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September 20, 2010

VIA ELECTRONIC AND U. S. MAIL

Re: Responses to Energy Division's Questions Regarding Pacific Gas and Electric Company's Solar Energy Affiliates.

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Mr. Jack Fulcher  
Energy Division  
California Public Utilities Commission  
505 Van Ness Ave., Area 4A  
San Francisco, CA 94102

Dear Mr. Fulcher:

This letter responds to the ten questions Energy Division posed in your September 8, 2010 e-mail to Erik Jacobson concerning PG&E Corporation's investment, through various subsidiaries, in certain solar energy projects and Pacific Gas and Electric Company's (Utility) compliance with the Affiliate Transaction Rules in connection with any transactions with its new solar energy affiliates. I want to thank you again for working with us to resolve Energy Division's concerns with respect to these new affiliates.

Before addressing the specific questions you asked, I want to set forth the issues to which Energy Division's questions appear to relate to ensure that we are on the same page:

- (1) Approval of Pacific Gas and Electric Company Advice Letter No. 3091-G/3616-E, concerning PG&E Corporation's investment in Pacific Energy Capital I, LLC (PEC I [named Pacific Venture Capital, LLC at time of filing]), which Energy Division rejected (PEC I has entered into contracts with Banyan SolarCity Owner 2010, LLC [Banyan] and SolarCity Corporation [SolarCity]);
- (2) Approval of Advice Letter No. 3133-G/3700-E, which is currently pending, concerning PG&E Corporation's investments in Pacific Energy Capital II, LLC (PEC II), Pacific Energy Capital III, LLC (PEC III), and Pacific Energy Capital IV, LLC (PEC IV) (PEC II invested in SunRun Pacific Solar, LLC [SunRun Pacific]; PEC III and PEC IV currently have no investments);

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- (3) Approval of Advice Letter No. 3141-G/3708-E, concerning PG&E Corporation's investment in SunRun Pacific, which is currently pending (SunRun Pacific has entered into agreements with SunRun Inc. [SunRun]);
- (4) Whether SolarCity, Banyan and/or SunRun are affiliates and whether the Utility should therefore file additional advice letters.

While PG&E understands and appreciates Energy Division's desire to obtain a better overall understanding of the various transactions, we believe it is important to keep the separate issues in mind so that resolution of one issue is not unnecessarily delayed by resolution of others (for example, if Energy Division becomes comfortable with the Utility's affiliate compliance plan with respect to PEC I, it should approve Advice 3091-G/3616-E (or an amended version thereof), regardless of whether Energy Division at that time continues to question whether SolarCity is also an affiliate).

- 1. The Commission's Affiliate Transactions Rule 1.A gives several thresholds by which a company might be defined as an affiliate under the holding company structure. In addition to more direct and measurable control over the voting stock of the company, one threshold is "*and/or indirectly have substantial financial interests in the company exercised through means other than ownership.*" Do any of the companies in which you or the parent have made or will make investments fall under any of the several thresholds of this Rule?**

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- 2. You indicated in our August 6, 2010 meeting that PG&E “tries to make sure that all sizes of solar companies are successful.” Specifically, how does PG&E attempt to achieve this goal? What discretionary decisions and actions are available to PG&E to achieve this goal? Have you taken any of these available actions in the past? What were they?**

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3. While there are no “CSI tariffs” under which the actions of PG&E, as a Program Administrator for the CSI Program, are constrained (see Advice 3141-G/3708-E, p. 4), you indicated at this meeting that the utility is bound by the CSI Handbook, which is reviewed by the Commission staff and can be found on the “gosolarcalifornia” website. This document, however, places few constraints or time limits on the actions of the Program Administrator (PA), and grants wide latitude in its decisions regarding continued participation and ultimate success in the CSI Program by companies seeking to enter this market. Further, decisions made by the PAs cannot be appealed by applicants or contractors except to the PAs themselves; the only recourse open is through the Commission’s formal complaint process. (See Sec. 4.10.4 of the CSI Handbook) The companies affected by these decisions include installers, sellers, and contractors, and specifically competitors to the companies in which your affiliates have made investments. Ultimate resolution of disputes may take months, resulting in delays, cancellations, and could threaten the survival of the small companies seeking entry into the solar energy markets.
  - a. What internal controls, both transparent and observable by the Commission, have the utility imposed to ensure that this sort of discretionary power is not abused in favor of the companies in which PG&E has financial interest? Note that we do not refer to the further dissemination of the utility’s affiliate transactions compliance manual or similar communication to employees; we are seeking procedures that ensure that applications are processed evenly, in order received, and without delay; that deadlines for milestones are established and met; that decisions regarding failures and infractions are consistent across applicants and contractors; and that interconnection and maintenance tasks are made without reference to different contractors or installers.

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- b. Should the Commission impose rules and constraints on PG&E and other PAs to help ameliorate the potential for abuse as described in this question? What should they be?**

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- c. Can you propose a dispute resolution system, perhaps using an independent third-party, that would speed the attainment of reasonable resolutions, is transparent, and obviates the need for formal Commission involvement?**

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- 4. Have you considered investing in solar companies that operate entirely outside of your service and PA area? Wouldn't it be simpler, just as effective, and possibly just as profitable for your holding company to invest in companies outside of your area?**

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- 5. Alternatively, you could release your role as PA to an independent organization, such as what has happened in the San Diego area. Would this be a better solution to prevent conflicts of interest? Would you consider this change if a reasonable structure could be designed by both you and the Commission staff?**

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- 6. What has been the role of PG&E and its employees in the research, planning, and management of this project?**

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- 7. You say in your filings that the utility will perform services for the affiliate(s) under Affiliate Transactions Rule V.E, which allows certain corporate shared services. What are these activities? How will the pricing of such services to the affiliate(s) be handled?**

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- 8. How will the utility prevent marketing abuses by the solar companies? Won't they attempt to trade on their association with PG&E? To the extent that such marketing is successful, won't this benefit your affiliate (through use of the utility's market power)?**

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9. How does the deal relate to likelihood for any potential similar (but different) tax equity deals that you might be considering for investment in RPS projects? (Are these types of deals related or separate universes entirely?)

Redacted

10. What specific procedures do you have in place to prevent leakage of proprietary information to your affiliate(s)?

Redacted

### Conclusion

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<sup>1</sup> The Utility has a training and communications plan to make its employees aware of the restriction on communication of utility proprietary information to Rule II.B affiliates, and targeted training is provided as necessary to further address this issue as needs arise. Further, no affiliates have access to Utility space, records or computer systems.

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Yours truly,

A handwritten signature in cursive script that reads "Erich F. Lichtblau".

Erich F. Lichtblau

Enc.

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