



**Pacific Gas and
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**Re: Joint IEPR and Renewables Committee Workshop 'Exploring Feed-in
Tariffs for Renewable Energy Projects over 20 MW'**

Docket Office:

Please find attached PG&E's comments on the workshop held May 28, regarding
Exploring Tariffs for Renewable Energy Projects over 20 MW.

Please contact me should you have any questions. I can be reached at 415/973-
4185.

Sincerely,

Kathy Treleven

Attachment

**Comments of Pacific Gas and Electric Company
Regarding Feed-in Tariffs for Renewable Energy Projects Over 20 MW
Following CEC IEPR Workshop of May 28, 2009**

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to participate in the California Energy Commission's (CEC) committee workshops on Feed-In Tariffs (FITs) for renewable projects over 20 megawatts (MW). The CEC's Integrated Energy Policy Report (IEPR) process is part of an important discussion within California, being held not only at the CEC, but also at the California Public Utilities Commission (CPUC) and the legislature, regarding how to increase the level of renewables in utility portfolios. PG&E sees the major barriers to expanded renewable development, especially for larger projects, to be transmission access and permitting challenges, rather than a lack of the simplified contract structures associated with FITs. Below, we offer a few comments on some of the questions posed at the workshop.

1. Contracts for Systems over 20 MW Must Contain Appropriate Terms and Conditions

PG&E is supportive of streamlined contracting processes for renewable generators of all sizes, provided the contract arrangements contain appropriate terms and conditions to balance the myriad risks across customers, generators and utilities. Accordingly, for systems greater than 1.5 MW, PG&E has proposed to the CPUC, in response to the CPUC's proposed decision (PD) establishing price benchmarks and contract review processes for short-term and bilateral RPS contracts, to implement a pilot program that utilizes the RPS pro forma contract, which would contain appropriate terms and conditions, including development term security and other performance requirements.

PG&E has proposed to use that pro forma contract in a pilot program for renewable generators of all sizes. The pilot program would (1) exclude contracts from one month to less than four years in duration; (2) use the price benchmark set forth in the PD for contracts from four years to less than 10 years, which is a price benchmark derived from the current MPR methodology (as developed by Energy Division at the same time the actual MPR is calculated each year) for the same solicitation year as the year the contract is signed; (3) set the price at the MPR for contracts 10 years and greater in length; (4) use the Tier 2 advice letter process versus the Tier 1 process as originally proposed; and (5) require contracts to be consistent with LCBF criteria and the RPS procurement plan, to be presented to the PRG, and, with the exception of bilateral contracts, to be reviewed by the independent evaluator. The CPUC has not yet issued a final decision.

Under PG&E's proposal, the contract would be available year round up to a program cap and it would eliminate the need to prepare a bid or to subsequently negotiate a contract. PG&E would have the right to reject offered projects using the standardized contracts for reasons including, but not limited to, the impacts of counterparty concentration risk, non-viability, and failure to post required deposits. PG&E's pro forma contract terms and conditions would help assure that the renewables facilities deliver energy in the amount contracted for and that they would be integrated appropriately into the electricity system.

The CPUC has indicated that use of the pro forma contract for renewable generators between 10 MW and 20 MW in size might be appropriate, but that the obligation would not be must-take (R.08-08-009, ALJ Ruling on Additional Commission Consideration of a Feed-In Tariff). Accordingly, should the CEC recommend that a FIT be made available to renewables facilities larger than 20 MW, PG&E would posit that the contractual provisions of such a tariff be no less stringent than those set forth in the current pro forma contract that the CPUC has proposed to make available to renewable generators between 10 MW and 20 MW in size, and that the agreements not be must-take. Additionally, any FIT or standard offer contract for renewables larger than 20 MW in size should not undermine or duplicate the existing competitive solicitation process.

2. Project Viability is Not Enhanced By FITs

In the current economic climate, generators of all sizes may face financing constraints due to tight credit markets. Developers may face challenges in funding projects because: (1) there are fewer large institutions willing to take a tax equity position and those that are willing to take a position have a smaller tax appetite; (2) there is reduced availability of credit for asset-based project financing; and (3) the amount of capital that must be raised is higher given the higher required rates of return to compensate parties that can raise the necessary equity and debt capital.

While a FIT may provide additional certainty to a potential financing partner that a revenue stream of a particular amount will be generated once the project becomes operational, a FIT in and of itself will not make one project more viable than another. A FIT will not resolve the transmission interconnection or permitting issues that are prevalent in California. Additionally, a FIT will not get new transmission lines built to remote locations.

3. Conclusion

PG&E thanks the Commission for reviewing these written comments and looks forward to the opportunity to work with the Commission towards meeting California's renewable energy goals.