



**Pacific Gas and
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ELECTRONIC DELIVERY

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California Energy Commission
Docket Office, MS-4

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| DATE | OCT 10 2008 |
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Re: Docket No. 08-IEP-1 and No. 03-RPS-1078
1516 Ninth Street
Sacramento, CA 95814-5512

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| RECD. | OCT 10 2008 |
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Re: 2009 IEPR – Feed-in Tariffs

PG&E is pleased to provide comments to the Renewable Energy "Feed-in" Tariffs Workshop. Please feel free to call me at the number above if you have any questions.

Sincerely,

Attachment

**Comments of Pacific Gas and Electric Company
Regarding Renewable Feed-in Tariffs
Following CEC IEPR Workshop of October 1, 2008
Docket No. 08-IEP-1 and 03-RPS-1078**

I. Introduction

Pacific Gas and Electric Company (PG&E) appreciates the considerable work done by the California Energy Commission (CEC) and KEMA on developing policy proposals for implementing Renewable Feed-in Tariffs (FITs) in California. PG&E is committed to achieving its RPS targets and to increasing the level of renewable energy delivered to its customers in the most cost-effective manner, while maintaining system reliability and minimizing any potential adverse impact to the environment.

The California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO), the CEC and other state agencies are also committed to increasing the level of renewable energy in California. All parties recognize, however that there are significant barriers to increasing renewable energy deliveries that have nothing to do with standardized contracts or the provision of pricing incentives. In the draft 2008 Integrated Energy Policy Report (IEPR) update report, the CEC noted that "significant barriers to achieving the 33% goal include transmission additions and upgrades, integration of renewables..., the impact of renewable contract delays or cancellations, potential cost and rate impacts of adding renewables, and permitting issues." That same draft also indicated that acknowledgement from the CPUC that procurement is not the problem and "perhaps" a feed-in tariff could play a role in increasing renewables.

In PG&E's experience, regardless of the quantity of renewable generation made available to utilities through contracts, the barriers and delays around permitting and transmission are hindering delivery of renewable energy to Californians. These issues must be addressed in an accelerated fashion so that the facilities that will generate renewable energy -- whether contracted for through a competitive solicitation, bilaterally, utility-owned, or a feed-in tariff -- can actually be constructed and deliver renewable energy to California utility customers.

While feed-in-tariff structures may not be necessary or appropriate to encourage the development of larger renewable resources, PG&E is supportive of simplified contracting opportunities for smaller renewable resources that could include feed-in tariffs.

II. PG&E Supports a Combination of Contracting Alternatives to Increase Renewables Deliveries

PG&E has several current and proposed programs to facilitate contracting with renewable generators. They include an annual RPS solicitation, bilateral contracting, and a feed-in tariff for small (1.5 MW or less) public water and waste water agency generators and other renewable generators with nameplate capacity of 1.5 MW or less. Through the competitive solicitation and bilateral contracting process, PG&E has signed nearly 40 contracts comprising more than 3,500 MW of renewable power. Since the inception of the 1.5 MW or less feed-in tariff in early 2008, PG&E has entered into commercial arrangements with more than 10 additional counterparties.

A. Existing Feed-in Tariffs

For clarity, PG&E notes that its existing feed-in tariffs are composed of a tariff with a standardized power purchase agreement (PPA) attached; hence, the terms feed-in tariff and PPA may be used interchangeably. The PPA is executed by both PG&E and counterparty, creating a legal commitment on the part of both parties to abide by the obligations set forth in the PPA.

1. Small Renewable Generator PPA

PG&E actively works with small renewable generators of up to 1.5 MW through its Small Renewable Generator Power Purchase Agreement. This PPA was crafted to facilitate the contracting process for smaller generators through a simplified, standard offer contract. Under this program, PG&E has signed – in just four months – more than 10 contracts for over 8 MW. PG&E continues to receive daily inquiries from potential counterparties on the program.

2. Public Water and Waste Water PPA

A companion program to the Small Renewable Generator Power Purchase Agreement (PPA) is a feed-in tariff for Public Water and Waste Water Agencies. Its structure and requirements are comparable to those of the Small Renewable Generator PPA.

The price per megawatt-hour (MWh) for energy deliveries under both the Small Renewable Generator PPA and the Public Water and Waste Water PPA is set at the Market Price Referent (MPR) and the total MW under the two programs is 498 MW statewide, allocated to the three investor-owned utilities and other small utilities. Municipal Utility Districts do not participate in this program.

B. “Fast Track” RPS Contract Pilot Program

In its 2009 RPS Solicitation, PG&E is proposing a pilot program whereby the Commission would “pre-approve” any contract PG&E submits that does not modify the Commission approved form PPA terms and conditions, and is priced at or below the MPR. PG&E is proposing such a contract to reduce negotiation time as well as timelines for CPUC approval. In addition to speeding up the process, PG&E hopes that the substantial reduction in approval time would create an incentive for sellers to reduce their price below the MPR, contributing to cost containment for California energy customers. PG&E has proposed that this pilot program be limited to 800 GWh. Should PG&E reach that cap, it would submit contracts for formal CPUC approval, unless the CPUC decides to increase the GWh cap.

C. Annual RPS Solicitation

In addition to the “fast track RPS contract pilot” noted above, PG&E holds annual RPS contract solicitations. Through this competitive process, counterparties may negotiate price, as well as non-price terms and conditions that, in many instances, provide contractual protections to customers as well as developers.

D. Bilateral Contracting Alternatives

There may be circumstances where a counterparty may seek to enter into negotiations outside of a competitive solicitation. Unique circumstances, timing, willingness to post bid deposits and emerging technologies are all factors which may suggest consideration of a more flexible contracting arrangement.

E. Other Contracting Alternatives

PG&E supports continuation of the alternatives identified above because they provide maximum flexibility to counterparties to reach an agreement that meets the counterparty's needs, as well as PG&E and its customers' needs. PG&E is supportive of additional contracting alternatives – including feed-in tariffs for generators of larger nameplate capacity – under the following circumstances:

- **State-wide applicability** – All load-serving entities – investor-owned utilities, municipal utility districts, energy service providers, and community choice aggregators – must be required to participate in a feed-in tariff program and under the same sets of rules and conditions. To do otherwise would create an uneven playing field across the purchasers of renewable energy in the state and provide counterparties or non-participating load-serving entities a “free option” that is not available to investor-owned utilities. An uneven playing field would place IOUs at a disadvantage vis-à-vis other market participants.
- **System Reliability** must be assured – It is unclear at this time how much additional intermittent renewable energy can be integrated into the transmission system without the creation of reliability issues. Reliable electric service, including the addition of operationally flexible resources that can work in conjunction with renewables, must be a key element of a feed-in tariff regime.
- **Additional analysis** is necessary to balance the public policy objectives - PG&E supports ongoing analysis of the impacts of power purchase agreements both on the renewable markets and on customers who pay for these programs. A thorough cost-benefit analysis, including customer and generator impacts, should be conducted prior to expansion of the renewable PPA. Such an analysis should also consider appropriate program caps and cost protections for customers that include the “all-in costs” of renewable generation, which would include the commodity cost, transmission costs, and integration costs.
- **Program and Cost limitations** are needed -- Any FIT should not create an open-ended, must-take obligation on IOUs and their customers. Strong contractual requirements for performance, performance assurances, delivery obligations, penalties for non-performance must be included in a FIT to protect customer interests.

III. Simplified Feed-In Tariffs for Renewable Generators Up to a Specific Size May Be a Useful Contracting Alternative as an Adjunct to PG&E's RPS Competitive Solicitation and Proposed Pilot Program

A simplified feed-in tariff may provide an attractive contracting alternative to some renewable generators up to a certain size and with certain operating characteristics. PG&E's proposed pilot program through its 2009 RPS Solicitation does not set a facility size limit and it establishes a price based on a competitive bid that would be at or below the prevailing MPR that may meet some of these generators' needs.

However, there are some small generators that may not want to participate in a competitive process and preparation of a bid. Accordingly, for certain technologies up to a certain size, an alternative, simplified FIT may be considered to accommodate customer-generators that are not schooled in a utility solicitation process.

Under such a framework, there must be some distinction between large and small generation. Whether “small” is defined as 1 MW, 1.5 MW, or 2 MW, renewable resources as large as 10 MW or 20 MW are complex facilities that are too large for a FIT process. Additionally, the price must be established at level that is cost-competitive for customers and there must be a specified level of MW to avoid oversubscription. Appropriate performance assurances and commercial requirements are also necessary.

Careful consideration of the appropriate size, price and commercial requirements are needed to ensure system reliability, interconnection requirements, and costs to customers, each of which is detailed below.

A. Increased Risks to System Reliability

Existing standard contracts or FITs for small renewable generators do not contain the same performance requirements that are expected of larger generators. For example, there are no project milestones, credit, collateral or performance requirements in the Small Renewable Generator PPA. The seller incurs no liability if it fails to develop its facility, which, with larger generators, would be an unacceptable risk to system reliability and stability.

Expansion of the existing 1.5 MW PPA to larger generators would expose PG&E customers to increased risk of counterparty non-performance and missed milestones because the counterparty pays no penalty if it does not perform. In the annual RPS solicitations, PG&E mitigates these risks by requiring potential sellers to post development and delivery term security, make periodic construction progress reports, and meet guaranteed project milestones.

Any FIT for generators above 1.5 MW must balance simplicity with the need to ensure adequate, reliable energy supplies for Californians. Absent some “skin in the game”, counterparties may not be incented to perform or may choose to terminate their contracts with no financial penalty and then sell the power to someone willing to pay a higher price. Additionally, the planning requirements for integrating additional renewables into the transmission system need to be fully understood and such planning cannot occur effectively if it is not known when larger counterparties will begin deliveries.

B. Larger Projects Have Complex Interconnection Requirements, Which Are Contrary to the Nature of a Simple Contract for Small-Scale Sellers

Projects above 1.5 MW may have significantly more complex interconnection and system integration requirements. For example, a project greater than 2 MW requires a complete Feasibility Study, System Impact Study, and Facility Study, whereas projects less than 2 MW, under the Small Generator Interconnection Procedure, may not require Feasibility or System Impact studies. Therefore, a project under 2MW may avoid the time and the study fees, leading to potentially quicker interconnections for the small generator.

For projects greater than 2 MW, once interconnected, there are significant potential adverse impacts on the grid. Therefore, both extensive system protection and reinforcement requirements are imposed. Without these requirements, there is a risk that if a number of larger projects were to interconnect on the distribution system, they might preclude smaller generators from being able to interconnect without incurring undue expense to make necessary system upgrades. Projects that interconnect at the transmission level must go through the CAISO interconnection process under Small Generator Interconnection Procedures – 20 MW or less.

C. Increased Costs to All Ratepayers

PG&E has executed several contracts with renewable generators sized between 1.5 MW and 20 MW through its competitive solicitation at prices below and above the MPR, demonstrating that generators larger than 1.5 MW can and do compete in the competitive process. Creating subsidiaries and special programs for sellers who are economically sophisticated will inappropriately shift costs to sellers who cannot take advantage of the special programs, and will unnecessarily increase energy costs for PG&E customers.

For example, if the state were to make a feed-in tariff such as the Small Renewable Generator PPA available to sellers with facilities as large as 20 MW, such sellers might not participate in the RPS RFO solicitations at all. Even if these sellers were to participate in the solicitation, they would have no incentive to bid a price lower than the current MPR as they would be guaranteed at least that price by executing a feed-in tariff, thereby increasing the costs of implementing RPS requirements for all customers.

IV. 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.