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April 9, 2012

Energy Division Tariff Unit
California Public Utilities Commission
Energy Division
505 Van Ness Avenue
San Francisco, CA 94102

Re: PG&E's Comments on Draft Resolution E-4489

Dear Energy Division Tariff Unit:

Pursuant to Rule 14.5 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission") and the instructions set forth in the transmittal letter from Maria Salinas dated March 20, 2012, Pacific Gas and Electric Company ("PG&E") hereby submits its comments on Draft Resolution E-4489 ("Draft Resolution"), which approves with modifications PG&E's Advice Letter 4000-E ("Advice Letter") filed February 1, 2012, and addresses additional issues on the Commission's own motion. A subject index of proposed changes is included as Appendix A to these comments and specific proposed changes are included as Appendix B.

Introduction

On February 1, 2012, PG&E submitted the Advice Letter seeking modifications to the product allocations to reflect lessons learned from its first Renewable Auction Mechanism ("RAM") Program Solicitation. In addition, the Advice Letter requested a modification to the RAM Program form Power Purchase Agreement ("PPA") to extend the regulatory delay period in the commercial online date in the PPA from six months to twelve months. The Draft Resolution addresses PG&E's Advice Letter, as well as additional items in the RAM Program that were not raised by PG&E. PG&E supports the Draft Resolution if it is modified in certain respects. First, the Draft Resolution should be modified to approve PG&E's request to update the product allocations as requested in the Advice Letter.

Second, PG&E supports the Draft Resolution's proposal that sellers may bid projects into RAM Program as either energy-only or fully deliverable, and that the Investor-Owned Utilities ("IOUs") may include the value of Resource Adequacy ("RA") in the selection

process. PG&E urges the Commission to adopt key general principles for treatment of RA in the RAM Program, while allowing the IOUs the needed flexibility on detailed implementation. PG&E provides additional details on how it expects to factor RA into the selection process in Section II below

Discussion

I. The Draft Resolution Should Be Modified to Approve the Product Allocations Requested in the Advice Letter

In the Advice Letter, PG&E proposed changing the product allocations from 35 megawatts (“MW”) from each of the three product categories to 85 MW for the peaking as-available category; 10 MW for the non-peaking as-available category; and 10 MW for the baseload category based on lessons learned from the first RAM Program Solicitation. The Draft Resolution denies this proposal on the grounds that it is premature, and requests that the IOUs specifically solicit the participation of baseload and off-peak intermittent project developers and their affiliates in the second RAM Solicitation.¹

As PG&E noted in its Advice Letter (“AL”) 4020-E, which provided the results of the first RAM Solicitation, PG&E notified over 1,800 market participants regarding the first RAM Solicitation. Charles Adkins, the Independent Evaluator (“IE”) for PG&E’s RAM Program, noted in the IE Report submitted with AL 4020-E that there was sufficient publicity surrounding the RAM Solicitation release and that the IE had no recommendations to extend the bidder outreach.² Despite this extensive outreach, of the 122 bids submitted into PG&E’s first RAM Solicitation, there were only 5 offers from the baseload category and 3 offers from the as-available non-peaking category in comparison to 114 offers from the as available on-peak category. Given these results, the reallocation of product category targets is not premature. The first RAM Solicitation reflects an insufficient amount of competitive proposals in the baseload and as-available non-peaking categories. A reallocation of product category targets for the next RAM Solicitation would help ensure PG&E reaches its MW targets in the second RAM solicitation.

Furthermore, the IE supports PG&E’s recommendation to change the product allocation, noting this change is a step in the right direction:

Mr. Adkins believes that adjusting the targets to reflect actual market conditions is a good first step. The current arbitrary category targets impose an artificial constraint. As demonstrated in this RAM solicitation, that artificial constraint is restricting PG&E’s ability to meet its true target of procuring 105.2 MW per auction. Mr.

¹ Draft Resolution at p. 6.

² AL 4020-E, Appendix E “Independent Evaluator Report”, at p.4.

Adkins does not see a path for PG&E to meet its auction target without imposing undue costs on its ratepayers.³

As a result, PG&E urges the Commission to approve the modifications to the product allocations as requested in the Advice Letter. Alternatively, the Commission should grant PG&E more flexibility in each product category target, by increasing the range of products that can be procured to plus/minus 35 MW. That flexibility will increase the likelihood that PG&E will be able to meet its 105 MW target for the second RAM Solicitation.

Finally, PG&E reiterates the request included in AL 4020-E that the unsubscribed amounts in the baseload and as-available off-peak categories from the first RAM Solicitation be allocated to the as-available on peak bucket in the second RAM Solicitation.

II. PG&E Supports the Draft Resolution's Proposal That Sellers May Bid Projects as Energy-Only and Fully-Deliverable and that RA Be Factored In, and Suggests the IOUs Be Given Flexibility in Implementation

PG&E supports the Draft Resolution's proposal to allow producers to bid as either energy-only or with full capacity deliverability status, and to consider the benefits of RA when evaluating bids. PG&E proposes to encourage producers to bid their projects both ways, with different prices, as applicable. For Sellers that bid as fully deliverable, PG&E will consider the deliverability network upgrades and the RA value in the selection process.

PG&E believes that the Commission should adopt the key principles listed below for treatment of RA in the second RAM Solicitations, while allowing individual the IOUs flexibility in implementation:

- 1) **RA valuation should reflect each IOU's current valuation methodology.** The Draft Resolution cites the different methodologies applied by each utility for RA valuation. PG&E intends to use its current methodology and clarifies that in addition to the methodology described in the Draft Resolution, PG&E expects to attribute different RA value to projects in NP15 and SP15. There currently exists a constraint on the amount of RA capacity from SP15 that may be counted towards meeting PG&E's system RA requirements. Thus, PG&E currently discounts the capacity value of SP15 resources to reflect this potential condition. This constraint may change in the future.
- 2) **The RAM Power Purchase Agreement ("PPA") should require Sellers to provide the RA value included with their offer.** Since the IOUs will be considering Seller RA value in the selection process, Sellers should be obligated in the PPA to become deliverable so that customers get the RA benefit that was anticipated. Thus, PG&E's proposed PPA will include

³ *Id.* at p.7.

language obligating Sellers that bid as fully deliverable to provide RA. PG&E's PPA will require Sellers to be fully deliverable by December 31, 2021. PG&E believes that this timeline allows sufficient time for required network upgrades to be constructed, while still ensuring that customers get RA value for selected RAM projects.

- 3) **As noted in the Draft Resolution, sellers may provide an estimate of the year in which they expect their projects to be fully deliverable.** For purposes of project selection, PG&E will assume all new projects are fully deliverable at December 31, 2021. Assuming the same deliverability date for all Sellers means that Sellers do not have an incentive to be overly optimistic about their deliverability date, and PG&E does not have to implement PPA specific deliverability dates, or to impose penalties for Sellers that miss their expected deliverability date. This is also consistent with the obligation in the PPA that Sellers must provide RA by December 31, 2021.
- 4) **PPA pricing may differ for energy-only and fully deliverable projects.** As noted above, PG&E encourages sellers to bid both energy-only and fully deliverable options. Sellers are encouraged to bid different contract prices for energy-only and full deliverability, and allow PG&E to select the offer best for ratepayers. In addition to different contract prices, PG&E intends to apply different Time of Delivery ("TOD") factors to capture the differences in hourly value these projects provide as listed below. The energy-only TOD factors will apply to projects that offer full deliverability up until the finding of full capacity deliverability is achieved.

RPS TOD Period	Fully Deliverable	Energy only
A1	2.37533	1.35328
A2	1.11825	1.07401
A3	0.59239	0.69578
B1	1.09773	1.23142
B2	0.94493	1.10672
B3	0.66147	0.77693
C1	1.21965	1.12547
C2	0.89580	1.01635
C3	0.60634	0.71217

A=Jun.-Sep.

B=Oct.-Feb.

C=Mar.-May

1=Super-Peak

2=Shoulder

3=Night

Conclusion

For all the foregoing reasons, the Draft Resolution should be modified as discussed above.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Cherry". The signature is written in a cursive style with a large, sweeping flourish at the end.

Vice President - Regulation and Rates

Attachments

cc: Commission President Michael R. Peevey
Commissioner Timothy A. Simon
Commissioner Mike Florio
Commissioner Catherine J.K. Sandoval
Commissioner Mark Ferron
Karen Clopton – Chief Administrative Law Judge
Frank Lindh – General Counsel
Edward Randolph, Director - Energy Division
Paul Douglas - Energy Division
Jaclyn Marks - Energy Division
Adam Schultz - Energy Division
Service List for Draft Resolution E-4489
Kevin T. Fox - Silverado Power LLC
Sara Steck Myers - CEERT
Paul Thomsen - Ormat
Karl Gawell - GEA
Steven Kelly - IEP

Appendix A to PG&E Comments on Draft Resolution E-4489

Subject Index Listing Proposed Changes to the Draft Resolution

Page 6. [PG&E's Request to Re-Allocate Available Capacity]. Revise to approve PG&E's proposal to reallocate the capacity amongst the product categories such that it is 85 MW in peaking as-available; 10 MW in non-peaking as available; and 10 MW in baseload.

Appendix B to PG&E Comments on Draft Resolution E-4489

Proposed Changes to Findings and Orders

Consistent with its comments on the Draft Resolution, PG&E recommends that the Commission make the following changes to the Findings, Conclusions, and Ordering Paragraphs in the Draft Resolution prior to issuance:

Findings and Conclusions

14. Pacific Gas and Electric Company's request to reduce its Renewable Auction Mechanism allocations for baseload and off-peak intermittent is approved~~at this time is premature given the lack of industry experience to date with the RAM program.~~

Ordering Paragraphs

2. Pacific Gas and Electric Company's request to reallocate available capacity across product categories for its second Renewable Auction Mechanism RFO is approved~~denied~~.

CERTIFICATE OF SERVICE

I certify that I have by mail, e-mail, or hand delivery this day served a true copy of Pacific Gas and Electric Company's comments on Draft Resolution E-4489, regarding PG&E's Advice Letter 4000-E on:

- 1) Commissioners Michael Peevey, Timothy Simon, Mike Florio, Catherine Sandoval, and Mark Ferron
- 2) Karen Clopton – Chief Administrative Law Judge
- 3) Frank Lindh – General Counsel
- 4) Edward Randolph – Director, Energy Division
- 5) Adam Schultz – Energy Division
- 6) Paul Douglas – Energy Division
- 7) Jaclyn Marks – Energy Division
- 8) Energy Division Tariff Unit – Energy Division
- 9) Service List for Draft Resolution E-4489
- 10) Kevin T. Fox – Silverado Power LLC
- 11) Sara Steck Myers – CEERT
- 12) Paul Thomsen – Ormat
- 13) Karl Gawell – GEA
- 14) Steven Kelly - IEP

/S/ KIMBERLY CHANG

Kimberly Chang

PACIFIC GAS AND ELECTRIC COMPANY

Date: April 9, 2012