

ORA

Office of Ratepayer Advocates California Public Utilities Commission

> JOSEPH P. COMO Acting Director

505 Van Ness Avenue San Francisco, California 94102 Tel: 415-703-2381 Fax: 415-703-2057 http://ora.ca.gov

October 30, 2013

(PUBLIC VERSION)

CPUC, Energy Division Attention: Tariff Files, Room 4005 505 Van Ness, Avenue San Francisco, CA 94102 EDTariffUnit@cpuc.ca.gov

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.

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.

• 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 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. In addition, PG&E seeks to mitigate future risks of project failures and delays. 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. The following table summarizes the three PSAs:

Project Name	Advice Letter	Levelized REC Price	Quantity of RECs
Sterling Planet,	AL 4299-E	xxxxxxxxxxxxxxxxxx	500,000
LLC			
Iberdrola	AL 4300-E	xxxxxxxxxxxxxxxxxx	149,500
Renewables,			
LLC			
NextEra Energy	AL 4301-E	xxxxxxxxxxxxxxxxxx	445,000
Power			
Marketing, LLC			

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.² Accordingly, PG&E negotiated with Sterling Plant while simultaneously approaching other major marketers of RECs to solicit

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.

² 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.

competing proposals for ten-year PSAs. As a result of bilateral negotiations, PG&E signed contracts with Iberdrola and NextEra.¹⁰

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

¹⁰ Id.

¹¹ PG&E's 2013 RPS Draft Procurement Plan, submitted June 28, 2013. Appendix 1, at 1.

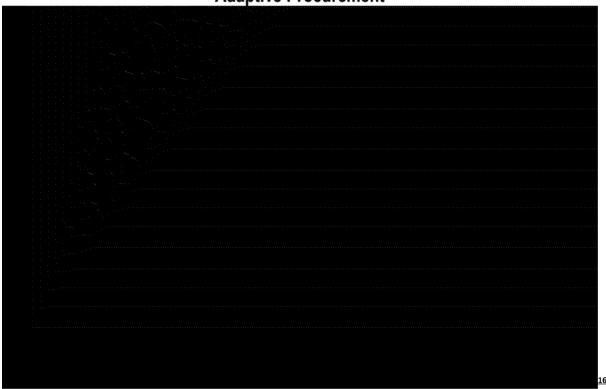
¹² PG&E AL-4299-E at 7.

¹³ PG&E AL-4299-E at A-71, PG&E AL-4300 at A-72, PG&E AL-4301 at A-71.

¹⁴ AL-4299-E at A-71.

¹⁵ AL-4299-E, Appendix H, at H5 and H7. "PG&E selected 8,000 GWh as a threshold based on an

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



assessment of variability in the amount of RPS generation net of RPS compliance targets over five years." At H8.

¹⁶ AL-4299-E, Appendix H, at H10.

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



xxxxx 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. 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;
- 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

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) Extending the Date For Filing Updates to 2012 Procurement Plans, issued August 2nd, 2012. Attachment

xxxxxxxx unrealistically assumes no recontracting with existing renewable generation. ORA 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.

"[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

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.

xxxxxxxxxxxx in the same time period.

xxxxxxxx does not produce accurate results and should not be relied upon to evaluate 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

 $^{^{22}}$ AL-4299-E, Appendix H at H6.

The following table summarizes the price and quantity of the REC PSAs:

Project Name	Advice Letter	Year	Levelized	Quantity of RECs
			Price/REC	
Sterling Planet,	AL 4299-E	1	Xxxxxxxxxxx	XXXXXXXXXXXX
LLC		2	xxxxxxxxxxx	xxxxxxxxxxx
		3	xxxxxxxxxxx	xxxxxxxxxxx
		4	XXXXXXXXXXXX	XXXXXXXXXXXX
		5	XXXXXXXXXXXX	XXXXXXXXXXXX
		6	xxxxxxxxxxx	xxxxxxxxxxx
		7	xxxxxxxxxxx	xxxxxxxxxxx
		8	XXXXXXXXXXXX	XXXXXXXXXXXX
		9	xxxxxxxxxxx	xxxxxxxxxxx
		10	xxxxxxxxxxx	XXXXXXXXXXXX
Iberdrola	AL 4300-E	1	xxxxxxxxxxx	xxxxxxxxxxx
Renewables, LLC		2	xxxxxxxxxxx	xxxxxxxxxxx
		3	xxxxxxxxxxx	xxxxxxxxxxx
		4	xxxxxxxxxxx	XXXXXXXXXXXX
		5	xxxxxxxxxxx	XXXXXXXXXXXX
		6	xxxxxxxxxxx	XXXXXXXXXXXX
		7	xxxxxxxxxxx	xxxxxxxxxxx
		8	xxxxxxxxxxx	xxxxxxxxxxx
		9	xxxxxxxxxxx	xxxxxxxxxxx
		10	xxxxxxxxxxx	xxxxxxxxxxx

²³ AL-4299-E, Appendix A, at A-61.

1. The REC PSA prices proposed in ALs 4299-E, 4300-E, and 4301-E do not capture all of the costs associated with the RECs being purchased

Nominally, the total cost of the three proposed PSAs are xxxxxxxxxxxxxxxx. However, PG&E did not include the carrying costs of these PSAs, which is the cost of buying and holding these RECS until PG&E has a need for them. As the IE stated,

"If PG&E were to apply its weighted average cost of capital of 7.6% as a measure of the time value of money to contract year 1 purchases, the carrying cost would add more than 50% to the cost of those RECs if held to 2020. This contrasts to PG&E's recent strategy of contracting in 2013 for Category 1 deliveries starting in 2019 and 2020 with payments beginning upon initial energy deliveries." ²⁷

In other words, the real cost of these contracts is closer to xxxxxxxxxxxxxxx. In addition to the carrying cost, there may be other real and substantial costs to maintaining or adding to PG&E's banked procurement, which need to be fully identified and calculated.

²⁶ AL-4299-E, atH11.

²⁷ AL-4299-E, IE Report, at A-72.

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 ds1@cpuc.ca.gov or (415) 703-5251 with any questions regarding these comments.

/s/ Chloe Lukins

Chloe Lukins,
Program Manger

Cc: President Michael Peevey, CPUC
Commissioner Carla Peterman, CPUC
Commissioner Michel Florio
Commissioner Catherine Sandoval, CPUC
Commissioner Mark Ferron, CPUC
Karen Clopton, Chief Administrative Law Judge, CPUC
Paul Douglass, CPUC Energy Division
Jason Simon, CPUC Energy Division
Adam Schultz, CPUC Energy Division
Joseph Abhulimen, CPUC ORA
Karin Hieta, CPUC ORA
David Siao, ORA
Iryna A. Kwasny
Service Lists in R.11-05-005 and R.12-03-014