



DRA

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CONFIDENTIAL

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CPUC, Energy Division
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Subject: Protest of the Division of Ratepayer Advocates of Pacific Gas and Electric Company's Advice Letter 4238-E, requesting approval of PG&E's 2012 Renewable Portfolio Standard Shortlist

INTRODUCTION

The Division of Ratepayer Advocates (DRA) hereby submits this protest of Pacific Gas and Electric Company's (PG&E) Advice Letter 4238-E (AL 4238). In AL 4238, PG&E seeks the California Public Utilities Commission's (Commission) approval of its 2012 Renewable Portfolio Standard (RPS) shortlist. DRA protests and recommends that the Commission approve AL 4238 without the following projects:

- **Wadham Energy LP (Wadham):**
 - PG&E did not sufficiently justify Wadham's selection over equally viable projects with higher Portfolio-Adjusted Values (PAVs);¹
 - The Independent Evaluator (IE), Arroyo, disagreed with PG&E's choice of Wadham, mainly because any Power Purchase Agreement (PPA) negotiated with Wadham may "result in a worse valuation and/or posting lower collateral," and therefore be unfair to competing bidders;²

¹ PAV "include[s] the following components: Location, RPS Portfolio Need, Energy Firmness, Contract Term Length (Tenor), and Curtailment." A higher PAV is more valuable than a lower one. PG&E 2012 RPS RFO, [Attachment K](#), p. 7. PAV was calculated using the Commission's Energy Division's 2011 [Project Viability Calculator](#). PAV and qualitative factors such as project viability, contribution to RPS goals, and supplier diversity are used to determine the shortlist.

² IE Report, p. 52.

- PG&E did not provide sufficient evidence to justify its need for biomass projects, specifically Wadham;
- PG&E recently rejected lower-priced biomass projects in other RPS procurement programs.
- Geysers Power Company (Geysers): It has a lower PAV than several other projects which were not shortlisted, and PG&E did not justify its selection over these projects.
- Sand Hill Wind (Sand Hill): It has a lower PAV than another project which was not shortlisted. Additionally, the IE stated it would not have shortlisted Sand Hill, because its calculations placed Sand Hill's viability in the bottom quartile of all projects.³

BACKGROUND

The RPS program was established by California Senate Bill (SB) 1078, and made effective on January 1, 2003. It was significantly modified in 2011 by SB 2 (1X). Among other things, SB 2 (1X) raised the RPS goal of California Investor Owned Utilities (IOUs), such as PG&E, from 20 percent of retail sales by the end of 2010 to 33 percent by 2020. In order to meet its RPS goals, PG&E issues an annual RPS solicitation, in addition to other RPS procurement programs.

DISCUSSION & RECOMMENDATION

DRA protests AL 4238 and recommends the Commission remove the Sand Hill, Geysers, and Wadham projects from its shortlist. PG&E has not justified placing these projects on the shortlist in place of higher-PAV projects.

A. THE COMMISSION SHOULD REMOVE THE WADHAM PROJECT FROM PG&E'S SHORTLIST

Wadham is an existing, 25 MW biomass project with a levelized, post-Time of Delivery (TOD) price of \$99/MWh, and a scheduled Commercial Operation Date of mid-2018.⁴ Its PAV is -\$7.24/MWh.⁵ The PAV of other projects on the shortlist ranges from \$9.99/MWh to \$29.95/MWh. A higher PAV is more valuable than a lower PAV, and a positive PAV is more valuable than a negative PAV. At -\$7.24/MWh, Wadham's PAV is the lowest on the shortlist,

³ IE Report, p. 60.

⁴ IE Report, p. A-2.

⁵ PG&E 2012 RPS Shortlist, sent to PRG members May 8, 2013.

\$17/MWh lower than the next lowest shortlisted project, and significantly below the weighted average PAV of over \$16/MWh for the other offers in aggregate.⁶

According to the IE, PG&E skipped “several higher-valued Offers” in shortlisting Wadham because of Wadham’s “high project viability,⁷ siting in the preferred [North Path] NP-15 zone, and high ranking for [an RPS] Goals criterion.”⁸ However, PG&E’s reasoning for placing Wadham on the shortlist is not justified, and inconsistent with its reasoning in other solicitations.

1. PG&E cannot justify selecting Wadham over other projects with a higher PAV on the basis of location or project viability, as the PAV already accounts for locational value and the other, skipped projects have equal viability

The IE stated that a qualitative locational preference and high viability is one reason PG&E was justified in shortlisting Wadham, which is located in PG&E’s territory, over several higher valued, equally viable (existing) projects located outside of PG&E’s territory.⁹ However, PG&E has already accounted for locational preferences by quantifying location as part of its PAV calculation,¹⁰ specifically including preference for projects located in PG&E’s territory via an energy adder and a capacity adder in its 2012 RPS Solicitation Protocol.¹¹ Therefore, the projects

⁶ IE Report, p. 59.

⁷ Specifically, it is an existing project.

⁸ IE Report, p. 41-42. NP-15 means north of Path 15, a major transmission line. PG&E’s territory generally consists of the area north of Path 15 and the area within ZP-26, which is between NP-15 and SP-15 (south of Path 15). PG&E’s 2012 RPS Goals criteria include Executive Order S-06-06, detailed in the following section.

⁹ IE Report, p. 42. Specifically, the IE stated “selection of the lower-valued Wadham Energy proposal aligns with three nonvaluation criteria or preferences... [including] siting in the preferred NP-15 zone.” DRA interprets “nonvaluation” to mean without value, or qualitative.

¹⁰ PAV “include[s] the following components: **Location**, RPS Portfolio Need, Energy Firmness, Contract Term Length (Tenor), and Curtailment,” emphasis added. PG&E 2012 RPS RFO, Attachment K, p. 7. PAV was calculated using the Commission’s Energy Division’s 2011 Project Viability Calculator. PAV and **qualitative** factors such as project viability, contribution to RPS goals, and supplier diversity are used to determine the shortlist.

¹¹ Specifically, a SP/NP Energy Adder and a SP/NP Resource Adequacy (RA), or capacity, Adder, as shown in the PG&E 2012 RPS Shortlist, sent to PRG members May 8, 2013. On page 7-8 of Attachment K for PG&E’s 2012 RPS RFO, PG&E states its preference for projects in NP-15/its service territory “is influenced by constraints... that may limit the amount of capacity in SP15 that PG&E can count toward its RA requirement.... The calculation of PAV effectuates this by adjusting the value of energy and capacity for offers from resources in SP15.”

which PG&E passed over in order to shortlist Wadham were, by PG&E's own calculations, more valuable than Wadham, even after accounting for PG&E's locational preference.

Wadham should not be shortlisted over equally viable projects with higher PAVs on the basis of a vague, qualitative locational preference which was not specified in its solicitation protocol; PG&E has already quantified its locational preference using two different factors. DRA recommends the Commission remove Wadham from PG&E's shortlist.

2. The IE disagreed with PG&E's choice of Wadham because PPA negotiations may lead to results that are unfair to competitors, and because Wadham would contribute to PG&E's overprocurement

Arroyo, the IE for this solicitation, "disagreed... with a few of the choices made in the selection process" by PG&E.¹² One of those choices was Wadham. As the IE stated:

In order to select Wadham Energy, PG&E had to skip over a number of higher-valued Offers from existing, operating solar thermal and wind facilities that Arroyo regards as offering project viability equal to Wadham's. Arroyo's concern is that it may be challenging for PG&E to negotiate a PPA with pricing that delivers the -\$7.24/MWh PAV and the standard collateral, instead achieving a worse valuation and/or posting lower collateral that would be unfair to competitors who post standard security.¹³

Furthermore, the IE noted Wadham would contribute to PG&E's overprocurement in Compliance Period 3, as Wadham would begin deliveries in mid-2018.¹⁴ This is contrary to PG&E's stated "strong preference... for RECs or Product from Projects that commence renewable energy deliveries to PG&E beginning in 2019-2020."¹⁵ DRA recommends the Commission remove Wadham from PG&E's shortlist.

3. Wadham should not be approved based on the claim of a vague, undefined future need of PG&E for additional biomass projects

¹² IE Report, p. 50.

¹³ IE Report, p. 52.

¹⁴ IE Report, p. 59-60.

¹⁵ PG&E 2012 RPS Solicitation Protocol, issued December 10, 2012. p. 4.

Regarding the use of biomass for electricity, Executive Order S-06-06 mandates that California “meet a 20 percent target within the established state goals for renewable generation for 2010 and 2020.”¹⁶ PG&E includes Executive Order S-06-06 in its 2012 RPS bid evaluation and selection criteria, under the RPS goals subsection.¹⁷ The IE indicated that due to increasing RPS goals and expiring biomass PPAs, PG&E is at risk of falling below this target in the next four years.¹⁸ However, neither PG&E nor the IE has specified the likelihood of this happening, how many expiring biomass PPAs PG&E may be able to re-contract at a competitive price, or how many MWs PG&E will need to keep it on target. Even if a risk of falling below the biomass target was defined, PG&E has not attempted to provide any analysis showing that Wadham, a substantially low value project, is necessary to avoid falling below the target. DRA recommends the Commission remove Wadham from PG&E’s shortlist.

4. PG&E has not justified shortlisting Wadham after it has declined to shortlist lower-priced biomass projects in other RPS procurement programs

PG&E shortlisted Wadham after rejecting comparable bioenergy projects with bids lower than Wadham’s in other RPS procurement programs.¹⁹ In PG&E’s third RAM solicitation, for example, PG&E declined to shortlist two projects, Gas Recovery System, LLC and Community Renewable Energy Services, Inc. At \$88.29/MWh and \$97.95/MWh, respectively, they were (emphasis PG&E’s) “[c]onsiderably more expensive than all other selected projects.”²⁰ Yet at \$99/MWh, Wadham is more expensive than these two projects. Despite this, PG&E chose to shortlist Wadham.

¹⁶ Executive Order S-06-06.

¹⁷ PG&E 2012 RPS RFO, Attachment K, p. 12.

¹⁸ IE Report, p. 41.

¹⁹ RAM 3 and the 2012 RPS Solicitation are comparable in terms of timing and price range. RAM 3’s deadline for submitted offers was December 21, 2012; the 2012 RPS solicitation’s deadline for bids was February 6, 2013. Additionally, in a response submitted April 30, 2013 to an informal DRA data request, PG&E provided data showing that the price range of submitted bids in all RAM and recent (2011 and 2012) RPS solicitations are comparable and have held steady.

²⁰ PG&E’s February 12, 2013 Peer Review Group (PRG) presentation on its proposed selection for its RAM 3 solicitation, p. 5 and 7. Gas Recovery System, LLC was the most competitive bioenergy bid, a 5.9 MW energy-only project with a post-TOD price of \$88.29/MWh, while Community Renewable Energy Services, Inc. was a fully deliverable 12 MW biomass project with a post-TOD price of \$97.95/MWh. As previously stated, Wadham is a 25 MW project, and its post-TOD adjusted price is \$99/MWh.

PG&E has not explained why ratepayers should fund the more expensive Wadham project after declining to shortlist lower-priced biomass projects from the RAM 3 solicitation. As the IE stated, Wadham “clearly contradicts the objective of picking a short list with best overall ratepayer value,” and would cost ratepayers tens of millions of dollars extra when compared to energy delivered by Geysers, the next-lowest project on PG&E’s shortlist.²¹ Since PG&E has not justified including Wadham on its shortlist, the Commission should remove it from PG&E’s shortlist.

B. THE COMMISSION SHOULD REMOVE GEYSERS FROM PG&E’S SHORTLIST, BECAUSE PG&E HAS NOT SUFFICIENTLY JUSTIFIED SELECTING THIS PROJECT OVER OTHER PROJECTS WITH A HIGHER PAV

Geysers is a 100 MW geothermal project with a levelized price of \$82/MWh and a PAV of \$9.99/MWh.²² Its PAV is the second lowest on the shortlist, significantly below the weighted average PAV of over \$16/MWh for the other, higher offers in aggregate, and exceeded only by Wadham’s negative PAV value of -\$7.24/MWh.²³ According to the IE, PG&E chose Geysers over projects with a higher PAV due to its preference for projects located in its territory and the Geysers project’s high viability- it is an existing facility.²⁴

Similar to Wadham, PG&E passed over three projects with equally high viability and higher PAVs—albeit located outside of PG&E’s territory—in order to shortlist Geysers, which is located in PG&E territory. The IE reasoned this was justified by PG&E’s qualitative preference for projects in its territory.²⁵ However, as explained above, PG&E’s locational preference is

²¹ IE Report, p. 59.

²² IE Report, p. A-1. PAV value from PG&E 2012 RPS Shortlist, sent to PRG members May 8, 2013.

²³ IE Report, p. 59.

²⁴ IE Report, p. 41.

²⁵ IE Report, p. 42. Specifically, Arroyo stated it “believes that it was reasonable for PG&E to reject these three higher-valued Offers and select the Geysers Offer based on PG&E’s publicly stated preference for generation sited in its service territory.” As stated in footnote 16, the IE appears to believe location is a qualitative, and not a quantitative factor. However, on page 7-8 of Attachment K for PG&E’s 2012 RPS RFO, PG&E states its preference for projects in NP-15/its service territory “is influenced by constraints... that may limit the amount of capacity in SP15 that PG&E can count toward its RA requirement... The **calculation** of PAV effectuates this by adjusting the value of energy and capacity for offers from resources in SP15.” Emphasis added.

already quantified in a project's PAV.²⁶ The projects PG&E skipped were, according to PG&E's own numbers, more valuable than Geysers even after accounting for PG&E's locational preference, as well as equally viable. Because PG&E has not justified selecting Geysers over other projects with a higher PAV, DRA recommends the Commission remove this project from PG&E's shortlist.

C. THE COMMISSION SHOULD REMOVE THE SAND HILL PROJECT FROM PG&E'S SHORTLIST BECAUSE IT HAS LOW VIABILITY AND THE VALUE FROM ITS CURTAILMENT DOES NOT CLEARLY JUSTIFY ITS LOW PAV

Sand Hill is a 20 MW wind project with a levelized price of \$79/MWh and a PAV of \$11.08/MWh.²⁷ According to the IE Report, PG&E skipped a higher PAV project in order to shortlist Sand Hill.²⁸ PG&E selected Sand Hill because it was located in PG&E territory, offered "the maximum possible 8,760 hours of buyer curtailment hours," and its PAV value was within \$10/MWh "of the cutoff for the initially selected high-valued Offers."²⁹ Like Geysers and Wadham, Sand Hill's PAV is significantly below the weighted average PAV of over \$16/MWh for the other, higher offers in aggregate, even after its curtailment value was factored into its PAV by PG&E. Only Geysers and Wadham have lower PAVs.

Additionally, the IE disagreed with PG&E's selection of Sand Hill due to its concerns with Sand Hill's viability.³⁰ The IE and PG&E used the Project Viability Calculator to calculate the viability of projects, but due to the ambiguity of some of the scoring guidelines for the Calculator, "individuals scoring the same project can arrive at different results."³¹ Based on the IE's viability scores, Sand Hill "would have been rejected" as it would have scored in the "bottom quartile" due to its untested technology and "higher risks of project failure due to financing, manufacturing, or deployment shortfalls."³² However, PG&E chose to use its own scoring instead of the IE's, resulting in a viability score of 67.32.³³

²⁶ PG&E 2012 RPS Shortlist, sent to PRG members May 8, 2013.

²⁷ IE Report, p. A-1. PAV value from PG&E 2012 RPS Shortlist, sent to PRG members May 8, 2013.

²⁸ IE Report, p. 42.

²⁹ Ibid.

³⁰ IE Report, p. 50.

³¹ IE Report, p. 28.

³² IE Report, p. 56, 60, 50.

³³ PG&E 2012 RPS Shortlist, sent to PRG members May 8, 2013.

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Further, while PG&E's solicitation protocol states that "project viability has the greatest qualitative impact on Offer ranking (among non-quantitative criteria)," it appears PG&E did not follow that protocol. The IE noted that "[v]ery few Offers were explicitly rejected by [PG&E] because of the low viability of a proposed project."³⁴

Due to its low PAV and the IE's concerns about Sand Hill's viability, DRA recommends the Commission remove Sand Hill from PG&E's shortlist.

CONCLUSION

For the above reasons, DRA recommends that the Commission remove Wadham, Geysers, and Sand Hill from PG&E's 2012 RPS shortlist. Please contact David Siao at ds1@cpuc.ca.gov or (415) 703-5251 with any questions regarding these comments.

/s Chloe Lukins

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³⁴ IE Report, p. 20, 43-44.