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### **PG&E Rushes into \$ Multi-Billion Long-Term Power Contracts & Gas-Fired Power Plants, San Francisco Adopts Protest Resolution, Seeks to Escape "New Energy Crisis in the Making" Berkeley, 48 Cities Not Far Behind**

The San Francisco Board of Supervisors unanimously adopted a letter protesting Pacific Gas & Electric's proposed new long-term power contracts and power plants last week, as the utility giant moves aggressively to put its ratepayers on the hook for \$ Billions in new ratepayer obligations to finance its re-monopolization following its bankruptcy bailout just over a year ago. The resolution announced the intention of San Francisco ratepayers to seek an alternative energy provider with a massive 360 MW green power infrastructure later this year, and demanded that state regulators not approve any utility investments or contracts that would impose new fees on its residents and businesses. 48 California cities and counties now seeking to implement similar plans are not far behind.

With San Francisco now moving to approve its Community Choice Implementation Plan so that its residents and businesses can escape the new Exit Fees, more and more California municipalities are becoming aware of the significance of the utility contracts. Following San Francisco's lead to get in its plan before June when the California Public Utilities Commission (CPUC) will consider utility plans, the City of Berkeley approved \$100,000 to fund completion of an Implementation Plan this year, and others are now moving to submit their plans before it is too late. Oakland-based Local Power, which drafted the state's Community Choice law AB117, Migden) is now assisting San Francisco and other cities get their plans in on time.

PG&E officials announced they are seeking to sign contracts for 2,200 megawatts of new power plants in Northern California by 2010, and to force its ratepayers to bear the risk and cost of these power plants for the first time since the energy crisis. PG&E officials says it needs 2,200 megawatts of new electricity production in Northern California by 2010 to meet growing demand and compensate for the expected closure of obsolete power plants. PG&E had sought to own at least one, and maybe more, new power plants in its territory and has said it plans to make its own bid to own and operate a 500-to-600-megawatt power plant. PG&E is now looking for up to 1,000 megawatts of new generation by 2008 and another 1,200 megawatts by 2010. Bids can be for plants that supply anywhere from 25 megawatts to 2,200 megawatts. With a few exceptions for renewable or experimental electricity generation projects, all electricity must come from newly built plants.

The rush to lock in ratepayers is a statewide phenomenon, including Edison and SDG&E. Locking customers into the new contracts and power plants will rate base the investments for the first time since the Energy Crisis, creating a new round of Exit Fees for all ratepayers. Critics criticize the rush as a bald faced effort to block their customers from their legal right to find alternative energy providers as over 48 California cities and counties, including some of the largest metro areas in the state, are now seeking to escape their utilities, procurement obligations - a Second Energy Crisis. As San Francisco, Marin, Oakland, Berkeley, and many other California cities are now seeking to escape utility power contracts to switch to green power, PG&E, Edison and SDG&E are also rushing into power contracts that could block their customers from going green, with local officials from San Francisco to Chula Vista protesting monopolistic abuses by the energy corporations to state regulators at the California Public Utilities Commission.

PG&E had sought to build and own at least one new power plant in its territory and has said it plans to

make its own bid to own and operate a 500-to-600-megawatt power plant at its ratepayers, risk and expense. PG&E is now looking for up to 1,000 megawatts of new generation by 2008 and another 1,200 megawatts by 2010 - enough to power a million homes.

Bids can be for plants that supply anywhere from 25 megawatts to 2,200 megawatts. With a few exceptions for renewable or experimental electricity generation projects, all electricity must come from newly built gas-fired power plants, such that the investments will create new demand for natural gas that does not now exist, and put further pressure on California to make its power grid dependent on imported foreign Liquefied Natural Gas to keep the lights on. California already depends on gas to power 37% of all electricity generated here - an overdependence which state agencies blame for the major causes of the 2000-1 Energy Crisis.

The rush into new contracts and gas-fired power plants has severe environmental and geopolitical security implications, because building the plants will require a new fuel supply from overseas. Unlike pipeline natural gas, which has fueled the state's past power plants, the new ones will depend on LNG for fuel. Supercooled into liquid form for tanker transport from Afghanistan, the Middle East, Africa and Asia, LNG leaks at a 2.5% rate, and is 18 times as reactive a greenhouse gas as CO<sub>2</sub>, making LNG-fired power plants only nominally cleaner than coal plants in terms of their massive impact on climate change. As LNG is marketed by Governor Schwarzenegger and Democratic Leaders as a clean and necessary fuel, it is neither clean nor necessary - state agencies have observed that increased dependence on gas-fired generation will only make the state more vulnerable to price volatility (gas is among the most unstable commodities), as well as manipulation of supply - not to mention terrorist attacks.

On March 21 PG&E issued an updated Request for Offers (RFO) for long-term electric supply, as part of the resumption of its long-term procurement process which was temporarily delayed in January. The submission deadline for initial offers is April 27. The RFO solicits offers for both Facility Ownership and Power Purchase alternatives.

The rush into power plants and contracts signals a Brave New World in California energy politics - a rubber-stamp regulatory process in which ratepayers exploited as a captive pool of finance capital. Under rules developed by the California Public Utilities Commission, an independent "evaluator" will judge all bids -- including the one from PG&E -- and decide which company or companies should receive contracts to build power plants. PG&E had sought to make the determination itself. Under the CPUC's new regulatory framework, the Commission no longer has the ability to review utility contracts, but has delegated this critical authority to a Procurement Review Committee, making many fear the immediate prospect of unregulated electric monopolies in California.

PG&E has created a new review process for its plans to satisfy requirements of the California Public Utilities Commission (CPUC) long-term procurement decision, issued on December 16, 2004 - the same day the Commission approved rules for Community Choice Aggregation in California cities and counties. Most of the changes to PG&E's RFO result from the CPUC decision, and PG&E's specific request for offers to replace generation from its Humboldt Bay Power Plant in Eureka, California. As part of the resumed RFO process, PG&E is looking for offers to replace the 135 megawatt fossil fueled generation facilities at the Humboldt plant.

Duke Energy of North Carolina and Texas-based Reliant Energy Inc say they are interested, but because of the long-lead time in getting a state power plant permit processed and approved, those with existing permits -- like Calpine -- would seem to have an advantage. With permits for 3,352 megawatts

worth of power plants issued by former Gov. Davis, advisor, now CPUC Commissioner Susan Kennedy, their projects have been on hold because the company hasn't been able to find financing, and has \$18 Billion in debt. Those permits include a 600-megawatt Russell City Energy Center in Hayward, a 1,200-megawatt plant in eastern Alameda County and a 600-megawatt plant in San Joaquin County.

PG&E's move to build power plants follows several months of frenetic contract negotiations. PG&E announced in February that it had entered into a power purchase agreement with Duke Energy Marketing Americas (DEMA) providing PG&E with exclusive rights to dispatch Morro Bay Units 3 and 4, each 325 megawatts, to meet PG&E's capacity and energy needs for the period 2005-2007, adding a new contract to a growing list of agreements that, if approved as early as April, will put California ratepayers on the hook for new long term power contracts.

PG&E filed an Advice Letter with the California Public Utilities Commission (CPUC) seeking regulatory review and approval of this power purchase agreement with DEMA. PG&E has requested CPUC approval by April 4, 2005. The purchase is part of PG&E's overall procurement plan to sign power contracts in northern and central California in both the near- and long-term. In addition to entering this agreement, PG&E is currently conducting competitive solicitations for not only near-term supply but also long-term supply and generating capacity, which can put ratepayers on the hook for decades.

PG&E , Edison, and SDG&E are all rushing to sign power contracts in a race against the Community Choice movement, which now includes 48 California cities and counties. In January, PG&E announced a settlement agreement with Mirant to obtain the rights to dispatch some of the power from Mirant's Contra Costa and Pittsburg Power Plants, as well as the opportunity to complete construction of and operate Contra Costa Unit 8, a 530-megawatt facility. The power purchase agreement will allow PG&E to use Morro Bay Units 3 and 4 to meet load requirements and respond to hourly and daily variations to load as necessary.

Some national energy giants have expressed interest, including Duke Energy of North Carolina and Texas-based Reliant Energy Inc. But because of the long-lead time in getting a state power plant permit processed and approved, those with existing permits -- like Calpine -- would seem to have an advantage.

Calpine has state permits for 3,352 megawatts worth of power plants, but their projects have been on hold because the company hasn't been able to find financing. Those projects include the 600-megawatt Russell City Energy Center in Hayward, a 1,200-megawatt plant in eastern Alameda County and a 600-megawatt plant in San Joaquin County.

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