Pacific Gas and Electric Company

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April 16, 2012

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

Re: PG&E's Reply 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 email from Adam Schultz dated April 10, 2012, Pacific Gas and Electric Company ("PG&E") hereby submits its response to opening 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.

Introduction

On April 9, 2012, ten parties including PG&E submitted initial comments on the Draft Resolution. Many of these parties supported PG&E's request in the Advice Letter to re-allocate capacity among the three product-type buckets for the second Renewable Auction Mechanism ("RAM") Solicitation and to modify the timing requirements for the guaranteed commercial on-line date. In its initial comments, PG&E explained why both of its proposals should be adopted, and commented on some of the additional issues raised on the Commission's own motion. PG&E will not repeat those arguments here.

Some parties included in their initial comments additional proposals and requirements that should not be adopted as a part of the Draft Resolution. PG&E responds to these initial comments as follows:

- Center for Energy Efficiency and Renewable Technology's ("CEERT") request that the Draft Resolution be modified to include an additional stakeholder process[1]

[1] CEERT Opening Comments at p. 1

to address the lack of technology diversity in the first RAM Solicitation should be denied.

- Certain parties' request that the Draft Resolution be modified to eliminate the termination provision for excessive transmission costs should be rejected. However, the Draft Resolution should be clarified to provide that the unilateral termination provision only applies to costs identified in an interconnection study or interconnection agreement, and that a termination pursuant to this provision would be considered a no fault termination on the part of the Seller.

- The Draft Resolution's proposal that sellers may bid projects as energy-only and fully-deliverable and that Resource Adequacy ("RA") be factored into the bid evaluation process should be approved.

Discussion

I. CEERT's Request to Modify the Draft Resolution to Initiate Another Stakeholder Process to Address Limitations of the RAM Program Should be Denied.

CEERT proposes in its comments that the Commission modify the Draft Resolution to create another stakeholder process in addition to the annual program forums "in which a broad spectrum of parties can work together to re-examine the RAM, identify its shortcomings and offer appropriate changes."[2] CEERT claims that this stakeholder process is needed as the results of the first RAM solicitations reveal an issue with attracting broader renewable resource participation that could be addressed in this additional process.

The program forum required by Commission Decision ("D.") 10-12-048 ("RAM Decision") already provides an opportunity for stakeholders to provide feedback. As part of the program forum, the Investor-Owned Utilities ("IOUs") are already required to seek feedback from developers to inform the agenda, notice stakeholders of the date and time of the forum, provide the Commission with advance notice of the agenda, and create an opportunity for feedback. It is unclear how an additional stakeholder process would be able to solve the issue of a lack of competitive proposals from the baseload and as-available non-peaking categories in the market. As noted by Solar Energy Industries Association ("SEIA", Large Solar Association ("LSA") and Recurrent[3], there are only approximately 240 megawatts ("MW") of RAM-eligible baseload generation in the current Wholesale Distribution Access Tariff ("WDAT") and California Independent System Operator ("CAISO") interconnection queues and there are over 6 gigawatts ("GW") of RAM-eligible solar photovoltaic ("PV") projects in those queues. A stakeholder process will not address the market reality that the solar PV product category is the largest and most competitive. CEERT's suggestion should be rejected.

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[2] *Id.* at p. 2

[3] SEIA/LSA Opening Comments at p.3; Recurrent Opening Comments at p.2

II. The Draft Resolution Should be Modified to Provide that the Unilateral Termination Only Apply to Costs Identified in an Interconnection Study or Interconnection Agreement

Several parties argue for the removal of the termination right for the IOUs in the RAM contract when increases in customer-funded network upgrades associated with the interconnection of a generating facility increases by more than 10% beyond study estimates. However, the termination right is an important component of the RAM that links the basis for the selection of a project with the total ratepayer funded costs of the project. The network upgrade costs in a project's study are the basis of the transmission adder used directly in the valuation, ranking, and selection of projects. The reason for accounting for these costs in selection is because the IOUs' customers are ultimately responsible for paying for the upgrades. If these costs were to rise, then the IOUs' customers would be paying for power at a higher cost than what was contemplated at selection.

The basis of the parties' arguments against the termination provision is that the provision is unfinanceable because the network upgrade costs will not be completely known until the network upgrades have actually been constructed, which is after the construction and financing of the project. PG&E recognizes that this termination right is not required after the interconnection agreement has been executed and the project financed. In order to address this issue, PG&E agrees with Recurrent that clarification is needed. The Draft Resolution should be modified to provide that the termination right only applies to costs identified in an interconnection study or interconnection agreement. Once the updated study/agreement been provided to the IOU, the termination right can expire within a fixed period of time (*e.g.*, 90 days). With this modification, the IOUs' customers are still protected from increases in network upgrade costs, while the generator will have certainty at a point before financing. PG&E also agrees that, if the termination right is exercised, it will be deemed no fault on the part of the Seller, and security deposits will be returned.

III. The Draft Resolution's Proposal That Sellers May Bid Projects as Energy-Only and Fully-Deliverable and that RA Be Factored Into the Bid Evaluation Process Should be Approved Now; Further Delays are Not Warranted

BP Solar Energy ("BP"), SEIA and LSA (collectively, the "Joint Solar Parties") argue that the Draft Resolution's proposal to include evaluation of offers with full capacity deliverability status ("FCDS") is premature, and the Joint Solar Parties further request a workshop on this issue. BP suggests that the proposal is premature because Sellers do not yet have Phase 2 studies for deliverability. BP also suggests that the IOUs require Sellers to be in possession of a Phase 2 FCDS study prior to bidding into a RAM Solicitation.

As noted in PG&E's opening comments, PG&E plans to allow Sellers to offer projects as deliverable, or energy-only. PG&E will use the Phase 1 results if Phase 2 results are not available. This is consistent with how PG&E treated offers in the first RAM Solicitation. If Sellers are concerned about potential deliverability upgrades absent a Phase 2 study, they may bid as energy-only, or offer PG&E both options.

BP also recommends that failure to achieve FCDS by the estimated date should not be considered an event of default. PG&E recognizes there is some risk associated with deliverability upgrades being completed by the estimated date. However, it is important that customers ultimately get the RA value for which they are paying, and which formed the basis for the project selection. PG&E's proposal that an event of default occur if FCDS is not achieved prior to December 31, 2021 is a reasonable balance. It allows plenty of time for network upgrades to be completed, while ensuring that customers ultimately get the value to which they are entitled.

Recurrent recommends that the IOUs clarify several points. PG&E agrees with most of Recurrent's suggestions, and responds as follows:

1) Recurrent's suggestion that the IOUs specify the source of the cost information: Consistent with how it evaluates reliability network upgrade costs, PG&E will assess deliverability network upgrade costs based on the most recent study available, either Phase 1, Phase 2 or Interconnection Agreement. With respect to deliverability for the second RAM Solicitation, PG&E expects the most recent study will be the Phase 1 studies. For future RAM Solicitations, PG&E anticipates the most recent study may be Phase II studies.

2) Recurrent's suggestion that the third RAM require Phase II deliverability studies: PG&E does not believe that a requirement for a Phase II study is necessary. However, Sellers with Phase II studies may be more successful in the third RAM.

3) Recurrent's suggestion that Sellers offering bids as fully deliverable must be enrolled in a Phase II deliverability study at the time of submission: PG&E agrees. If the Seller is not enrolled in a Phase II deliverability study, the Seller should bid as energy-only.

4) Recurrent's request for clarification that bidders be able to submit both energy-only and FCDS offers for a single project: PG&E agrees. Bidders may submit both variations for a single project.

Interstate Renewable Energy Council, Inc. ("IREC") and SEIA/LSA request that the IOUs provide developers with access to further information regarding resource adequacy value to bid properly. The valuation methodology PG&E would use is not new and consistent with the same methodology used in its Renewables Portfolio Standard ("RPS") RFO.[4] The Draft Resolution's proposal to include evaluation of offers with FCDS is not premature and any additional workshops on this issue would delay the issuance of the next RAM Solicitation.

[4] See 2011 RPS RFO, Attachment K (Least Cost Best Fit Protocol).

Sincerely,

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

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 Reply 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 16, 2012