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March 10, 2010

Mr. Honesto Gatchalian
CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, CA 94102

Re: **Response to Protest from Californians for Renewable Energy, Inc.,
on PG&E Advice 3091-G/3616-E: Notification of Creation of a New
Affiliate**

Dear Mr. Gatchalian:

Pacific Gas and Electric Company ("PG&E" or "the Utility") hereby responds to the protest dated March 3, 2010, from Californians for Renewable Energy, Inc. (CARE), to Advice 3091-G/3616-E regarding PG&E's re-designation of an affiliate, Pacific Venture Capital, LLC ("PVC"), under Rule II.B of the Affiliate Transaction Rules in connection with PVC's investment in residential and commercial solar photovoltaic projects. CARE incorrectly characterizes PG&E and PVC as acting as a single entity and further does not take into account the protections provided by the Affiliate Transaction Rules against the very abuses alleged in its protest. Based on these misunderstandings, CARE makes the further unjustified assumptions that PVC's investment constitutes an unlawful conflict of interest with PG&E's role as Project Administrator of the California Solar Initiative and an "attempt to game the market of third-party solar integrators." As demonstrated below, once CARE's misunderstandings are resolved, the basis for its stated concerns disappears. The CPUC should reject CARE's recommendations and approve Advice 3091-G/3616-E.

1. PVC's Investment is a Shareholder-Funded Project Initiated and Conducted Independently From the Utility.

On December 17, 2009, PG&E notified the California Public Utilities Commission ("CPUC") pursuant to Affiliate Rule VI.B that its parent, PG&E Corporation, had activated a formerly inactive subsidiary, PVC, to establish and manage a portfolio of passive financial investments in growing energy and telecommunications companies. This notice was followed by Advice 3091-

G/3616-E, consistent with the rule. Also on December 17, 2009, PVC entered into a \$61 million tax equity investment to finance more than 1,000 solar systems for U.S. homeowners and businesses with a subsidiary of SolarCity Corp. ("SolarCity"), a solar power system provider. Through this transaction, PVC will receive lease revenues from SolarCity customers, along with federal investment tax credits and local rebates for the solar energy projects.

PVC's investment in SolarCity is purely financial in nature, as it will provide funding but will not engage in the day-to-day management or control of the solar projects. SolarCity will provide all management services pursuant to a master services agreement, and PVC will not interact directly with the host customers, with PG&E operational personnel or with the regulated utilities in the other states where the systems will be placed. The SolarCity transaction was initiated and conducted independently from PG&E and in full compliance with the Affiliate Rules. CARE's protest inaccurately characterizes PVC's investment as an effort by PG&E and repeatedly confuses the two entities in its accusations of conflict of interest and market gaming, both of which are without foundation or merit.

2. PVC's Investment in SolarCity Does Not Pose a Conflict of Interest With PG&E's Role as Project Administrator for the California Solar Initiative.

CARE attempts to use Advice 3091-G/3616-E to argue that PVC's financial investment poses a conflict of interest with PG&E's role as Project Administrator of the California Solar Initiative (CSI). CARE does not explain how this conflict of interest would arise or play out; but, as they correctly note, "...SolarCity is one of hundreds of solar installers whom PG&E monitors, provides incentives and interconnection permits and sign-offs for." PG&E personnel who work with CSI will not interact with PVC, nor will they know which of SolarCity's thousands of projects are funded by PVC.

Further, Rule III.A.1 of the Affiliate Rules directly prohibits the granting of preferential treatment by a utility to its unregulated affiliate or its affiliate's customers. Rule III.A.2 provides that affiliates must be treated the same as unrelated parties in terms and conditions, pricing and timing. PG&E has implemented its compliance plan to ensure compliance with these rules, and employees are trained in affiliate rules compliance. Specific training will also be provided to CSI personnel on the issue of preferential treatment in the context of PVC's unregulated solar investments before such investments are funded. CARE's allegation of conflict of interest in this situation is completely unfounded.

3. CARE's Allegations About "Double-Dipping" and Speculations as to PG&E's Future Intentions Are Without Merit.

CARE states that PG&E's ratepayers are paying PG&E for both solar incentives through the CSI and the Net Energy Metering Credits; and, therefore, "PG&E

would be “double-dipping,” by getting dividends or growth from its ratepayer’s payments and from SolarCity’s profits.” As CSI Project Administrator, PG&E is reimbursed for the incentive payments and its administrative expenses, but this program does not require capital on which PG&E has an opportunity to earn its authorized rate of return. PG&E also does not benefit financially from PVC’s earnings through its unregulated investment transaction. The CPUC has found distributed solar power installation to be in the public interest and has established the solar incentive program to encourage such activities. As an independent, separately funded party, PVC is entitled to participate in the solar marketplace and to benefit from incentives on the same basis as all other participants. CARE has failed to understand how solar incentive payments are funded and has again failed to account for the separate legal and functional character of PG&E and its unregulated affiliate.

CARE also makes a number of unsupported allegations about PG&E’s and SolarCity’s intentions to move into markets beyond those involved in the PVC investment. These allegations are unfounded and beyond the scope of Advice 3091-G/3616-E. PVC’s investment with SolarCity will not be used to finance the development of PV systems that generate electricity at wholesale for sale to utilities. PVC’s investment is exclusively for retail PV systems on the customer side of the meter.

4. Conclusion

As PG&E has demonstrated, CARE’s protest is based on mistaken assumptions about the separation of PG&E and its affiliates and the application of the Affiliate Rules. CARE’s factual allegations as to “double dipping” and PG&E’s future intentions as to the solar market are unsupported, false, and misleading. For these reasons, PG&E respectfully requests that the CPUC approve Advice 3091-G/3616-E, as filed.

Sincerely,

Handwritten signature of Jane Yura in cursive script.

Vice President – Regulation and Rates

cc: President Michael Peevey
Commissioner John Bohn
Commissioner Dian Grueneich
Commissioner Nancy Ryan
Commissioner Timothy Alan Simon
Julie Fitch, Director - Energy Division
Lynne Brown, Vice President of CARE