

**Pittsburg Power Company
Renewable Energy Resources Procurement Plan
For Island Energy**

This Renewable Energy Resources Procurement Plan (“RPS Procurement Plan”) shall apply to Island Energy (“IE”), the municipal electric and natural gas utility that Pittsburg Power Company (“PPC”) operates on Mare Island in Vallejo, CA.

Section 1: Definitions

The definitions set forth in Public Resources Code (“PRC”) § 25741 and Public Utilities Code (“PUC”) § 399.12 are incorporated herein. Capitalized terms in this RPS Procurement Plan, as first identified in parentheses, shall have the meaning given to such term in the body of this RPS Procurement Plan

Section 2: Previous Adoption of the RPS Enforcement Plan

As required in Senate Bill 2 in the 2011-2012 First Extraordinary Session (“SB 2-1X”) with respect to California’s Renewables Portfolio Standard (“RPS”), the IE Board adopted the Pittsburg Power Company Renewable Portfolio Standard Enforcement Plan Applicable to Island Energy (“RPS Enforcement Plan”) on December 19, 2011. Through the RPS Enforcement Plan, the IE Board established three compliance periods consistent with SB 2-1X, adopted RPS-eligible procurement goals for each of the three compliance periods and described the framework for how IE would implement the requirements and measures in SB 2-1X with respect to the RPS plan. Section 10 of the RPS Enforcement Plan directed the Executive Director to develop and present an RPS Procurement Plan to the IE Board.

Section 3: Purpose

This document comprises PPC’s revision of its previously adopted RPS Procurement Plan for IE. This revised RPS Procurement Plan describes how IE will achieve its RPS procurement requirements consistent with optional compliance measures specified in SB 2-1X and applicable to IE’s status as a small publicly owned utility (“POU”). The previous procurement plans were adopted prior to the finalization of the California Energy Commission’s (“CEC”) Enforcement Procedures for the Renewables Portfolio Standard for Local Publicly Owned Utilities (“CEC Enforcement Procedures”). These CEC Enforcement Procedures have the CEC’s interpretation of the SB2-1X legislation in a number of areas that affect IE. Furthermore, IE’s expectation of cost of certain renewable electricity products has changed since the initial RPS Procurement Plan.

Section 4: Specified RPS Procurement Targets

In the RPS Enforcement Plan, the PPC Board adopted general RPS procurement targets for each of the three compliance periods. Pursuant to PUC § 399.30(b) and (c), the IE Board adopts and further specifies the RPS procurement targets, as follows:

Compliance Period 1

Prior to the final release of the CEC Enforcement Procedures, IE had procured Eligible Renewable Energy Resources in an amount, which satisfies approximately 100% of its total projected RPS procurement obligation for the three-year period beginning January 1, 2011 and ending December 31, 2013 ("Compliance Period 1"). However, all of those procured resources were unbundled Renewable Energy Credits ("RECs") from Portfolio Content Category ("PCC") 3. The final CEC Enforcement Procedures indicate that for Compliance Period 1, no more than 25% of IE's planned RPS procurement pursuant to contracts signed after 2010 could be satisfied with PCC3 RECs. This revised RPS Procurement Plan directs IE to purchase as much PCC1 Eligible Renewable Energy Resources as can be obtained through the end of Compliance Period 1 such that the additional costs of these purchases will not cause IE to exceed its established cost limitations for Compliance Period 1. It is expected that the established cost limitations for Compliance Period 1 will prevent IE from achieving its PCC1 procurement targets. Therefore, no procurement of PCC2 resources is contemplated for the first compliance period. The following table provides additional detail regarding the IE's Compliance Period 1 procurement targets with regard to each of the Portfolio Content Category products that have been described in the RPS.

	2011	2012	2013	Total
Actual/Forecasted Retail Sales	16,978	17,072	17,180	51,230
RPS Procurement Obligation (% of total)	20%	20%	20%	
RPS Procurement Obligation (MWh)	3,396	3,414	3,436	10,246
Procurement of Portfolio Content Category 0	77	280	250	607
Target Procurement of Portfolio Content Category 1 *	1660	1567	1593	4820
Planned Procurement of Portfolio Content Category 1 **	0	0	1,570	1,570
Planned Procurement of Portfolio Content Category 2	0	0	0	0
Maximum Procurement of Portfolio Content Category 3	*	*	*	523
Actual Procurement of Portfolio Content Category 3	0	6,800	3,500	10,300

Note: Annual procurement targets are for planning purposes only.

* Target Procurement of Portfolio Content Category 1 is the minimum PCC1 procurement required if there were no cost limitations.

** Planned Procurement of Portfolio Content Category 1 is expected PCC1 procurement given prevailing prices of PCC1 and established cost limitations.

Compliance Period 2

For the three-year period beginning January 1, 2014 and ending December 31, 2016, IE shall procure, subject to its then established cost limitations, sufficient RPS-eligible resources to equal the sum of the following: (20 percent of 2014 retail sales) + (20 percent of 2015 retail sales) + (25 percent of 2014 retail sales). IE shall not be required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period. Should its cost limitations prevent it from procuring its target requirements, IE will procure a blend of resources from each PCC such that the minimum required percentage of PCC1 resources and the maximum allowed percentage of PCC3 resources are maintained.

	2014	2015	2016	Total
Forecasted Retail Sales	17,524	17,874	18,053	53,451
RPS Procurement Obligation (% of total)	20%	20%	25%	
RPS Procurement Obligation (MWh)	3,505	3,575	4,513	11,593
Procurement of Portfolio Content Category 0	250	250	250	750
Minimum Procurement of Portfolio Content Category 1	2,116	2,161	2,771	7,048
Residual Procurement of Portfolio Content Category 2	651	665	853	2,169
Maximum Procurement of Portfolio Content Category 3	488	499	639	1,626

Note: Annual procurement targets are for planning purposes only.

Compliance Period 3

For the four-year period beginning January 1, 2017 and ending December 31, 2020, IE shall procure sufficient RPS-eligible resources to equal the sum of the following: (27 percent of 2017 retail sales) + (29 percent of 2018 retail sales) + (31 percent of 2019 retail sales) + (33 percent of 2020 retail sales). IE shall not be required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period. Should its cost limitations prevent it from procuring its target requirements, IE will procure a blend of resources from each PCC such that the minimum required percentage of PCC1 resources and the maximum allowed percentage of PCC3 resources are maintained.

	2017	2018	2019	2020	Total
Forecasted Retail Sales	18,234	18,416	18,600	18,787	74,037
RPS Procurement Obligation (% of total)	27%	29%	31%	33%	
RPS Procurement Obligation (MWh)	4,923	5,341	5,766	6,200	22,230
Procurement of Portfolio Content Category 0	250	250	250	250	1,000
Minimum Procurement of Portfolio Content Category 1	3,505	3,818	4,137	4,463	15,923
Residual Procurement of Portfolio Content Category 2	701	764	827	893	3,935
Maximum Procurement of Portfolio Content Category 3	467	509	552	595	2,123

Note: Annual procurement targets are for planning purposes only.

Subsequent Annual Compliance Periods

For each subsequent annual compliance period, IE shall, subject to its cost limitations, procure sufficient RPS-eligible resources to equal to an average of 33 percent of retail sales. Should its cost limitations prevent it from procuring its target requirements, IE will procure a blend of resources from each PCC such that the minimum required percentage of PCC1 resources and the maximum allowed percentage of PCC3 resources are maintained.

Section 5: RPS Procurement Requirements

PUC § 399.30(c)(3), consistent with PUC § 399.16, as implemented in the CEC Enforcement Procedures, specifies certain procurement requirements that are applicable to “electricity products,” which refers to either: (1) electricity and the associated REC generated by an eligible renewable energy resource; or (2) an unbundled REC.

A. Procurement Associated with Pre-June 2010 Contracts and Ownership Agreements

Pursuant to PUC § 399.16(d), electricity products associated with contracts or ownership agreements that were executed prior to June 1, 2010 and which met certain specified eligibility requirements, must count toward the POU’s RPS Procurement Targets without regard to the PCCs.

B. Procurement Associated with Post June 2010 Contracts and Ownership Agreements

Pursuant to PUC § 399.16(b)-(c), as implemented by the CEC Enforcement Procedures, electricity products associated with contracts or ownership agreements that were executed after June 1, 2010 must be classified into the following three PCCs:

PCC1: Electricity products that are procured as bundled and that are associated with an eligible renewable energy resource that either: (1) has its first point of interconnection within a California balancing authority (“BA”); (2) has its first point of interconnection to a distribution system used to serve end users within a California BA; (3) is scheduled into a California BA without substituting electricity from another source; or (4) is dynamically transferred into a California BA.

PCC2: Electricity products that are procured as bundled and that are associated with an eligible renewable energy resource that is located within the WECC but outside of a California BA, and for which the renewable energy is matched with an equal amount of incremental energy that is scheduled into a California BA.

PCC3: All electricity products that are associated with eligible renewable energy resources, but that do not meet the definition of PCC1 or PCC2.

C. Portfolio Balance Requirements Applicable to Procurement Associated with Post June 2010 Contracts and Ownership Agreements

Pursuant to PUC § 399.16(c), as implemented by the CEC Enforcement Procedures, the following portfolio balance requirements are applicable to all electricity products that are credited towards the RPS Procurement Quantity Requirements that are associated with contracts or ownership agreements executed after June 1, 2010:

	Compliance Period 1	Compliance Period 2	Compliance Period 3	Subsequent Annual
PCC1	≥ 50%	≥ 65%	≥ 75%	≥ 75%
PCC2	No Limitation	No Limitation	No Limitation	No Limitation
PCC3	≤ 25%	≤ 15%	≤ 10%	≤ 10%

Section 6: Status of RPS Procurement Efforts

A. Transferred from Western Area Power Administration

As part of its full load service contract with Western Area Power Administration ("Western"), IE receives RECs associated with electricity produced at small hydro facilities. Through October 2013 IE received 433 PCC0 RECs that will be used to meet IE's Compliance Period 1 obligations.

B. Purchase of Unbundled Renewable Energy Credits RECs

As one of the smallest POU's in California and burdened with aging facilities it inherited from the US Navy, IE recognized that it would need to establish cost limitations and that these cost limitations would prevent it from achieving its RPS procurement targets. In the belief that its cost limitations would allow it to reduce its portfolio balance requirements for PCC1 and PCC2, IE's initial procurement plan, adopted in December 2011, allowed IE to procure only unbundled PCC3 RECs to meet its total RPS procurement obligation for the first compliance period. Subsequent to the adoption of the initial procurement plan, IE purchased 6,800 PCC3 RECs from OneEnergy, Inc in July 2012 and another 3,500 PCC3 RECs from the same company in May 2013.

C. October 2013 Purchase of PCC 1 Resources

In late summer 2013, Island Energy recognized two problems with its initial RPS Procurement plan. The final CEC Enforcement Procedures made it clear that IE could not rebalance its individual PCC requirements to allow it to purchase only PCC3 RECs. IE's other issue was the lower than anticipated costs of PCC3 RECs. After including only the cost of the maximum allowable amount of PCC3 RECs and other direct compliance costs, IE recognized it needed to spend an additional \$55,000 to reach its cost limitations for the first compliance period. IE contracted with Iberdrola Renewables to procure as much PCC1 resources as could be obtained with the unspent portion of its cost limitations. The Iberdrola contract required IE to join the WSPP and pay its membership fee of \$25,000.

Section 6: Application of Banking Rules

Pursuant to PUC § 399.30(d)(1), and consistent with Section 8 of the RPS Enforcement Plan, the PPC Board adopts the following rules for excess procurement:

- A. IE may apply excess procurement in one compliance period to a subsequent compliance period, subject to the following limitations:
 - 1. Electricity products that exceed the maximum limit for Portfolio Content Category 3, as specified in PUC §

399.16(c), must be subtracted from the calculation of excess procurement.

2. Electricity products procured under contracts of less than 10 years in duration shall be subtracted from the calculation of excess procurement, unless the electricity product meets the grandfathering requirements of PUC § 399.16(d).
- B. IE may begin accruing excess procurement as of January 1, 2011.
- C. Excess procurement meeting these requirements may be applied to any future compliance period and shall not expire.

Section 7: Application of Flexible Compliance Mechanisms

A. Cost Limitation

1. *Cost Limitation Rule:* In establishing a cost limitation, the PPC Board shall ensure that:
 - i. The limitation is set at a level that prevents disproportionate rate impacts.
 - ii. The costs of all procurement credited toward achieving the renewables portfolio standard are counted towards the limitation.
 - iii. Procurement expenditures do not include any indirect expenses, including imbalance energy charges, sale of excess energy, decreased generation from existing resources, transmission upgrades, or the costs associated with relicensing any utility-owned hydroelectric facilities.
2. *Relevant Factors.* The following factors are relevant to PPC's adoption of cost limitations for IE and potential application of cost limitations to reduce the amount of Eligible Renewable Energy Resources that IE may procure to meet its RPS obligation:
 - i. IE is one of the five smallest POUs in California and has been in operation less than 20 years. The facilities IE operates were originally installed by the US Navy to support the operations of a large industrial ship building and repair operation. The current load is less than a tenth the size of that for which the system was built. The oversized and aging nature of the system has led to system losses of 20% and an unacceptable level of reliability. IE has incurred significant costs to repair and right size the system and it may not be able to procure Eligible Renewable Energy Resources in volumes sufficient to satisfy its RPS targets without imposing disproportionate rate impacts on the City's customers.
 - ii. IE loses money and has just this year begun making interest payments on its outstanding debt.
 - iii. IE's rates cannot exceed those of Pacific Gas & Electric, whose area completely surrounds IE, without creating a disproportionate rate impact on its customers. IE's service territory is restricted to

Mare Island in Vallejo. Vallejo looks to Mare Island to be its economic driver as the City seeks to re-establish itself following its emergence from bankruptcy. A rate disparity between IE and PG&E is not just a disproportionate rate impact to IE's customers but inhibits the economic prospects for the entire city.

2. *Information Reviewed* – Pursuant to PUC § 399.30(d)(3), and consistent with Section 9 of the RPS Enforcement Plan, the IE Board has relied on the following information to establish a limitation on the procurement expenditures for all RPS-eligible resources in the first compliance period:
 - i. The information contained in the initial and this RPS Procurement Plan;
 - ii. The expected cost of building, owning and operating an RPS-eligible resource;
 - iii. The potential that some planned resource additions may be delayed or cancelled.

3. *Establishment of Initial Cost Limitation* – Island Energy's cost limitations are based on the difference between the projected cost of conventional energy resources and the projected cost of Eligible Renewable Energy Resources ("Incremental RPS Procurement Cost"). The PPC Board established a limitation on IE's Incremental RPS Procurement Costs for all RPS-eligible resources in the first compliance period of \$20,000 per year for the first compliance period ("Initial Cost Limitation"). The Board considered the *Relevant Factors and Information Reviewed* when it first established the cost limitation December 2011. After reconsidering these factors and this information, it hereby confirms the Initial Cost Limitation. For the first compliance period, IE is not obligated to expend any funds on RPS procurement in excess of the Initial Cost Limitation.

4. *Establishment of Cost Limitation for Compliance Period 2, Compliance Period 3 and thereafter* – The PPC Board establishes a limitation on IE's Incremental RPS Procurement Costs for all RPS-eligible resources at a base minimum of \$20,000 per year for Compliance Period 2 and beyond. The effective cost limitation for each year will be the base minimum plus the revenue generated from greenhouse gas allowance auctions the previous year less the cost of allowances purchased during that year. Should IE's financial condition improve due to system loss reductions, increased load or reduced need for facilities improvement the Board will consider increasing the annual cost limitations.

B. Modification of the Portfolio Content Category Requirements

Consistent with PUC § 399.16(e), and as described in Section 6 of the RPS Enforcement Plan, the PPC Board may modify the minimum and maximum requirements in PUC § 399.16(c) for the various portfolio content categories ("PCC Requirements") if the PPC demonstrates that IE cannot comply with the PCC Requirements because of: (a) conditions beyond the control of IE due to any of the conditions set forth in PUC § 399.15(b)(5), PUC § 399.15(c), or other

conditions adopted by the Board based on facts reasonably found by the Board to be consistent with the intent of PUC § 399.15(b)(5), PUC § 399.15(c), or PUC § 399.18 and the unique circumstances facing the IE as a small POU.