



**Pacific Gas and
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August 13, 2010

The Honorable Joe Simitian
Senator, California State Senate
State Capitol, Room 2080
Sacramento, CA 95814

RE: SB 722 (Simitian) – OPPOSE As Amended in Appropriations Committee

Dear Senator Simitian:

As you know, Pacific Gas and Electric Company (PG&E) is among the most avid and active proponents of policies that will advance California's transition to a low-carbon energy future. This includes a strong commitment to significantly increasing the supplies of renewables available to our customers. Indeed, PG&E has long been on the record with its support for California's renewable portfolio standard, including the proposed 33 percent requirement.

Equally essential, of course, is that California pursue its renewable energy goals in ways that are most cost-effective for utility customers and the economy – a point that takes on an even greater significance in light of the challenges many Californians are facing in the wake of the recession. With this in mind, PG&E is concerned that in its current form, SB 722 misses critical opportunities to ensure adequate cost protections for consumers.

This concern for the impact on our customers leads PG&E to oppose SB 722 until and unless the bill can be strengthened to include a framework that puts the state on a successful path to achieving our environmental goals in the most cost-effective manner. We look forward to working with you and all interested stakeholders to craft a program that meets this test. We believe our suggested amendments make sense for customers and, if accepted, would allow us to support the bill.

The following summarizes our key concerns:

Customer Cost Protections

Meaningful cost protections for California's consumers are a goal shared by all parties. This goal cannot be solely addressed by delegating the creation of an overall cost cap to the California Public Utilities Commission (CPUC) to prevent unreasonable rate increases. The cost cap should be linked to compliance flexibility to allow additional time to comply with procurement targets if the CPUC finds the costs are unreasonable. Ultimately, the two most practical ways to mitigate costs for a higher RPS goal will be to provide access to a wide range of resources – across the western electricity grid – and to allow for a gradual implementation of this enhanced RPS program over the next decade. In PG&E's service territory alone, a more gradual implementation of the RPS program could save our customers \$3 billion over the next decade, and greater access to west-wide resources as suggested in our amendments could save our customers \$200 million annually thereafter.

Procurement Targets

PG&E is concerned that the target dates included in SB 722 represent a step backward from last year's SB 14 by setting unrealistic short-term targets for renewable purchases and creating more uncertainty with respect to required procurement between periodic targets. Current experience with the RPS program has

demonstrated that despite systematic and regular contracting, renewables developers have struggled to meet planned timelines for development and operation of new facilities. Furthermore, such development does not occur in regular intervals. SB 14 recognized this practical reality in two critical ways.

First, targets were set in a stair-step approach – with milestones in 2013, 2016 and 2020 – requiring the load-serving entity to reach new targets periodically and maintain these levels in the intervening years while working toward the next target. SB 722 requires the CPUC to set additional progress goals in-between these targets. These additional targets do not recognize the “lumpy” nature of renewables development experienced over the first eight years of the RPS program. Moreover, limited staff resources at the CPUC should be focused on contract approval and not on developing additional compliance frameworks that do not advance the actual development of renewable energy facilities.

Second, under current RPS flexible compliance laws, investor-owned utilities effectively have until 2013 to achieve the 20 percent target. SB 722 proposes to accelerate this to an average of 20 percent between the years 2011-13. Moving this near-term deadline at this point in the program is unrealistic and unfair to the retail sellers who were already moving towards the existing mandates, especially given the existing project development timelines. Instead of providing incentives to meet or exceed the aggressive near-term targets, SB 722 proposes overly restrictive banking provisions eliminating incentives under current law to bring projects online in the near term.

Eligibility of Resources

PG&E is firmly committed to expanding the market for renewables. However, compared to SB 14, SB 722 actually places more restrictions on the ability to procure renewable resources across the West. While PG&E has procured the vast majority of its renewable resources within California and will continue to pursue substantial in-state resources, the currently proposed 75 percent minimum set aside for future resource procurement directly connected to California will likely preclude access to often less expensive resources. PG&E proposes a 60 percent minimum set aside while increasing access to renewable energy credits to 20 percent. Market expansion is a key driver in mitigating the costs of renewable energy prices paid by our customers. Finally, we continue to believe that a study of the potential resources in British Columbia is worthy of inclusion.

Flexible Compliance

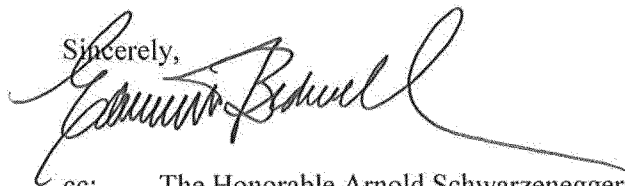
SB 722 recognizes potential impediments that might delay compliance for reasons outside the control of a load serving entity, such as transmission permitting and interconnection delays, seller non-performance or inadequate financing. SB 722 should ensure if a retail seller provides sufficient data supporting a compliance waiver, the CPUC should be required to grant flexibility.

Universal Application of Rules

All load-serving entities should be required to participate in the 33 percent RPS program and contribute to the environmental goals of the state under the same rules for eligible resources, equivalent targets and the various program requirements.

PG&E has been proud to stand in support of California’s bold renewable, energy efficiency and climate change goals. As we have affirmed many times in words and, more importantly, in our actions, PG&E is firmly committed to advancing California’s clean energy goals that protect energy consumers. We believe a 33 percent renewable portfolio standard, properly designed and implemented, can help the state continue to be a leader in the clean energy economy. We look forward to working with you to ensure that SB 722 meets this test.

Sincerely,



cc: The Honorable Arnold Schwarzenegger, Governor of the State of California
The Honorable Daryl Steinberg, President Pro Tem of the California State Senate
The Honorable John Perez, Speaker of the California State Assembly