capital cost estimate without the need for an after-the-fact reasonableness review and, if actual costs exceed the prudent initial capital cost estimate, allowing recovery of the excess costs above the estimate only following submission of a separate application and upon a Commission finding of reasonableness;
- Adopt the initial three-year forecast of operation and maintenance (O&M) expense for the Manzana Wind Project;
- Authorize PG&E to update the Manzana Wind Project's initial capital cost and initial O&M estimate for (1) cost increases associated with monthly delays in commercial operations beyond

[3] All section references are to the Public Utilities Codes unless otherwise indicated.

December 31, 2011, (2) operational enhancements pre-approved by the Commission via an expedited advice letter process; (3) reductions in the revenue requirement if the final project size is less than 246 MW; and (4) revisions due to new or modified regulatory requirements, change in law or force majeure events to the extent pre-approved by the Commission via an expedited advice letter process;

- Authorize revisions to the initial revenue requirement for (1) updated revenue requirement factors to reflect the then-current cost of capital, franchise and uncollectibles, and property tax factors; (2) finance costs for transmission upgrades, if required; and (3) changes in or expiration of renewable tax credits, including if the project is delayed beyond the December 31, 2012 operations deadline for federal tax credits;
- Establish a Manzana Wind Project memorandum account to track the difference in the initial revenue requirement adopted in the proceeding and the actual revenue requirement based on the actual capital cost and authorizing transfer of the Manzana Wind Project memorandum account balance to the Utility Generation Balancing Account (UGBA) for recovery in the next Annual Electric True-up (AET) following commercial operation;
- Adopt a non-bypassable charge to recover stranded costs over a 10-year period or, alternatively, for the period adopted by the Commission for utility-owned generation following implementation of Senate Bill 695 (Stats. 2009, ch. 337);
- Authorize PG&E pursuant to § 851 to sell the Manzana Wind Project back to Iberdrola Renewables under certain circumstances; and
- Grant such other relief as is necessary to effectuate the Application and issuance of a CPCN.

Division of Ratepayer Advocates (DRA), the Greenlining Institute, and The Independent Energy Producers Association filed protests and responses to PG&E's application.

3. The Proposed Project

The Manzana Wind Project is a proposed wind project in the Tehachapi region in Kern County, California. The project was initially offered to PG&E in the 2005 Renewables Portfolio Standard (RPS) Request For Offers (RFO) as a power purchase agreement (PPA) by Iberdrola Renewables, Inc. (Iberdrola), the current project owner. In 2009, after delays due to transmission issues and the economic downturn, Iberdrola offered to sell the Manzana Wind Project to PG&E. PG&E and Iberdrola began negotiating and reached an agreement on the sale of the project in December 2009.

To acquire the project, PG&E has signed a Purchase and Sale Agreement (PSA) with Iberdrola Renewables. PG&E has also negotiated and will sign a Project Completion Agreement (PCA) with an affiliate of Iberdrola Renewables, PPM Technical Services, Inc. (PPM Technical Services), which will obligate PPM Technical Services to finish project development and then to construct the project on PG&E's behalf. Under the terms of the PCA, PG&E will be responsible for permitting and constructing the Gen-tie from the Manzana Wind Project to the proposed Southern California Edison (SCE) Whirlwind Substation.

While PG&E seeks a CPCN authorizing 246 MW as the maximum project capacity, Iberdrola has obtained local development permits and land leases, and secured turbines sufficient for only a 189 MW project. Thus, ultimately, the capacity of the Manzana Wind Project may be less than 246 MW. PG&E expects the Manzana Wind Project to be operational by December 2011.

4. Procedural History

The Commission held a prehearing conference (PHC) on October 7, 2008. Following the PHC, the assigned Commissioner issued a Scoping Memo and

Ruling (Scoping Memo) on March 25, 2010, which established the scope of issues and the schedule for the proceeding.

The Scoping Memo set forth six issues to be examined as follows:

- Environmental Review: as established under California Environmental Quality Act Guideline Section 15096;
- Resource need and diversity;
- Adequacy and thoroughness of the independent evaluation;
- Cost;
- Cost recovery mechanism; and
- Utility ownership of a facility previously bid in a solicitation.

The Scoping Memo required that "[e]very party shall jointly prepare a Case Management Statement and Settlement Conference Report."[4] The Scoping Memo also directed PG&E to file and serve this report on behalf of all parties after the final settlement conference.[5]

The Scoping Memo required all active parties in this proceeding who serve written testimony, or intend to cross-examine witnesses at the evidentiary hearing to participate in at least one mandatory settlement conference and jointly prepare a Case Management Statement and Settlement Conference Report identifying the following:

- Any settled or otherwise stipulated issues.
- All remaining contested issues.

Pursuant to the Scoping Memo, on May 21, 2010, PG&E filed the Case Management Statement and Settlement Conference Report (Report) on behalf of

[4] Scoping Memo at 2.

[5] Scoping Memo at 3.

The Utility Reform Network (TURN), DRA and PG&E. The Report provided a list of contested issues for this proceeding.

Parties served testimony and rebuttal testimony pursuant to the schedule established in the Scoping Memo. Evidentiary hearings were held on May 24 through May 26, 2010. DRA, PG&E and TURN filed opening briefs on June 18, 2010 and reply briefs on July 2, 2010.

5. Reasonableness of the Proposed Manzana Wind Project

PG&E claims the Manzana Wind Project is a cost competitive and highly viable project that will contribute to meeting California's RPS goals.

DRA and TURN oppose the application, arguing that the project does not offer ratepayer benefits and is not cost competitive compared to other resources. Furthermore, they argue that the Manzana Wind Project could cost even more due to potential delays in completion of transmission connection and achieving the expected commercial operation date. DRA and TURN are concerned that the costs of any delays will be borne entirely by ratepayers through a higher revenue requirement and an increased levelized cost of energy (LCOE) over the project life. They also believe there is the risk of project operation curtailments in the event a California condor collides with the project. Thus, DRA and TURN recommend rejecting the application.

As set forth in the Scoping Memo, a threshold issue is whether there is a need for this facility and the energy it may produce pursuant to § 1001 and General Order (GO) 131-D Section VIII,[6] and consistent with the intent of the RPS

[6] GO 131-D implements § 1001 *et se.* with respect to electric generation, transmission, and distribution facilities. (GO 131-D, Section I)

legislation. We address this issue first. Because much of the data regarding the project cost and RPS solicitation information have been identified as confidential, this decision specifically mentions only the non-confidential material but considers the entire record.

5.1. Resource Need and Diversity

5.1.1. Parties' Positions

PG&E claims the Manzana Wind Project will contribute significantly toward meeting California's 20% RPS goal. According to PG&E, assuming a 31.1% wind capacity factor, a 246 MW project would represent 670 gigawatt-hours (GWh) annually, which would account for approximately 0.8% of PG&E's 20% RPS goal. Under an expanded renewable goal of 33% by 2020, PG&E asserts deliveries from the Manzana Wind Project will continue to play an important role in meeting this expansion.

5.1.2. Discussion

We find that PG&E has not made an adequate showing of need to support authorization of its application.

PG&E's only justification of need for the project is limited to the statement that the project is highly viable and can contribute to PG&E's 20% RPS goal. PG&E states "If project development continues on schedule, the project will be online as early as December 2011, and bolster California's efforts to meet state current 20% RPS goals."[7] PG&E also contends "There are few highly viable renewable projects of this magnitude that can be operational within this

[7] PG&E application at 6.

timeframe."[8] These statements alone, however, are insufficient to justify the need for the project.

The Scoping Memo required that the Commission must determine whether there is a need for this facility and for the energy it may produce. Specifically, the Scoping Memo established that "This includes an analysis of whether there is a need for this facility and for the energy it may produce consistent with the intent of the California Renewables Portfolio Standard Program legislation (Pub. Util. Code § 399.11)."[9] PG&E has failed to provide any analysis to support the need for this project. For example, PG&E has not claimed that it will not meet its 20% RPS goals without the Manzana Wind Project or that Manzana is needed as a hedge against the development risks of other projects in PG&E's current RPS portfolio. There is also no demonstration that the Manzana Wind Project is needed to meet reliability or forecasted electrical demand of PG&E's customers. Moreover, there are serious concerns with the claimed viability of the Manzana Wind Project due to the needed transmission upgrades and the presence of California condors in the area, as discussed below. While we conclude that the application is deficient in justifying the need for the project, we do not reject it solely on that ground. Nor do we conclude that rejection of this application suggests that PG&E should not procure additional renewable resources for RPS compliance. That determination needs to be made in the RPS proceeding. We are merely concluding here that PG&E has not produced evidence showing that the Manzana Wind Project, as proposed in its application,

[8] Exhibit 1-C at 1-4.

[9] Scoping Memo at 4.

is needed. As discussed below, we also conclude that the Manzana Wind Project is not cost-competitive and poses unacceptable risks to ratepayers.

5.2. Project Viability Risk

PG&E claims the Manzana Wind Project is highly viable due to several factors, including its transmission status. PG&E expects the Manzana Wind Project will be developed according to the proposed schedule and fully operational as early as December 2011 after several new transmission facilities are constructed to allow the project to be connected and deliver power to the grid. The transmission requirements include:

- Construction of Whirlwind Substation, a new substation which will be constructed by SCE and interconnect to SCE's Tehachapi Renewable Transmission Project (TRTP).
- A new six-mile Gen-tie that will be constructed by PG&E to connect the Manzana Wind Project to the Whirlwind Substation.
- Looping the existing Midway-Vincent #3 line, which will be part of segment 4 of SCE's TRTP, into the Whirlwind Substation to allow power to be delivered from the Manzana Wind Project to the grid.

5.2.1. Parties' Positions

PG&E asserts there is no risk of transmission delay because the above projects are well along in the development process and have a high probability of being completed on time.[10] In addition, PG&E states that it has an updated interconnection plan that will enable the looping of the existing Midway-Vincent #3 line to be completed according to the schedule. DRA and TURN have a different view of the project timetable and are not as optimistic as PG&E about

[10] PG&E Opening Brief at 31.

the transmission completion and the project online date. TURN's primary concern is with the expected completion date of the Whirlwind Substation. TURN also questions the projected completion date for Segment 4 of the TRTP. TURN is also troubled by the evolving new information and updated schedules for PG&E's assumptions and cautions the Commission that there is a real risk of delay associated with the interconnection of the project given the above uncertainties.[11] Both TURN and DRA express a concern that a delay in the completion of the required transmission interconnection will increase project costs to the ratepayers.

5.2.2. Discussion

As a proposed utility-owned generation project, ratepayers will pay a lump sum cost rather than a performance-based cost for the project. Thus, ratepayers are directly impacted by events that can result in lower than expected generation, including delays, under performance, or shut down (for example, due to a California condor collision) of the Manzana Wind Project which can increase the project's levelized cost of energy. In contrast, under a PPA, project owners rather than ratepayers assume the risks for project production.

We conclude that there is significant risk that the Manzana Wind project may be subject to transmission delays and project curtailments. We do not believe it is reasonable for ratepayers to assume such risks.

First, we agree with TURN and DRA that a significant risk of delays exists even with the proposed updated alternative interconnection plan. Although PG&E asserts confidence that the Manzana Wind Project will achieve

[11] TURN Opening Brief at 5.

commercial operation in December 2011, DRA's confidential brief argues why PG&E's proposed transmission interconnection schedule is unrealistic given the environmental review and the approval process required for the proposed interconnection plan. Specifically, DRA shows that the Whirlwind Substation completion date is not reasonable in light of the possibility that the United States Fish and Wildlife Service may conduct a risk assessment on the effects of future Tehachapi wind projects on the California condors as part of its review. TURN also demonstrates that there is a risk of delay associated with the interconnection of the project due to the projected completion date for Segment 4 of the TRTP.[12] PG&E fails to provide a satisfactory response as to why its transmission projections are accurate and reliable in light of these potential outcomes.

In addition to the risk of potential transmission delay, the operational viability of the Manzana Wind Project may also be at risk due to the potential death or take of a California condor.

DRA argues that the California Department of Fish and Game considers the loss of condor a significant issue and may require partial or complete shut down of the Manzana Wind Project operation if such a loss occurs. DRA contends that the condor population will likely increase over the life of the project and does not believe PG&E's proposed mitigation measures with respect to redesign of the project are adequate to reduce such a risk. In response, PG&E asserts that it is unlikely that condors will move into the area even as their range expands. According to PG&E, the project site lacks the elevation that California condors typically use for flying in the area. Furthermore, PG&E states it has

[12] TURN Opening Brief at 5.

eliminated the wind turbines on the highest elevation that could possibly be close to the area where condors fly. Thus, PG&E contends it is highly unlikely that a condor will collide with the project. PG&E also argues that California Department of Fish and Game has not appeared in this proceeding to express any concern about the Manzana Wind Project's potential impact on condors.[13] Nonetheless, while PG&E minimizes the potential of condor fatality, PG&E seems to agree that project modifications including project shutdown are potential legal remedies available to California Department of Fish and Game in case there is a condor collision.[14]

We agree with TURN and DRA that even with the redesigned turbine locations and other proposed mitigation measures to deter condors from the project site, it is possible that California condors could be present in the site in the future. The California condor population is expected to increase during the life of the project and even if condors are not attracted to the site today, they may be in the future given their increased population and the need to increase their foraging area, which could include the project site.[15] In addition, as a PG&E witness testified, "These are wild animals, and I can't predict what they will

---

[13] PG&E Opening Brief at 50. We note, however, that while the California Department of Fish and Game has not actively participated in this proceeding, on October 25, 2010, it sent a letter to the Commission raising several concerns with the Manzana Wind Project and the possibility of California condors colliding with the operating wind turbines. Specifically, the California Department of Fish and Game's letter states "the Department has concluded that condors are likely to utilize the Project site and may be at risk of colliding with wind turbines" and "operating wind turbines at this location risks 'take' of California condor." (October 25, 2010 letter from The California Department of Fish and Game, at 1-2 in correspondence file of this proceeding.)

[14] PG&E Opening Brief at 49.

[15] DRA Opening Brief at 5.

do."[16] Furthermore, the effectiveness of PG&E's other proposed mitigation measures to deter condors from the project site is speculative at this point. Given that California condors could be present in the project site, the risk of project shut down or curtailment as a result of condor fatality exists. These risks, even if unquantifiable at this point, present a serious concern. We cannot ignore the risks and the potential impact of condor fatality on project operations and economics. We conclude it is not reasonable for ratepayers to assume such risks.

5.3. Manzana's Cost Comparison

The Scoping Memo requires the Commission to determine whether Manzana's proposed capital cost and operating costs are reasonable and competitive with other similar renewable wind resources, i.e. whether the project costs, on both a net present value and levelized cost basis, are reasonable in comparison to other relevant projects.[17]

5.3.1. Parties' Positions

PG&E compares the Manzana Wind Project's net market value to the net market values of current and recent renewable projects from its 2009 RPS RFO and long term RPS contracts filed within 12 months of the submittal of the Manzana application. PG&E asserts the net market value is the most appropriate approach for evaluating the Manzana Wind Project because it captures the differences in value related to when and where energy is delivered and allows

[16] Recorder's Transcripts at 350.

[17] See also § 1005.5 where, when the Commission grants a CPCN for new construction estimated to cost greater than $50 million, the Commission must specify a certain maximum cost "determined to be reasonable and prudent."

for comparison across renewable technologies.[18] Based on this approach, PG&E asserts the Manzana Wind Project is cost competitive, because it ranks high among the selected renewable projects. PG&E also contends that the Manzana Wind Project ranks high among just wind projects. PG&E does not provide any analysis using the LCOE approach as directed by the Scoping Memo.

TURN and DRA disagree with PG&E's assessment and express several concerns with PG&E's underlying assumptions and the approach in evaluating the project's cost competitiveness. To begin, they argue that the net market value approach should not be used to compare the Manzana Wind Project to other projects because net market value does not provide an apples-to-apples comparison for projects. They believe that comparing the LCOE of projects is a better approach.

Furthermore, they believe the Manzana Wind Project should be evaluated against only wind projects not all other renewable technologies. In addition, they argue all wind projects that are shortlisted as part of the PG&E's 2009 RPS solicitation should be included in the comparison. Finally, they argue that PG&E's cost comparison should take into account the cost impact of several optimistic assumptions that, if not materialized, will result in even higher costs for Manzana.

TURN believes PG&E's use of net market valuation is flawed because it assesses projects executed at different times, with dissimilar contract or ownership duration, different online dates, and different forward energy and

[18] PG&E Opening Brief at 19.

capacity forecasts.[19] According to TURN, each of these factors introduces potential bias that could impact the net market value calculation and skew the results. In TURN's view, PG&E's approach is deficient and the Commission should not use it to determine the cost competitiveness of Manzana. Instead, TURN recommends we use the time of day adjusted LCOE to compare projects coming on line within similar time horizons.

DRA opposes PG&E's proposed net market value approach as the primary benchmark for determining cost reasonableness, because in its view, the net value approach relies on uncertain forecasts and does not provide an apples-to-apples benchmark for comparing offers for renewable projects. DRA recommends we use the LCOE because in its view, the LCOE "is a better, simpler, more transparent benchmark."[20]

DRA is also concerned that the use of the net market value approach in determining cost reasonableness would create inconsistencies among utilities to the extent their evaluation methodologies differ. For example, DRA contends that PG&E's net market value approach is different from other utilities because it uses a time of delivery profile and a proprietary forward price curve to determine a market value of the bid. DRA, therefore argues that using "each utilities' unique least cost best-fit methodologies will not produce a transparent or consistent test for assessing cost reasonableness."[21] DRA urges the Commission to "adopt an approach to evaluating cost reasonableness that can be

---

[19] TURN Opening Brief at 14.

[20] DRA Opening Brief at 44.

[21] DRA Opening Brief at 44.

applied to other California investor-owned utility applications for utility owned renewable generation."[22]

TURN and DRA are also concerned about several key assumptions made for Manzana. DRA and TURN challenge the accuracy of some of PG&E's assumptions and argue that a number of PG&E's estimates are too optimistic and if not materialized, could significantly impact the economics of the projects and the project's ranking. For example, they argue assumptions including project performance, the 30-year project lifespan, commercial on line date, and operating costs are unreliable and could yield to higher costs for the Manzana Wind Project, making the project even less economical. They recommend we discount these assumptions in determining the cost effectiveness of the Manzana Wind Project.

In response to the methodology used to compare the Manzana Wind Project to other projects, PG&E claims that LCOE does not reflect the value of energy to customers. PG&E contends that the LCOE must be compared to forward energy and capacity curves in order to yield a meaningful estimate of value. Thus, PG&E believes the net market value approach is preferable.

5.3.2. Discussion

The calculation of cost competitiveness is perhaps the most contentious issue in this proceeding. It is also potentially the most complex matter as it is not based on one formula or a mutually agreed upon methodological approach. Instead each party has presented different ways in which the cost competitiveness of the proposed project should be assessed. The methodology

[22] DRA Opening Brief at 44.

and the group of projects selected for comparison are important factors in determining the Manzana Wind Project's cost competitiveness. Parties disagree on the following issues:

- Whether to use the LCOE vs. the net market value approach;
- Whether the Manzana Wind Project should be compared to other wind projects or to all other renewable projects;
- Whether the Manzana Wind Project should be compared to contracts that have been executed and filed at the Commission for approval or to all available offers; and
- Whether to consider potential costs if PG&E's forecasted assumptions are altered.

We find PG&E's use of the net market value approach deficient for several reasons. First, the Scoping Memo directed PG&E to compare the Manzana Wind Project on both the net market value and the LCOE approach. Relying on just one method is therefore not consistent with the Scoping Memo.

Second, notwithstanding this deficiency, PG&E's net market value approach does not provide an apples-to-apples comparison of the Manzana Wind Project to other projects because it uses different forward curves to calculate the net market values of various projects. Net market value calculations that are used to compare projects should use the same forward curves in order to derive proper valuation results. Therefore, although the Manzana Wind Project receives a high ranking under PG&E's net market value methodology, we cannot determine that it would have the same relative ranking if the same forward curve was used for all projects. Accordingly, we cannot conclude that the Manzana Wind Project is cost competitive based on PG&E's proposed net market value approach.

We also disagree with PG&E's contention that the Manzana Wind Project should only be compared to selected renewable projects that have been finalized, namely only current and recent renewable projects from 2009 RPS RFO and from long term RPS contracts filed within 12 months of the submittal of the Manzana application. In our view, it is reasonable to include all projects that are shortlisted and might be selected to meet PG&E's renewable energy goals in the comparison because as noted in the Assigned Commissioner's Ruling of May 19, 2009, if approved, the Manzana Wind Project would displace such projects that might otherwise be selected. Excluding from the comparison, projects that are under negotiations under the RPS process but not yet finalized, unnecessarily limits the scope of our assessment. In addition, for an RPS solicitation, the Commission evaluates the reasonableness of each proposed RPS PPA price by comparing the proposed PPA to a variety of factors including the RPS solicitation results and other proposed RPS projects such as renewable procurement contracts recently executed and under negotiation. Therefore, comparing the Manzana Wind Project to other available renewable projects including those that are subject to negotiations is consistent with the RPS evaluation process.

Using this set of renewable projects and applying the LCOE approach, we find that the Manzana Wind Project does not rank as competitively compared to other types of renewable projects, including other wind projects. In fact, on an LCOE basis, the Manzana Wind Project ranks significantly lower than other RPS shortlisted wind projects.[23] Moreover, the record shows that Manzana's ranking

[23] See Confidential Figure 6-2, DRA Opening Brief at 64.

will further deteriorate if PG&E's original forecasts are changed. While PG&E argues that its assumptions and forecasts are reasonable, it fails to provide any analysis on how Manzana's ranking would change if any one of the underlying assumptions were changed.

In contrast, DRA provides a more comprehensive comparison of projects in confidential tables 1 and 2 of its reply brief presenting not only the net market value and LCOE values for the Manzana Wind Project and all renewable projects, but also a comparison of Manzana's ranking under various scenarios. DRA's tables show that Manzana's ranking varies significantly with different assumptions. Specifically, DRA shows Manzana's ranking would diminish if key factors such as project life, transmission requirements, project size, and project performance were different from PG&E's assumptions.[24] This analysis suggests that even though Manzana's ranking may be high in the scenario presented by PG&E, any delay or change in any one of PG&E's assumptions could result in a much lower ranking of the project.

As previously noted, there is a possibility that commercial operation of the project may be delayed as a result of delays in the transmission construction. There is also a distinct possibility that the project life will be less than what PG&E has predicted. Although PG&E claims its forecast of a 30-year project life is based on a variety of sources such as consultation with industry manufacturers, independent research of publicly available information and

[24] We note that DRA's tables rely on PG&E's net market value calculation which uses different forward curves. As argued in the preceding paragraphs, we do not endorse this approach. However, for the purpose of the following argument, this point is not material.

assumptions regarding project replacements and repairs, there is no technical data to support the reasonableness of the 30-year life forecast for the turbines used in the project. We agree with TURN and DRA that the data provided by PG&E does not support the forecasted project life for the Manzana Wind Project.[25] We are also not convinced by PG&E's comparison of the Manzana Wind Project to hydro and fossil plants for the purpose of justifying a 30-year life projection. As TURN states, "the operation life of a new wind turbine is wholly unrelated to the history of fossil and hydro plants in California."[26]

There is also a possibility that PG&E may not be able to secure the required lease renewals to operate the facility for the forecasted 30 years. As DRA points out, some of the land leases for the project will begin to expire before the end of the assumed 30-year project life.[27] While PG&E may intend to negotiate lease extension with landowners, there is no guarantee that PG&E will be able to obtain any lease renewals. Accordingly, the project life could be shorter than what PG&E predicts. If the project operates fewer years than forecasted, the costs, both in terms of levelized cost and net present value, will be higher because project costs will be offset by less generation.

Given that transmission delays or a change in project life could have a significant impact on the Manzana Wind Project's cost , we find that overall, the Manzana Wind Project is not cost competitive compared to other resources. We find that even if the Manzana Wind Project were to operate for thirty years, it would not be cost competitive because the LCOE of the project could be higher

[25] DRA Opening Brief at 49 and TURN Opening Brief at 15.

[26] TURN Reply Brief at 19.

than PG&E's estimate. As TURN and DRA point out, PG&E's forecasted cost of maintaining reliable turbine operation may be understated because it is based on insufficient data beyond twenty years.[28]

As TURN states, "in comparison to alternative renewable power options, the Manzana Wind Project does not offer compelling value to ratepayers even under a best-case scenario. It ranks in the middle of current PPA offers but poses far more risks than any of the PPAs to which it is being compared."[29]

6. Other Issues

Given that this decision rejects the application, we do not need to address or make findings on other issues in the Scoping Memo.

7. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Maryam Ebke in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

---

[27] DRA Opening Brief at 51.

[28] DRA Opening Brief at 51 and TURN Opening Brief at 16.

[29] TURN Opening Brief at 12.

8. Assignment of Proceeding

President Michael R. Peevey is the assigned Commissioner and ALJ Maryam Ebke is the assigned ALJ in this proceeding.

Findings of Fact

1. There is no demonstration of need to support this application.
2. PG&E's proposed interconnection schedule is unrealistic.
3. The operational viability of the Manzana Wind Project may be at risk due to potential death or take of a California condor, an endangered species under both State and Federal laws.
4. As a utility-owned generation project, ratepayers will pay a lump sum cost for the Manzana Wind Project rather than a performance-based cost.
5. As a utility-owned generation project, ratepayers are at risk if the Manzana Wind Project produces less than expected.
6. PG&E did not compare the cost of the Manzana Wind Project to other projects as directed by the Scoping Memo.
7. PG&E's net market value approach does not provide an apples-to-apples comparisons of project costs.
8. Using the LCOE approach, the Manzana Wind Project does not rank competitively compared to all other renewable projects, including wind projects.
9. The Manzana Wind Project's ranking will deteriorate if some of PG&E's key assumptions change.

Conclusions of Law

1. It is reasonable to assume delays in project commercial operation date.
2. It is reasonable to assume there will be potential project operation curtailments in the event that a California condor collides with the project.

3. It is not reasonable to use PG&E's proposed net market value approach to support a conclusion of cost-competitiveness.

4. It is reasonable to compare the Manzana Wind Project to all renewable projects under the RPS process.

5. It is reasonable to compare the Manzana Wind Project to all available offers for renewable projects.

6. It is reasonable to consider potential costs if the forecasted assumptions for the Manzana Wind Project change.

7. The Commission should reject PG&E's application.

O R D E R

IT IS ORDERED that:

1. The Application of Pacific Gas and Electric Company to approve the Manzana Wind Project and to issue a Certificate of Public Convenience and Necessity is denied.

2. Application 09-12-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated December 21, 2010, at San Francisco, California.

/s/ JEANNIE CHANG
Jeannie Chang

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* *

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074 or TDD# (415) 703-2032 five working days in advance of the event.