

BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Continue
Implementation and Administration of
California Renewables Portfolio Standard
Program

Rulemaking 11-05-005
(Filed May 5, 2011)

REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON THE
PROPOSED DECISION OF ALJ DEANGELIS CONDITIONALLY ACCEPTING
2013 RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS



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Pursuant to Rule 14.3 of the Commission Rules of Practice and Procedure, TURN submits these reply comments on the Proposed Decision (PD) of ALJ De Angelis on the 2013 Renewables Portfolio Standard (RPS) procurement plans. TURN responds to the opening comments of Pacific Gas & Electric (PG&E) company.

**I. PG&E’S REQUEST TO PROCURE CATEGORY 3 PRODUCTS FOR THE
SUPPOSED PURPOSE OF “BUILDING AND MAINTAINING AN
ADEQUATE BANK” SHOULD BE REJECTED**

PG&E takes issue with the PD’s rejection of its proposal to procure volumes of Category 3 products for the stated purpose of “building and maintaining an adequate bank.”¹ In an effort to save its proposal, PG&E “now proposes to revise its banking strategy to solicit RPS agreements that would result in procurement of bankable products equivalent to no more than 2,400 GWh in total.”² This last-minute attempt to limit total procurement quantities, which would still permit one-year procurement of Category 3 products equal to more than 3% of retail sales, should be denied.

TURN strongly opposes PG&E’s efforts to procure large volumes of short-term Category 3 products for the supposed purpose of acquiring an adequate compliance bank. To the extent that PG&E wishes to enhance its compliance position through additional procurement, TURN recommends that this effort be focused on long-term contracts for the bundled output from attractively-priced projects that can achieve commercial operational prior to the expiration of the current Investment Tax Credit

¹ PG&E opening comments, page 5.

² PG&E opening comments, page 5.

and Production Tax Credit. PG&E should not be permitted to ignore these near-term contracting opportunities with new facilities in favor of short-term purchases of surplus unbundled Renewable Energy Credits (RECs) from existing projects.

Contrary to PG&E's claims, there is no evidence that its proposed Category 3 product procurement will actually be used to develop a bank. While seeking authority to conduct this procurement, PG&E has also simultaneously indicated its desire to "sell bankable surpluses if it can still maintain adequate bank and prices are attractive."³ As a result, PG&E may be seeking permission to acquire short-term Category 3 resources so it can sell Category 1 resources to other RPS-obligated load-serving entities. Based on its own procurement plan, there is no evidence that authorizing PG&E to procure up to 2,400 GWh of Category 3 products would have any impact on its overall level of banked compliance.

The Commission should also ignore PG&E's claim that granting the approval it seeks will not yield executed transactions but instead would "simply allow PG&E to seek offers and thereby indicate to the market the potential demand for such products."⁴ PG&E is not requesting this authority merely to conduct price discovery or to test communication channels. As the Commission is aware, PG&E recently submitted three unbundled REC contracts for approval based on the assumption that the Commission would endorse its overall RPS procurement plan.⁵ Since these contracts were the result of aggressive outreach by PG&E and two of the agreements were reached on a bilateral basis, PG&E appears to have demonstrated that the market can respond to such overtures.

PG&E now wants the Commission to endorse a procurement target of 2,400 GWh for Category 3 products. There should be little doubt that PG&E intends to execute

³ PG&E RPS procurement plan, pages 36-37.

⁴ PG&E opening comments, page 6.

⁵ PG&E AL 4299-E, AL 4300-E, AL 4301-E.

contracts for these volumes and submit such contracts for Commission approval. If granted the relief sought in this decision, PG&E will assert that the question of “need” has been settled and the only remaining issue relates to cost of individual contracts. Unfortunately, PG&E’s efforts to demonstrate the cost-effectiveness of its recent Category 3 contracts were limited to a comparison with other Category 3 product offer prices. TURN submits that this narrow exercise in “detailed analysis” is flawed.⁶ As explained in TURN’s recent protest to an example of this “detailed analysis”, PG&E overlooks the possibility that a Category 1 product could provide superior value.

The Commission should not make any changes to the PD based on PG&E’s opening comments and should reject PG&E’s attempt to modify its request at this late date.

II. PG&E’S REQUEST TO ASSIGN FUTURE SYSTEM INTEGRATION COSTS TO COUNTERPARTIES IS FUNDAMENTALLY FLAWED

PG&E seeks authority to assign yet-to-be determined system integration costs to its contractual counterparties.⁷ This proposal stems from PG&E’s belief that the Commission’s delay in approving a least-cost best-fit integration adder indicates a lack of seriousness regarding the measurement of such costs. PG&E seeks to address this perceived failure by forcing some or all counterparties to accept this unknown cost risk as a condition of receiving an executed procurement contract. PG&E claims that the reasonableness of any final contract provisions should only be addressed when an executed contract is submitted for Commission approval.⁸

TURN urges the Commission to prohibit PG&E from requiring its counterparties to accept integration cost risk. PG&E’s proposal is unworkable for the same reason that

⁶ PG&E opening comments, page 7, footnote 19.

⁷ PG&E opening comments, page 13.

⁸ PG&E opening comments, pages 13-14.

unlimited curtailment risk cannot be assigned to developers. There is little question that unbounded risk will not be practically assignable to developers of new projects without huge price premiums. In effect, developers will be forced to raise their prices to accommodate a worst-case scenario outcome in order to ensure that they can attract investment capital on reasonable terms. Any executed contracts will result in ratepayers bearing 100% of the worst-case scenario forecasts through higher prices. In the event that quantified system integration costs are below the worst-case outcome assumed in the contract price, developers would realize the benefit of this delta.

The Commission should recognize the fact that efforts to assign unknown cost risks to counterparties will likely prevent many contracts from being executed at reasonable prices (or at all). Moreover, allowing PG&E to push such terms would establish a strong bias in favor of the procurement of unbundled RECs given the absence of any associated energy subject to integration costs. The Commission should avoid adopting any policy establishing such an embedded preference.

TURN urges the Commission to reject PG&E's proposals on these issues and to adopt the PD without any of the modifications sought by PG&E.

Respectfully submitted,

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VERIFICATION

I, Matthew Freedman, am an attorney of record for THE UTILITY REFORM NETWORK in this proceeding and am authorized to make this verification on the organization's behalf. The statements in the foregoing document are true of my own knowledge, except for those matters which are stated on information and belief, and as to those matters, I believe them to be true.

I am making this verification on TURN's behalf because, as the lead attorney in the proceeding, I have unique personal knowledge of certain facts stated in the foregoing document.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on November 12, 2013, at San Francisco, California.

_____/s/_____

Matthew Freedman
Staff Attorney