



DRA

*Division of Ratepayer Advocates
California Public Utilities Commission*

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PUBLIC

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CPUC, Energy Division
Attention: Tariff Files, Room 4005
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Subject: **Public Protest of the Division of Ratepayer Advocates (DRA) of Pacific Gas & Electric Company's (PG&E) Advice Letter 3989-E (Amended and Restated Power Purchase Agreement for Procurement of an Eligible Renewable Energy Resource between Rice Solar Energy, LLC and PG&E)**

INTRODUCTION

DRA protests and recommends the Commission reject AL 3989-E. Specifically, the price of the Amended and Restated Power Purchase Agreement (Amended PPA) is unreasonably high compared to the current market alternatives, and the deliveries under the Amended PPA are not necessary to either meet PG&E's Renewable Portfolio Standard (RPS) goals or to provide technology diversity to PG&E's portfolio. DRA's recommendation is consistent with the Independent Evaluator's Report (IE Report) performed by Arroyo Seco Consulting (Arroyo), which states that "Arroyo would find it difficult to conclude that the amended and restated Rice Solar contract merits CPUC approval."¹ In summary, the Amended PPA would expose ratepayers to unreasonable costs and unwarranted risks in exchange for few, if any, benefits.

¹ Public IE Report, Appendix H, p. H-3.

BACKGROUND

In December 2009, PG&E filed AL 3581-E seeking Commission approval for the purchase of eligible renewable energy with Rice Solar Energy, LLC (Rice Solar) from a 150 MW solar thermal facility located in Rice, California. The project is expected to commence on October 1, 2013, and will deliver an average 448 GWh per year for 25 years. The Commission approved PG&E's request by Resolution E-4240 in July 2010.

In AL 3989-E, submitted on January 17, 2012, PG&E requests that the Commission approve the executed Amended PPA between Rice Solar and PG&E as an eligible renewable energy resource. The bilaterally Amended PPA was executed on December 6, 2011. The Amended PPA revises the interconnection and delivery points from the CAISO system (SP15 zone) to Western Area Power Administration (WAPA) Mead Substation and revises the guaranteed commercial online date from October 1, 2013 to December 1, 2015. The change in delivery points results in adverse consequences for PG&E ratepayers; specifically, diminished benefits of the project and increased risk to ratepayers. To mitigate the adverse consequences resulting from the change in delivery points, the Amended PPA revises the payment provisions such that Rice Solar would compensate PG&E ratepayers for the loss in energy value due to congestion and reduced resource adequacy (RA) capacity. The Amended PPA replaces the original PPA.

DRA RECOMMENDS REJECTION OF THIS ADVICE LETTER FOR THE FOLLOWING REASONS

The PPA Price is Substantially Higher than Other Market Alternatives

The price of the Amended PPA is above the 2011 Market Price Referent (MPR). Given the growing maturity of the renewable market and the consistently lower prices of renewable contracts, especially in response to the 2011 Requests for Offers (RFOs), there is no reason to approve contracts priced above the MPR. Arroyo's IE Report opined that, based on PG&E's least-cost best fit (LCBF) valuation of recent bilateral proposals and comparison to bids received in the 2011 RFO, the Amended PPA is no longer competitive with market alternatives for long term contracts with RPS-eligible projects. As evidenced in Appendix B, [REDACTED]

[REDACTED]



PG&E Does Not Need this High Priced PPA to Meet its RPS Goal

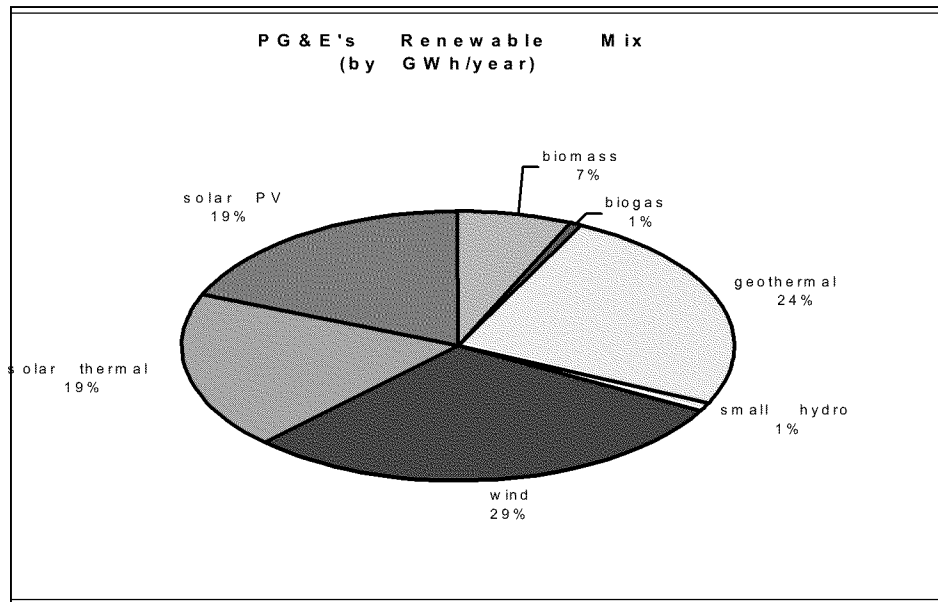
PG&E noted that, although the economics of this project compare unfavorably to PG&E's 2011 RPS RFO shortlist, the utility entered into this amendment because the later commercial delivery date of December 1, 2015 is better aligned with PG&E's incremental RPS compliance needs. In Appendix A, page A-6, PG&E attempts to demonstrate that there is a need during the third compliance period (2017 to 2020). However, DRA asserts that PG&E has adequate time to execute a less expensive PPA to meet RPS needs in 2015 or 2016. In addition, the Commission recently approved the 250 MW Abengoa solar thermal project, a similar technology that will support PG&E in meeting its required RPS need during the third compliance period.

PG&E Does Not Need this High Priced PPA to provide technology diversity to PG&E's Portfolio

PG&E noted that while the economics of this project compare unfavorably to PG&E's 2011 RPS RFO shortlist, the utility entered into this amendment because the project will provide technology diversity to its portfolio. However, as evidenced in the August 2011 PG&E Project and Development Report, PG&E's portfolio is already very technology-diverse. The chart below illustrates that PG&E does not need this high priced project to provide technology diversity in its portfolio.³

² Confidential IE Report, Appendix C, p. C-17.

³ Notes: Only executed contracts from 2002 and on are included. The chart includes contracts that are online, not yet online, and those pending approval. Solar PV Program contracts are also included but Feed-in Tariff and other programs are not. All data from <http://www.cpuc.ca.gov/PUC/energy/Renewables/>, updated January 2012.



DRA Agrees with the IE Report’s conclusion that the Amended PPA Does Not Merit Commission Approval

Arroyo opined that it is difficult to conclude that the Amended PPA merits CPUC approval.⁴ Moreover, Arroyo stated:

“The changes to the project’s interconnection point and the terms of the amended contract make the PPA riskier for ratepayers. The unique treatment of Rice Solar in a specific provision of the amended contract that relates to dealing with that revised interconnection point creates at least the appearance of unfair treatment of competing developers. This specific contract provision may limit ratepayers’ future opportunities to procure more competitively priced renewable energy. The contract is now distinctly uncompetitive when compared to alternatives available to PG&E. Despite progress the developer has made, Rice Solar still ranks low in project viability when scored using the Project Viability Calculator when compared to competing alternatives. To execute the amended Rice Solar contract while rejecting numerous 2011 Offers for projects with both higher viability, higher net value, and lower price creates the appearance of unfairness to those projects’ developers.”⁵

DRA concurs with Arroyo’s opinion.

⁴ Public IE Report, Appendix H, p. H-3.

⁵ Public IE Report, Appendix H, p. H-3.

RECOMMENDATION

DRA concurs with Arroyo's IE Report opinion that the PG&E and Rice Solar Amended PPA is not competitive and is disadvantageous to ratepayers compared to the original agreement. Therefore, DRA recommends the Commission reject AL 3989-E.

/s/ Cynthia Walker

Cynthia Walker, Program Manager
Energy Planning and Policy Branch
Division of Ratepayer Advocates

cc: President M. Peevey; Commissioner T. Simon; Commissioner K. Sandoval; Commissioner M. Florio; Commissioner M. Ferron; J. Simon; P. Douglas; Director of the Energy Division J. Fitch; General Counsel F. Lindh; Chief Administrative Law Judge K. Clopton; Service List R.11-05-005