

ORA

Office of Ratepayer Advocates
California Public Utilities Commission

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(PG&E VERSION)

CPUC, Energy Division
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Subject: Joint Protest of the Office of Ratepayer Advocates of Pacific Gas & Electric Company's Advice Letters 4299-E, 4300-E, and 4301-E (Renewable Energy Credit Purchase and Sales Agreements with Sterling Planet, LLC; Iberdrola Renewables, LLC; and NextEra Energy Power Marketing, LLC)

INTRODUCTION

The Office of Ratepayer Advocates (ORA) hereby protests Pacific Gas & Electric Company's (PG&E) Advice Letters (ALs) 4299-E, 4300-E, and 4301-E. In these ALs, PG&E seeks California Public Utilities Commission (Commission) approval of Renewable Energy Credit (REC)¹ Purchase and Sales Agreements (PSAs) with Sterling Planet, LLC; Iberdrola Renewables, LLC; and NextEra Energy Power Marketing, LLC, respectively. These PSAs are for unbundled, Category 3 RECs. ORA protests and recommends that the Commission reject ALs 4299-E, 4300-E, and 4301-E for the following reasons:

- PG&E has not adequately demonstrated need, especially considering its large existing bank² of RECs.
- Even if the Commission finds that PG&E has adequately demonstrated need, PG&E has not shown that banking RECs is the best strategy for minimizing costs and maximizing value to ratepayers.
- Even if the Commission finds that PG&E has adequately demonstrated need and shown that banking RECs is the best strategy for optimizing its RPS portfolio, the

¹ RECs can be bundled (Category 1 or 2) with energy or unbundled (Category 3). One REC is associated with 1 MWh of eligible renewable energy procurement; 1,000 RECs with 1 gigawatt-hour (GWh), and so forth.

² An Investor Owned Utility may produce more eligible renewable generation in a given compliance period than is needed to meet its Renewable Portfolio Standard (RPS) procurement obligation. Such qualifying "excess" procurement may then be "banked," or applied towards RPS procurement obligations in future compliance periods. Decision (D.) 12-06-038, issued June 27, 2013, at 14.

high prices in these REC PSAs will impose an unnecessary cost burden on ratepayers.

BACKGROUND

On October 10, 2013, PG&E submitted ALs 4299-E, 4300-E, and 4301-E for the purchase of a total of 1,094,500 RECs.³ The PSAs are for 10-year terms and they set delivery on the date of Commission approval in 2014.⁴

PG&E’s renewable net short (RNS) and alternative RNS calculations indicate that if PG&E’s Renewables Portfolio Standard (RPS) portfolio performs as expected, then PG&E will have a significant incremental need beginning in 2020 and beyond to maintain the 33% RPS level.⁵ In addition, PG&E seeks to mitigate future risks of project failures and delays.⁶ PG&E therefore banks surplus RPS procurement and seeks to maintain the bank by procuring long-term RECs such as the ones in these three PSAs. PG&E shortlisted Sterling Planet PSA from the 2012 PG&E RPS annual solicitation and developed two PSAs - Iberdrola Renewables and NextEra Energy Power Marketing - via bilateral negotiations.⁷ The following table summarizes the three PSAs:⁸

Project Name	Advice Letter	Levelized REC Price	Quantity of RECs
Sterling Planet, LLC	AL 4299-E	\$3.34 (\$2.80 for the first year, \$10.90 for years 2 - 10)	500,000
Iberdrola Renewables, LLC	AL 4300-E	\$2.25 (\$1.90 for the first year, \$3 to \$12 for years 2 to 10)	149,500
NextEra Energy Power Marketing, LLC	AL 4301-E	\$2.37 (\$1.88 for year 1, \$7 to \$10 for years 2 to 10)	445,000

PG&E states that its request for offer (RFO) team acknowledged that compared to Sterling Planet, there might be less expensive RECs on the market.⁹ Accordingly, PG&E negotiated with Sterling Plant while simultaneously approaching other major marketers of RECs to solicit competing proposals for ten-year PSAs. As a result of bilateral negotiations, PG&E signed contracts with Iberdrola and NextEra.¹⁰

³ PG&E AL 4299-E at 5; PG&E AL 4300-E at 4; PG&E AL 4301-E at 4.

⁴ PG&E AL 4299-E at 1; PG&E AL 4300-E at 1; PG&E AL 4301-E at 1.

⁵ PG&E AL 4299-E at 5; PG&E AL 4300-E at 5; PG&E AL 4301-E at 5.

⁶ PG&E AL 4299-E at 6; PG&E AL 4300-E at 6; PG&E AL 4301-E at 6.

⁷ PG&E AL 4299-E at 2, 9; PG&E AL 4300-E at 2; PG&E AL 4301-E at 2.

⁸ PG&E AL 4299-E at D4; PG&E AL 4300-E at D7-D8; PG&E AL 4301-E at D7.

⁹ PG&E AL 4299-E at A61.

¹⁰ Id.

DISCUSSION & RECOMMENDATION

ORA protests and recommends that the Commission deny approval of ALs 4299-E, 4300-E, and 4301-E because: (1) PG&E has not shown that an additional bank is necessary, and (2) the REC PSAs are high priced.

A. THE COMMISSION SHOULD DENY ALs 4299-E, 4300-E, AND 4301-E BECAUSE PG&E HAS NOT PROVEN A NEED FOR OR SUFFICIENT VALUE FROM ADDITIONAL BANKING

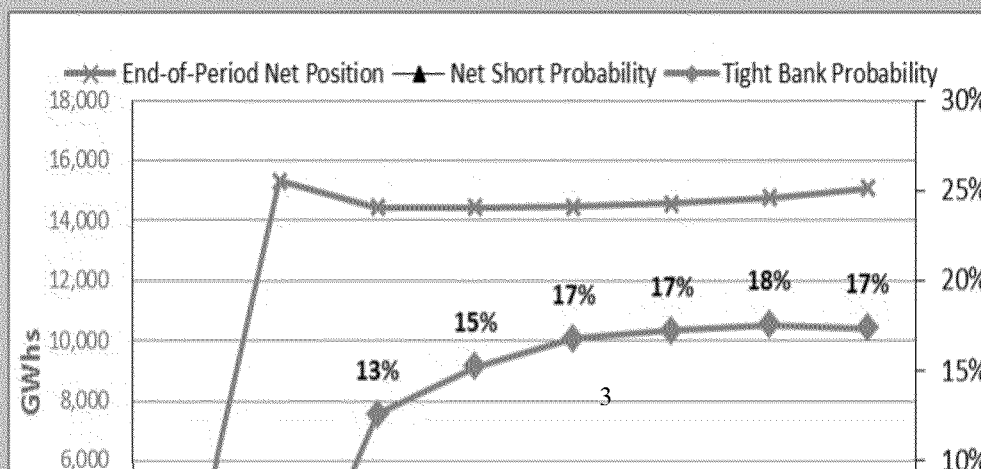
1. PG&E has not justified adding 1,000 GWh of RECs to its already sizable bank

PG&E’s RNS forecasts that PG&E will have a cumulative bank of 20,919 GWh by the end of 2020.¹¹ PG&E has not demonstrated the need to add an additional 1,000 GWh to this already sizable bank, which is equivalent to approximately an entire year’s worth of PG&E’s RPS procurement obligation.¹² In fact, according to the Independent Evaluator (IE), these contracts are “expected to exacerbate PG&E’s overprocurement of RECs for the first several years” of their 10 year terms, and fit “poorly into the utility’s portfolio needs.”¹³ In other words, when considering PG&E’s own 2012 RPS RFO metric for measuring the fit of the timing of deliveries “with the utility’s... need, the Sterling Planet PSA ranks low.”¹⁴ The Iberdola and NextEra PSAs, which are structured similarly to the Sterling Planet PSA and deliver most of their RECs in 2013, would also fit poorly into PG&E’s RPS portfolio needs.

PG&E did not adequately justify the quantifiable benefit of procuring 1,000 GWh of RECs in Confidential Appendix H of each of the ALs. PG&E calculates the probability that it will experience a net short or have “a tight Bank (i.e. less than 8,000 GWh)” based on its RNS and a Monte Carlo simulation model with 10,000 randomized scenarios.¹⁵ PG&E’s results are shown below, in Figure 3.

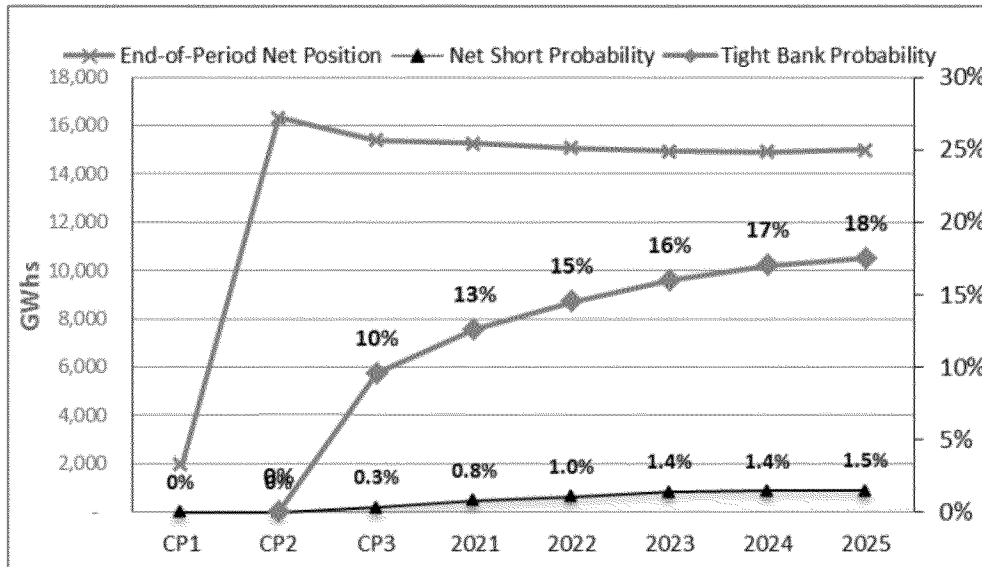
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Figure 3
Expected Net Position and Probabilities of Net Short and Tight Bank Using Adaptive Procurement



According to PG&E’s methodology, an additional 1,000 GWh of banked procurement, which these PSAs represent, would reduce the probability of a net short by 0.3 percent and tight bank by three percent in Compliance Period 3, as shown in Figure 4.

Figure 4
Expected Net Position and Probabilities of Net Short and Tight Bank Using Adaptive Procurement after Adding 1000GWh of Fixed Volumes to Bank



¹⁷

However, PG&E fails to demonstrate that the value to ratepayers of reducing the risk of a Compliance Period 3 net short or tight bank by 0.3 and 3 percent, respectively, is greater than or equal to the cost of \$3 million (the approximate total nominal cost of these PSAs). In other words, PG&E has not shown that the cost of these purchases is justified by the associated reduction in risk. In addition, purchasing RECs to reduce risk in 2020 actually *increases* risk of a net short or tight bank five years later in 2025.

While PG&E described in Confidential Appendix H of ALs 4299-E, 4300-E, and 4301-E many qualitative benefits associated with banked procurement, PG&E did not show there is current, specific risk of banked procurement falling below 8,000 GWh, PG&E’s definition for a “tight bank” and therefore a need for additional procurement. PG&E does not justify the cost associated with increasing PG&E’s current bank from 20,919 GWh to 21,919 GWh with a commensurate increase in ratepayer value. PG&E has not justified the need for these PSAs in PG&E’s portfolio and should therefore be rejected.

¹⁷ AL-4299-E, Appendix H, at H10.

2. PG&E does not demonstrate that these REC PSAs will minimize costs and maximize ratepayer value compared to other banking or procurement strategies

In its 2013 RPS Procurement Plan, PG&E states that minimizing customer costs was a goal of its RPS Portfolio Optimization Strategy.¹⁸ PG&E does not demonstrate how the costs of maintaining a bank of over 20,000 GWh, much less adding to it, is a better value for ratepayers relative to the other strategies available to PG&E for optimizing its RPS procurement. Some alternatives include:

- Adjusting its annual procurement goals, as PG&E is currently doing in response to load migration;¹⁹
- Amending, extending, or renewing existing contracts;
- Negotiating long-term bilateral contracts with later starting dates than the proposed PSAs and/or different categories of procurement;
- Negotiating short-term bilateral contracts with later starting dates than the proposed PSAs and/or different categories of procurement; or
- Reducing its projected levels of banked RPS procurement.

In contrast to increasing PG&E's already considerable REC bank, which incurs early and ongoing costs for contingencies that may never materialize, these alternatives would generally incur costs closer to when there is an actual need. PG&E did not indicate that it evaluated alternatives or provided evidence that adding to its bank with these three REC PSAs is a preferable choice when trying to minimize ratepayer costs. Therefore, the Commission should not approve ALs 4299-E, 4300-E, and 4301-E.

3. PG&E's methodology is flawed and therefore cannot accurately determine the net value of the PSAs

Even if PG&E could demonstrate that these REC PSAs have a positive net value and that they are PG&E's best choice for meeting its RPS procurement obligations based on its methodology described in Confidential Appendix H, the methodology contains several flaws. Generally, these flaws artificially increase RNS or exaggerate its need for banked procurement, all of which inflate the value of the PSAs proposed in ALs 4299-E, 4300-E, and 4301-E.

The RNS, and therefore PG&E's methodology (which is based on the RNS) for calculating risk and need, unrealistically assumes no recontracting with existing renewable generation.²⁰ ORA

¹⁸ PG&E's 2013 RPS Draft Procurement Plan, submitted June 28, 2013, at 65.

¹⁹ PG&E's 2013 RPS Draft Procurement Plan, submitted June 28, 2013. At 34.

²⁰ Current RNS calculations are based on Administrative Law Judge's Ruling (1) Adopting Renewable Net Short Calculation Methodology (2) Incorporating the Attached Methodology Into the Record, and (3)

believes it highly unlikely that PG&E will not recontract with any renewable generation and therefore have the level of need currently calculated by the RNS.

In determining if these largely Compliance Period 1, Category 3 REC PSAs have a positive net value, PG&E chose to compare them to Category 1 procurement beginning near the end of Compliance Period 3 (2019-2020), instead of Category 3 procurement from Compliance Period 2 or 3. But the IE

“[did] not find it particularly helpful to compare the PAV [portfolio-adjusted value] of this REC-only contract to recent proposals for Category 1 deliveries such as proposals to PG&E’s most recent RAM [Renewable Auction Mechanism] RFO [Request for Offers] or the 2012 RPS RFO. The products are quite different, particularly in the degree of freedom for which they can be used for RPS compliance.”²¹

ORA agrees. Were PG&E to compare these REC PSAs to Category 3 procurement from Compliance Period 2 or 3, due to the generally lower price of Category 3 procurement compared to the price of Category 1 procurement, the net value would likely be lower, if not negative, potentially resulting in ratepayer harm rather than benefit.

PG&E’s methodology also overstates its banking need to mitigate project failures, delays, and curtailment. The methodology fails to account for projects that come online ahead of schedule, which exaggerates PG&E’s need for banked procurement. Regarding its stated need to deal with renewable curtailment variability, PG&E asserts, but does not explain, why a 42 percent increase in the RPS target (from 23.3 percent in 2015 to 33 percent in 2020) would result in double (100 percent more) the amount of renewables curtailed, and thus an accordingly greater need for banked procurement.²² PG&E’s fails to explain how it arrived at the conclusion that this RPS procurement increase will result in two and a half times the amount of expected renewable curtailment in the same time period.

Extending the Date For Filing Updates to 2012 Procurement Plans, issued August 2nd, 2012. Attachment A, at 4: “Do not assume any generation from contracts that are expiring (i.e., recontracting) or any generation after a facility’s useful life if the contract does not extend after the term of the facility’s useful life.”

²¹ AL-4299-E at A-70.

²² AL-4299-E, Appendix H at H6.

ORA believes PG&E's methodology for calculating the need and net value of additional banked procurement does not produce accurate results and should not be relied upon to evaluate the need and net value of additional banked procurement. For these reasons, the Commission should reject the ALs.

**B. THE COMMISSION SHOULD DENY ALs 4299-E, 4300-E, AND 4301-E
BECAUSE THE PRICES OF THESE PSAs ARE HIGH**

- 1. The REC PSA prices proposed in ALs 4300-E, 4301-E and particularly 4299-E are high, particularly compared to market prices in Compliance Periods 1 and 2**

CONCLUSION

For the above reasons, DRA recommends that the Commission deny approval of ALs 4299-E, 4300-E, and 4301-E. Please contact David Siao at dsl@cpuc.ca.gov or (415) 703-5251 with any questions regarding these comments.

/s/ Chloe Lukins

Chloe Lukins,
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Cc: Brian Cherry
PG&E Tariffs