Date: March 30, 2012

To: Colette Kersten
Advisor to Commissioner Catherine Sandoval

From: Meredith Allen
Sr. Director, Regulatory Relations
PG&E

Subject: SVTC Application 10-11-002

Enclosures:

I DOE Application, "*SVTC Solar: A Photovoltaic Manufacturing Development Facility*", previously filed under seal on November 16, 2011 (CONFIDENTIAL)

II Term Sheet between PG&E and SVTC Solar, Inc. (CONFIDENTIAL*) (June 1, 2011)

III Transcript (March 23, 2011, pages 1 & 68) (CONFIDENTIAL)

IV SoCalGas – Testimony (August 6, 2010, pages GAW-47 & GAW-48)

* Please note that the highlighted sections (in yellow) mark confidential information on pages 2, 3, 9 and 14.

SAN FRANCISCO, CALIFORNIA, MARCH 23, 2011
10:00 A.M.
* * * * *

ADMINISTRATIVE LAW JUDGE BEMESDERFER: Let's go on the record.

This is the time and place for the workshop in proceeding A.10-11-002, the application of Pacific Gas and Electric Company for authority to increase rates to cover the cost of investment in a proposed California-based photovoltaic manufacturing facilities.

I'm Administrative Law Judge Karl Bemesderfer.

The assigned commissioner is Michael Peevey.

The purpose of today's workshop is primarily to discuss the legal and policy aspects of the application. And in that regard, I'd like to make a few preliminary remarks.

First, let me introduce my colleague from the Energy Division, Rachel Petersen, who's been reviewing the application and discovery responses in preparation for this hearing. Rachel's areas of responsibility at the Commission include solar facilities and distributed generation, and does not make R&D investments. We believe the benefits that would come out of this project are really more equally distributed amongst ratepayers and customers than it would be amongst stockholders.

Furthermore, we modeled this after, by having the preferred stock mechanism and the direct investment, we actually modeled this after a long-running customer-funded R&D investment program that Southern California Gas has had for over ten years now. They now have seven companies that they have invested in with customer funds. They added the last one as recently as January, a fuel cell company.

The concept was originally authorized in 1997 in the general rate case and reauthorized in every general rate case since. The most recent one authorized in 2008 is currently at $10 million a year. So there is a precedent for this of R&D investments being made on behalf of utility customers in startup and R&D type companies.

Moving on to Slide 11, the question was asked, the risk of losing DOE funds if this investment is not approved. We think this was a substantial issue, as Mr. Empedocles mentioned. The requirement for

Application of Southern California Gas Company for authority to update its gas revenue requirement and base rates effective on January 1, 2012. (U904G)

(NOI for) Application 10-12-___
Exhibit No.: (SCG-9)

PREPARED DIRECT TESTIMONY OF
GILLIAN A. WRIGHT
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

AUGUST 6, 2010

The Gas Company

- Maintaining a balanced RD&D portfolio that emphasizes short to medium-term (1-4 years) technologies that meet the needs of utility operations and customers;
- Coordinating with other key stakeholders such as CEC, DOE, and the Gas Technology Institute ("GTI") in order to optimize use of funds and avoid duplication of efforts (letters of support from stakeholders are included in **Appendix E** in workpaper 2IN008.001);
- Collaborating with and obtaining co-funding from, stakeholders in order to maximize the impact and value of SCG's RD&D funds. The co-funding ratio for SCG (total program cost divided by SCG RD&D cost) has been consistently greater than 5:1. SCG's co-funding goal for TY 2012 is 6:1;
- Producing modest financial returns to ratepayers. SCG's ratepayers received $2.7 million from 2006 through 2009 from royalties and investment returns;
- Enhancing commercialization potential by transferring successful RD&D results to SCG's Emerging Technologies program for extended field evaluation and product deployment – and ultimately, the marketplace;
- Keeping program administration costs low (proposed to be 3.9% of total RD&D expenditures);
- Producing benefits that exceed costs. The benefit to cost ratio for the period between 2005 and 2009 is 1.49 (details are provided in **Appendix D** in workpaper 2IN008.001).

Royalty and Equity Investments

SCG carefully screens RD&D investment opportunities and selects projects that offer the best potential value to SCG and its customers. Project selection criteria include the following:

1) Value to customers;
2) Alignment with utility business needs and strategies;
3) Technology breakthrough and reasonable probability of success;
4) Favorable fit with overall project portfolio balance (e.g. risk, duration, and customer targets);
5) Potential for partnering – obtain co-funding to share risk and leverage assets.

For many years, SCG negotiated royalty provisions as part of its RD&D programs and continues to do so where this makes the most sense from a ratepayer benefits perspective. In D.97-07-054 (SCG 1997 Performance Based Ratemaking decision) the Commission authorized a 50/50 royalty sharing mechanism, splitting royalties and other revenues from RD&D investments between ratepayers and shareholders. Subsequently in D.08-07-046 (SCG TY 2008 GRC decision), the Commission modified the sharing of royalties and other revenues from RD&D investments to 60/40 (Ratepayers / Shareholders). SCG proposes to continue this sharing mechanism for the TY 2012 GRC period. Table GAW-14 shows financial benefits from 2006 through 2009 from royalties and equity investments.

Table GAW-14
Ratepayer Royalties & Investment Income
SCG's RD&D Program

Year	Customer Royalty Revenue	Customer Equity Investment Revenue	Total
2006	$223,980	---	$223,980
2007	$333,725	$1,600,000	$1,933,725
2008	$276,184	---	$276,184
2009	$256,019	---	$256,019
Total	**$1,089,908**	**$1,600,000**	**$2,689,908**

SCG is currently managing ten equity investments in emerging technologies. Several of these technologies have reached beta testing or early commercialization. These investments are described in detail in **Appendix C** in workpaper 2IN008.001.

SCG's RD&D Program Complements CEC PIER RD&D Program

SCG's RD&D program fully complements the gas and electric public purpose RD&D programs, otherwise known as Public Interest Energy Research Program ("PIER"), administered by the CEC. In general, SCG's regulated RD&D program focuses on developing technologies related to utility operations and energy efficiency for customers, while the CEC reaches out to a broader range of public energy needs. SCG's program is primarily focused on short to mid-term RD&D, while the CEC concentrates on a broader range of energy assessments, strategies, and mid to longer-term technology solutions. SCG emphasizes both technology and product development and demonstrations, whereas the CEC is inclined toward the research and development end of the RD&D spectrum. Furthermore, SCG's RD&D program includes a strong component addressing gas transmission and distribution operations, whereas the CEC program does not encompass gas system operations.