



DRA

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CPUC, Energy Division
Attention: Tariff Files, Room 4005
505 Van Ness, Avenue
San Francisco, CA 94102

Subject: **DIVISION OF RATEPAYER ADVOCATES COMMENTS
ON DRAFT RESOLUTION E-4439**

INTRODUCTION

San Diego Gas & Electric Company (SDG&E) submitted Advice Letter (AL) 2270-E-A, an amendment to AL 2270-E, on September 23, 2011. On October 11, 2011, Energy Division issued a Draft Resolution approving the AL and requiring that, should SDG&E exercise the option for an additional project of up to 300 MW (Option) available under the Power Purchase Agreement (PPA), it file a Tier 2 AL before the Commission.

Both the original and amended ALs are for five PPAs: Desert Green, LanWest, LanEast, Rugged and Tierra del Sol. The proposed facilities all employ concentrating solar photovoltaic (PV) technology and vary in size between 3.5 megawatts (MW) up to 80 MW. The five proposed PPAs would total 160 MW if the projects are built out fully, and would deliver up to 393 gigawatt-hours (GWh) annually. Each of the five facilities is expected to come online in 2014 for a term of 25 years. The projects are all located in southern California. DRA protested the original AL, which was filed on July 14, 2011, on the grounds that the project was not economically competitive and could potentially result in high transmission upgrade costs.

The amendments to the proposal, filed as AL 2270-E-A, slightly decrease the price of each contract and introduce a new additional project of up to 300 MW, which SDG&E can exercise at its sole discretion.

SUMMARY OF RECOMMENDATION

DRA recommends that the Commission either:

- a) 2) Approve the AL with modifications that mandate that the Option be exercised and that the development security required by the developer for the

Option be increased substantially as described in the separate Confidential Appendix, or

- b) Reject the instant AL.

DISCUSSION

The proposed price decrease for these five PPAs is not significant and does not address DRA's original concerns regarding the projects' lack of competitiveness and potentially high transmission upgrade costs. The amendment does not sufficiently improve the economics of the contracts – without the Option – for ratepayers, nor do the price decreases fully capture the cost decreases the developer will enjoy due to decrease in the costs of materials experienced in the solar industry since its original proposal. The Resolution does not dispute the Independent Evaluator's (IE) finding that the amended PPAs prices are considerably “out of the money” when compared to similar offers on the 2011 RPS shortlist.¹ The Resolution's finding that the proposal's costs are reasonable is based entirely on the fact that the IE found that the market value of the five PPAs compares acceptably with the market values in 2011 RPS shortlist.

However, the Option is economically attractive and the combination of the five PPAs and the Option viewed as a bundled portfolio is economically competitive as well. Unfortunately, the Option has a potentially low viability. At the end of 2012 SDG&E must inform the developer whether it is exercising the option. If SDG&E exercises the Option, the developer must design, cite, finance and permit 300 MW of concentrating solar PV in California (and potentially in SDG&E's service territory) and bring all of that online by June 30, 2016. This is clearly a challenge and there is a significant possibility that these 300 MW will not come online even if SDG&E exercises its option.

The failure of these 300 MW to come online would be detrimental to ratepayers, who would be obligated to continue paying for five high-priced contracts totaling 160 MW and receive nothing more than the security the developer is obligated to put up for the Option. The Confidential Appendix contains an analysis of the economic impact of the failure to develop the 300 MW and the subsequent ratepayer costs of these five PPAs.

DRA would like to support this proposal in this AL is a creative solution put forward by the developer and SDG&E to develop a fairly novel technology in California and to provide jobs via the opening of Soitec's new manufacturing plant in the SDG&E area. Nevertheless, to make this a reasonable deal for ratepayers, DRA recommends that the Commission modify the proposal to require that SDG&E exercise the Option. In addition DRA recommends that, should the developer fail to bring the Option online, the Commission require that ratepayers are appropriately compensated given that they will be locked into these five high-priced 25-year contracts. The appropriate compensation should be a higher development security than Soitec is currently obligated to put up for the Option. DRA also recommends that the Commercial

¹ Draft Resolution E-4439, p.11.

Operations Date (COD) of the Option be adjusted to better fit SDG&E's portfolio (see Confidential Appendix).

CONCLUSION

SDG&E worked creatively with the developer to propose an economically attractive 300 MW Option that remediates the otherwise economically unattractive portfolio of five contracts proposed in the AL. DRA recommends that the Commission modify the proposed contracts to require that SDG&E exercise the Option and moves the COD to better fit SDG&E's RPS portfolio. Finally, DRA recommends that the development security required of Soitec for the Option be increased substantially so that ratepayers are compensated should Soitec fail to develop the additional 300 MW.

If the Commission does not adopt the above modifications to SDG&E's proposal, DRA recommends rejection of AL 2270-E-A. If the Commission does not adopt DRA's recommendation to either approve the AL with DRA's proposed modifications, or reject the AL, then DRA agrees with the Draft Resolution's requirement that SDG&E must file a Tier 2 AL if it exercises the Option.

Please contact Yuliya Shmidt at (415) 703-2719 if you have any questions about these comments.

/s/ Cynthia Walker

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