

**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)

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)  
REPLY TO OPENING COMMENTS ON REVISED STAFF PROPOSAL AND  
ALTERNATIVE PROPOSALS FOR A METHODOLOGY TO IMPLEMENT  
PROCUREMENT EXPENDITURE LIMITATIONS FOR THE RENEWABLES  
PORTFOLIO STANDARD PROGRAM**

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Pacific Gas and Electric Company ("PG&E") respectfully submits this reply to parties' opening comments on the *Administrative Law Judge's Ruling Requesting Comments on Revised Staff Proposal and Updated Alternative Proposals for a Methodology to Implement Procurement Expenditure Limitations for the Renewables Portfolio Standard Program* ("Ruling"), issued February 20, 2014. The Ruling presented a revised proposal by Energy Division Staff (the "Revised Staff Proposal") for a methodology to implement a Procurement Expenditure Limit ("PEL")<sup>1/</sup> for the RPS Program. The Ruling also requested comments on revised alternative proposals presented by: (1) Southern California Edison Company ("SCE"), the California Large Energy Consumers Association ("CLECA"), the Energy Producers and Users Coalition ("EPUC"), and the California Manufacturers and Technology Association ("CMTA") (the "Joint Parties Proposal"); (2) The California Wind Energy Association ("CalWEA") (the "CalWEA Proposal"); and (3) L. Jan Reid (the "Reid Proposal").

PG&E's reply focuses on the comments parties made with respect to the five general principles that PG&E recommended in its opening comments. PG&E also replies to requests

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<sup>1/</sup> See Cal. Pub. Util. Code §§ 399.16(c)-(f).

from electric service providers (“ESPs”), PacifiCorp, and Bear Valley Electric Service (“BVES”) for special treatment in implementation of the PEL.

**I. THE PEL METHODOLOGY SHOULD BE BASED UPON AN IOU’S PHYSICAL NET SHORT CALCULATION RATHER THAN ASSUMING AN ARBITRARY OR HYPOTHETICAL UTILIZATION OF BANKED RECS.**

Two parties, joined by PG&E, commented on the appropriate Renewable Net Short (“RNS”) methodology that an IOU should use when calculating its PEL. SCE recommended that “each IOU should be able to apply the same RNS methodology used for the IOU’s procurement strategy.”<sup>2/</sup> When read in the context of SCE’s broader comments on the use of the RNS methodology, it appears that SCE supports the ability of each IOU to determine the most appropriate RNS calculation methodology to use in setting a PEL. In particular, SCE implies that the RNS methodology proposed by Energy Division Staff in a separate track of this proceeding, which would utilize an IOU’s bank evenly across a rolling 10-year period, is not an appropriate basis for setting a PEL.<sup>3/</sup> San Diego Gas & Electric Company (“SDG&E”) assumes that the Revised Staff Proposal on the PEL incorporates the most recent Staff RNS Proposal, including the utilization of forecasted bank, evenly, over a ten-year period.<sup>4/</sup> While SDG&E describes a disadvantage of the proposal, SDG&E also states that use of the Staff RNS Proposal could result in a reduction to the PEL budget and thereby implies that actual procurement based upon the use of the bank according to the Staff RNS Proposal could lead to lower RPS procurement expenditures.<sup>5/</sup>

PG&E agrees with SCE that IOUs should not be required to calculate a PEL using an optimized net short calculation that includes assumptions regarding utilization of a bank. PG&E disagrees, however, with SDG&E’s implication that using the Staff RNS Proposal would necessarily result in lower total RPS procurement expenditures in the long-term. Specifically,

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<sup>2/</sup> SCE Opening Comments at 8.

<sup>3/</sup> *Id.* at 8-9.

<sup>4/</sup> SDG&E Opening Comments at 5.

<sup>5/</sup> *Id.* at 5-6.

and as more fully discussed in PG&E's comments on the Staff RNS Proposal,<sup>6/</sup> any actual procurement strategy that required PG&E to use or sell its bank over a ten-year period could result in leaving PG&E's customers imprudently exposed to unfavorable market conditions and could force PG&E to rebuild the bank balance that it needs to manage supply and demand variability at a higher total cost. Thus, while actual utilization of a bank according to the Staff RNS Proposal's assumptions may reduce the PEL Budget in a particular period, the need to rebuild the bank in the subsequent PEL periods may result in higher total RPS costs and result in nothing more than inter-period cost shifting.

More generally, the Commission should consider only an IOU's physical RNS position when calculating a PEL. A physical RNS would be based solely upon actual and forecasted<sup>7/</sup> deliveries from the IOU's utility-owned generation and contractual and regulatory commitments<sup>8/</sup> to procure RPS generation, without assuming utilization of the bank or sales during the PEL period. This will avoid forcing an IOU to imprudently and unreasonably utilize its bank in a way that is not cost-effective.

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<sup>6/</sup> Opening and Reply Comments of PG&E regarding the *Staff Proposal for Revising the Methodology Used to Calculate the Renewable Net short for Procurement to Meet the California RPS*, filed March 19, 2014 and March 26, 2014, respectively, in Rulemaking 11-05-005.

<sup>7/</sup> PG&E notes that a physical RNS calculation would include adjusting the forecasted deliveries from resources based upon an IOU's risk adjustment methodology. Thus, adoption of PG&E's proposal would address the Office of Ratepayer Advocate's ("ORA") concern that "[a]dding the costs associated with a fully successful portfolio in the committed RPS expenditures portion of the PEL to a short position that assumes a certain amount of product failure in the RNS portion of the PEL, overstates the utility's future procurement levels and the associated costs." ORA Opening Comments at 3. Under PG&E's proposal, the physical RNS, including risk adjustments, would be used to estimate committed costs and also to estimate the size of the remaining short position.

<sup>8/</sup> "Regulatory commitments" are Commission-approved mandatory RPS procurement programs like the Renewable Auction Mechanism ("RAM") and the Renewable Market Adjusting Tariff ("Re-MAT"). "Contractual commitments" are all executed agreements for the sale or purchase of RPS-eligible products at the time of the RNS calculation.

## II. THE COMMISSION SHOULD ADOPT A PEL METHODOLOGY THAT ALLOWS FOR NEW VINTAGES OF THE PEL TO BE ESTABLISHED EVERY TWO YEARS.

PG&E agrees with the Independent Energy Producers Association (“IEP”) that “the Commission operates in a world in which political, environmental, and economic realities change constantly.”<sup>9/</sup> PG&E also agrees with IEP that “[i]mposing rigid rules on procurement practices in a dynamic environment could result in undue delay that could threaten the state's ability to achieve its RPS, greenhouse gas emissions reduction, and other policy objectives.”<sup>10/</sup> The Green Power Institute (“GPI”) similarly notes that the renewables market is “still rapidly evolving, and extending the refresh rate out too far could serve to inhibit innovation.”<sup>11/</sup> For that reason, GPI prefers that the PEL be refreshed more often than every 4 years, as proposed by Staff.<sup>12/</sup>

It is precisely because of these changing market and regulatory conditions that PG&E proposed that a new PEL should be established every two years. Issuing new vintages of a PEL at that frequency will allow the Commission to capture the market and regulatory dynamics that IEP raises, will further the Ruling’s Guiding Principle of encouraging portfolio optimization<sup>13/</sup> by ensuring that actual procurement undertaken in furtherance of approved optimization strategies is reflected in subsequent PELs.

Importantly, each new vintage of a PEL should overlap and be simultaneously effective with any prior vintages of the PEL that remain in effect. Thus, the Commission should issue a new 10-year PEL for each IOU every two years, and, at any one time, an IOU may be subject to up to five separate PELs. The continuing effectiveness of the earlier vintage PELs is necessary in order to ensure true cost containment. If subsequent PELs simply replace the earlier PELs, an

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<sup>9/</sup> Opening Comments of IEP at 7.

<sup>10/</sup> *Ibid.*

<sup>11/</sup> GPI Opening Comments at 5.

<sup>12/</sup> *Ibid.*

<sup>13/</sup> Ruling at 4.

IOU would only ever be subject to the first two years of a 10-year budget, meaning that it would almost certainly not ever approach its total PEL budget. On the other hand, if a subsequent PEL merely updates the remaining years of a prior PEL, as the Revised Staff Proposal appears to suggest, then the PEL will not serve to protect customers against disproportionate rate impacts as the Legislature intended; if a PEL is mechanically updated to account for actual costs that are higher than the original forecasted costs, then the PEL for an IOU will simply grow larger when market prices move higher, without consideration for whether the higher actual costs are creating disproportionate rate impacts.

### **III. AN IOU’S PEL BUDGET SHOULD INCLUDE A “BUFFER” OF 2% OF THE IOU’S FORECASTED GENERATION REVENUE REQUIREMENT IN ORDER TO PREVENT DISPROPORTIONATE RATE IMPACTS.**

Several parties commented that the Revised Staff Proposal lacks clear, rational, and objective criteria for what will constitute a “disproportionate rate impact.”<sup>14/</sup> PG&E agrees that the Commission should adopt a PEL methodology that uses up-front criteria to clearly delineate between costs that are acceptable and those that would create a disproportionate rate impact. PG&E’s proposal for establishing a threshold for disproportionate rate impacts would fulfill the Commission’s statutory obligations while also addressing concerns raised by parties in opening comments.

As more fully described in PG&E’s opening comments, PG&E proposes that the PEL Budget be calculated in the same manner as proposed in the Revised Staff Proposal, with the key difference that PG&E would add 2% of an IOU’s annual Total Generation Revenue Requirement (“GRR”) in each future year of the applicable PEL period in which an IOU forecasts a physical

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<sup>14/</sup> See GPI Opening Comments at 4 (“[A]t some point, the PEL methodology needs to deal head-on with the issue of just what constitutes a disproportionate rate impact attributable to renewable energy procurement.”); *Id.* at 2 (“[T]he Revised Staff Proposal is not very specific about how it will use the PEL Ratio in making determinations of disproportionate rate impact.”); SCE Opening Comments at 9 (“SCE remains concerned about the lack of a clear tie between the PEL Ratio and actual rate impacts, as required by the statute for any procurement expenditure limitation adopted by the Commission.”) (citing Cal. Pub. Util. Code § 399.15(d)(1); SDG&E Opening Comments at 3 (“[T]he proposal does not include an explanation as to how disproportionate impacts will be measured or how this measure will then be applied to the PEL.”)).

RNS position. This 2% “buffer” represents a margin above the currently forecasted costs of compliance with the RPS targets that, when added to forecasted compliance costs, would be the maximum total RPS cost that could be incurred in a given PEL period without creating a disproportionately high impact to rates.

PG&E's proposed method for determining disproportionate rate impacts addresses IEP's concern with the Joint Parties Proposal, which was that the latter “does not take into account the forecast of future RPS costs associated with achieving and maintaining the 33% RPS standard.”<sup>15/</sup> PG&E’s proposed methodology, like the Staff methodology, assumes that all currently forecasted costs of achieving the 33% RPS standard are below the disproportionality threshold. Only under circumstances in which the committed costs of RPS compliance exceed the sum of both originally forecasted costs and 2% of GRR in all years in which an IOU has a physical RNS position would an IOU reach its PEL and have the option to limit incremental RPS procurement to products that have a “de minimis” impact on rates.

Similarly, PG&E's proposal responds to SCE’s concern that the Commission adopt an “exogenous benchmark, such as a comparison to non-RPS costs” in order to provide “a more meaningful, standardized, and reliable limitation.”<sup>16/</sup> Because PG&E's proposed disproportionality threshold is a buffer based upon all generation costs, including non-RPS costs, in each year in which an IOU has a physical RNS position, the threshold responds to SCE's desire for a benchmark that includes consideration of both RPS and non-RPS costs.

Finally, PG&E’s proposal responds to the Union of Concern Scientists’ (“UCS”) request for a methodology that “would calculate the expected costs of the RPS Program and then determine whether such costs would cause a disproportionate rate impact.”<sup>17/</sup> Because PG&E would include all committed costs and forecasted costs to fill its physical RNS position and then

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<sup>15/</sup> IEP Opening Comments at 9.

<sup>16/</sup> SCE Opening Comments at 10.

<sup>17/</sup> UCS Opening Comments at 4.



add a buffer on top of these costs to set a disproportionality threshold, the methodology inherently considers and includes the currently expected cost of RPS compliance.

**IV. PG&E'S PEL NOTIFICATION PROPOSAL WOULD PROVIDE THE COMMISSION AND STAKEHOLDERS FREQUENT AND USEFUL INFORMATION REGARDING AN IOU'S PEL STATUS.**

The opening comments indicate a high level of disagreement, potentially based upon confusion or different interpretations of the Revised Staff Proposal, regarding how an IOU would track and report the status of its expenditures relative to an established PEL. Accordingly, PG&E would like to clarify its proposed methodology for calculating the status of an IOU's expenditures relative to its PEL.

PG&E proposed that an IOU should file a Tier 1 Advice Letter to notify the Commission and stakeholders if the IOU reached 95% of its PEL. In order to calculate this percentage, PG&E would first calculate the PEL Budget (*i.e.*, the denominator in the percentage calculation<sup>18/</sup>) by adding the following four components:

1. Actual/historical RPS expenditures within the PEL period;
2. Cost forecasts made at the time of adoption of the PEL Budget that are associated with contractual and regulatory commitments<sup>19/</sup> and utility-owned RPS-eligible generation during the PEL period;<sup>20/</sup>

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<sup>18/</sup> Note that the ratio described in this section is different than the "PEL Ratio" discussed in the Revised Staff Proposal. PG&E is presenting this denominator and numerator as a way to calculate at any particular moment in time the status of an IOU's PEL, to be expressed as percentage that can be compared against the 95% notification trigger PG&E proposes and the 100% exhaustion trigger.

<sup>19/</sup> These commitments are defined above in footnote 8. Note also that the calculation of future commitments would reflect any risk adjustments in the physical RNS calculation to reflect the potential that contracts are cancelled or delayed.

<sup>20/</sup> This formula would include costs related to all RPS-eligible procurement by an IOU, and in this regard is counter to SDG&E's proposal that a PEL Budget should exclude RPS procurement authorized outside of the RPS Proceeding. SDG&E Opening Comments at 9. Any procurement that contributes to compliance with the RPS statute, whether authorized specifically for purposes of RPS compliance or authorized in another proceeding, should be included in the PEL Budget.

3. Cost forecasts made at the time of adoption of the PEL Budget to fill any identified physical RNS during the PEL period using an updated RPS Calculator's technology-specific Levelized Cost of Energy (LCOE);

4. 2% of GRR in any year during the PEL period in which the IOU has a physical RNS.

The numerator in the calculation would be the sum of the following:

1. Actual/historical RPS expenditures within the PEL period; and

2. Cost forecasts made at the time of the PEL status update that are associated with contractual commitments (*i.e.*, all executed contracts)<sup>21/</sup> and utility-owned RPS-eligible generation during the PEL period.

Thus, the percentage ratio would compare expenditures made or currently forecasted to be made from actual commitments against all expenditures originally forecasted to be needed to meet the RPS targets, including a buffer that would allow actual cost to rise until they create a disproportionate rate impact.

Under PG&E's proposal, as an IOU incrementally procures to fill any open position during a ten-year PEL period, those committed costs, both actual and forecast, would increase the numerator and therefore the percentage of the PEL budget that is accounted for. An IOU would be able to calculate this ratio at any particular moment in time, and, as proposed by Staff, PG&E envisions that the current ratio would be reported whenever an IOU files for approval of an incremental purchase or sale transaction and in each RPS Procurement Plan filing. As mentioned above, PG&E proposes that an IOU would file a Tier 1 Advice Letter when the ratio reaches 95% of the PEL Budget, and the IOU would file a further Tier 2 Advice Letter if and when its actual committed costs reach 100% of the PEL budget. As PG&E noted in opening comments, the Tier 2 Advice Letter would provide an opportunity for the IOU to describe its compliance strategy going forward, including potentially a request for a waiver of RPS requirements, its plan to demonstrate that it has sought to procure additional quantities of RPS

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<sup>21/</sup> Note also that the calculation of future commitments would reflect any risk adjustments in the physical RNS calculation to reflect the potential that contracts are cancelled or delayed.

products that would have a “de minimis” impact on rates, and/or its proposal to voluntarily continue to procure RPS products that would cause more than a “de minimis” impact on rates.

PG&E does not support ORA’s alternative recommendation that an IOU should file a Tier 3 Advice Letter when it either (1) reaches 90% of its PEL or (2) when it forecasts that it may not be able to meet RPS requirements within the PEL Budget.<sup>22/</sup> First, to the extent ORA is proposing as part of the second criterion that an IOU file a Tier 3 Advice Letter any time its total forecasted RPS expenditures to meet RPS requirements (including costs associated with any remaining physical RNS) exceed an established PEL budget, such an approach would likely lead to “false positive” filings that would be both burdensome and misleading. In fact, an IOU would be required to file a Tier 3 Advice Letter when even one contract was amended to have a higher price or if the RPS Calculator was updated to increase the forecast LCOEs associated with any open position. Because RPS price forecasts are highly uncertain, any trigger under the PEL should be based solely on committed costs, which are far more certain than the forecasted costs associated with filling a net open position.

Second, and more generally, a Tier 3 Advice Letter is inappropriate for a filing that would be almost certain to occur, whether or not an IOU is at substantial risk of exhausting its PEL prior to meeting its RPS requirement. Unless the future cost of contracts to fill an open position are dramatically lower than originally forecasted, one would expect an IOU to reach ORA’s 90% threshold prior to the end of the PEL period. That, in itself, would not indicate anything unusual or problematic. Thus, the Commission should not require a Tier 3 proceeding simply based on ORA’s proposed 90% threshold.

PG&E believes that its proposal, which includes frequent status updates in advice filings, each RPS plan, and a Tier 1 Advice Letter notification at 95% of the PEL Budget, provides ample opportunity for stakeholders to be apprised of the cost impacts of the RPS program and to

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<sup>22/</sup> ORA Opening Comments at 5.

have an opportunity to comment on an IOU's strategy to manage its remaining PEL budget before it reaches a PEL cap.<sup>23/</sup>

PG&E also submits that its proposed notification and status update process would be clearer and more useful than the process outlined by SCE. SCE recommends "a process that monitors how much an IOU has spent of its PEL Budget in comparison to what portion of time has passed in the period to which the budget applies."<sup>24/</sup> To the extent that SCE is proposing a simple comparison of RPS expenditures to the time remaining in the PEL period, PG&E's proposal would sufficiently serve this purpose. PG&E's percentage, calculated using the formula above, would show the status of an IOU's committed expenditures against its total PEL budget. The Commission and other stakeholders could easily calculate the amount of time remaining in a given PEL period whenever the procurement status is updated, and PG&E has no objection to noting the time remaining in each PEL period whenever it provides a PEL status update.

**V. THE COMMISSION SHOULD NOT LINK STATUTORY WAIVER PROVISIONS AND NEED NOT REVISIT THE PCIA IF A PEL IS TRIGGERED.**

The Alliance for Retail Energy Markets ("AReM") focuses its comments on how to avoid potential competitive market impacts if an IOU is excused from its RPS obligations because it reached a PEL.<sup>25/</sup> While AReM notes that the RPS statute requires that the Commission create a PEL for IOUs only, and not for ESPs, it argues that the Commission should adopt additional compliance flexibility provisions for ESPs that would apply if an IOU receives a waiver due to reaching its PEL.<sup>26/</sup>

PG&E agrees with AReM's fundamental proposition that the Commission should strive to create a level playing field for all load-serving entities ("LSEs") as it implements the RPS

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<sup>23/</sup> In this regard, PG&E agrees with SDG&E's comment that stakeholders and the Commission would undoubtedly be well aware that an IOU was approaching its PEL limit even without a specific Tier 1 advice letter filing at 95% of the budget. *See* SDG&E Opening Comments at 11-12.

<sup>24/</sup> SCE Opening Comments at 12.

<sup>25/</sup> AReM Opening Comments at 2.

<sup>26/</sup> *Ibid.*

statute. However, the Commission must also adhere to the plain language of the RPS statute and the intent of the Legislature. Sections 399.16(c)-(f)<sup>27/</sup> mandate that the Commission develop PELs for IOUs only and waive RPS requirements for IOUs under certain circumstances. Separately, Sections 399.15(b)(5) and 399.16(e) established criteria that, if adequately demonstrated, would entitle any LSE, including ESPs, to an RPS compliance waiver. The structure of the statute is clear in creating one compliance waiver provision applicable to all LSEs while creating a separate PEL-based waiver for IOUs only. In light of this statutory construction and the clear intent of the Legislature, the Commission should not accept AReM's proposal to explicitly link the triggering of a PEL to the waiver of ESPs' obligations under a separate statutory provision.

Additionally, the Commission has, in light of the structure of the statute, reasonably sought to implement these separate statutory provisions in separate tracks of the RPS proceeding. As AReM notes, the Commission has already begun its work to implement the general waiver provisions that apply to all LSEs, and a proposed decision is expected soon on these enforcement issues.<sup>28/</sup> AReM's comments, to the extent they raise potential grounds for waivers under Sections 399.15(b)(5) and 399.16(e), are more appropriately addressed in that track of this proceeding.

PG&E notes that while it disagrees with AReM's specific proposal to link these statutory waiver provisions, it is possible that the same facts that give rise to the triggering of a PEL for an IOU may also give rise to a valid claim for a waiver of other LSEs' compliance requirements under Sections 399.15(b)(5) and 399.16(e). For example, it is possible to imagine a future scenario in which severe market disruptions cause an unexpected lack of supply of RPS eligible products. Such disruptions may independently give rise to a waiver claim under 399.15(b)(5)(B) and also trigger unexpected price spikes that cause an IOU to exceed its PEL. However, the

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<sup>27/</sup> "Section" in this brief refers to the California Public Utilities Code.

<sup>28/</sup> *See id.* at 3.

correlation is not guaranteed. For example, prices for renewable products may rise significantly enough to trigger an IOU's PEL, but if several or all large IOUs received waivers from their RPS compliance requirements because they have exceeded their PELs, the exit of those IOUs from the near-term RPS market could cause a significant drop in demand for the RPS products, leading to a sufficient supply of RECs for other LSEs to meet their compliance requirements. Thus, the Commission should not explicitly link the triggering of the PEL with the waiver of an ESP's compliance requirements, but rather should examine all of the facts submitted by an LSE at the time that it seeks a waiver of its compliance requirements under the statutory provisions that apply to that entity.

Separately, AREM recommends that if an IOU reaches its PEL, the Commission should revisit the Power Charge Indifference Amount (PCIA) rate collected from direct access customers to ensure forecasted RPS expenditures assumed in calculating the PCIA are not passed through to non-exempt customers responsible for paying the PCIA.<sup>29/</sup> PG&E's PCIA calculation, which is reviewed and approved as part of the annual Energy Resource Recovery Account Forecast Application, only includes RPS-eligible contracts and RPS-eligible utility-owned resources approved by the Commission. These Commission-approved resources will not be affected if PG&E reaches its PEL and is relieved from its incremental renewable procurement obligations. The PCIA calculation and resulting rate does not include a forecast revenue requirement for generic incremental renewable procurement targets and, therefore, no adjustment would be necessary if an IOU is relieved of its obligation to conduct incremental procurement.

**VI. IF THE COMMISSION ADOPTS A PEL FOR SMALL AND MULTI-JURISDICTIONAL UTILITIES, IT SHOULD NOT USE THE HISTORICAL AVERAGE PRICE OF UNBUNDLED RECS.**

PacificCorp and BVES primarily seek an exemption from the obligation to adopt a PEL for those entities.<sup>30/</sup> While PacificCorp and BVES recognize that the RPS statute provides them

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<sup>29/</sup> *Id.* at 4.

<sup>30/</sup> PacificCorp Opening Comments at 3; BVES Opening Comments at 1.

with a potential compliance waiver in the event that incremental RPS procurement would cause a disproportionate rate impact on their customers, these entities believe that it so unlikely that they would reach or exceed a PEL Budget that the administrative burden of creating and tracking such a budget is unjustified.<sup>31/</sup> PG&E takes no position with regard to the primary request of these entities to be exempt from the PEL proceeding.

PG&E's concern is with the utilities' alternative proposal that to the extent the Commission moves forward with adopting a PEL for them despite their exemption request, the Commission should base the PEL budget on the average historical prices of unbundled renewable energy credits ("RECs").<sup>32/</sup> While PG&E acknowledges that the RPS statute confers an exemption on certain small and multi-jurisdictional utilities that allows them to rely on unbundled RECs for their RPS compliance needs, the Commission need not and should not extend this regulatory advantage to also calculating the entities' PEL Budgets based upon historic prices, which may be considerably lower than future unbundled REC prices, when the Commission has proposed calculating other IOUs' PEL Budgets based upon the forecasted cost of filling an RNS. PG&E sees no reason why a PEL Budget could not be calculated for PacificCorp and BVES using the methodology that PG&E has proposed. The special statutory provisions that apply to these utilities could be taken into account by using the forecasted price of unbundled RECs to fill the forecasted physical RNS position. In this way, the same methodology would be applied to all IOUs.

## **VII. CONCLUSION**

For the reasons discussed above and in opening comments, the Commission should adopt a PEL methodology that follows five general principles: (1) the PEL should be based on a physical RNS, rather than a theoretical net short that assumes utilization of banked surplus; (2) a new PEL should be issued every two years, and multiple PELs should be allowed to overlap; (3)

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<sup>31/</sup> See PacifiCorp Opening Comments at 4-5; BVES Opening Comments at 2-4.

<sup>32/</sup> See PacifiCorp Opening Comments at 9; BVES Opening Comments at 5.

the Commission should find that a disproportionate rate impact would occur if an IOU projects that its RPS procurement costs will exceed the PEL Budget calculated by the Revised Staff Proposal plus the sum of two percent of the IOU's GRR in each year in which the IOU has a physical RNS; (4) IOUs should be required to file a Tier 1 Advice Letter when their forecasted costs of executed contracts and online UOG reach 95% of an established PEL, as calculated using the methodology clarified in this reply, and the IOU should file a Tier 2 Advice Letter when committed costs reach 100% of its PEL; and (5) the Commission should interpret a "de minimis" increase in rates for purposes of implementing the PEL statutory provisions as requiring PG&E to procure additional RPS-eligible products after forecasting it will reach or exceed its PEL only where an offer provides a positive NMV, a competitive Portfolio-Adjusted Value, and the RPS counterparty making the offer is willing to sign a form RPS PPA with only mutually agreeable modifications, if any.

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Dated: April 3, 2014



## VERIFICATION

I am an employee of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, and am authorized to make this verification on its behalf. I have read the foregoing *PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E) REPLY TO OPENING COMMENTS ON REVISED STAFF PROPOSAL AND ALTERNATIVE PROPOSALS FOR A METHODOLOGY TO IMPLEMENT PROCUREMENT EXPENDITURE LIMITATIONS FOR THE RENEWABLES PORTFOLIO STANDARD PROGRAM*. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 3rd day of April, 2014 at San Francisco, California.

*/s/ Karen Khamou*

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**KAREN KHAMOU**

Manager, Renewable Energy Policy and Planning  
Pacific Gas and Electric Company