



**Pacific Gas and
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December 10, 2008

ELECTRONIC DELIVERY

California Energy Commission
Docket Office, MS-4
Re: Docket No. 09-IEP-1G and No. 03-RPS-1078
1516 Ninth Street
Sacramento, CA 95814-5512

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

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| DOCKET | |
| 03-RPS-1078 | |
| DATE | DEC10 2008 |
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Comments of Pacific Gas and Electric Company
Regarding Renewable Feed-in Tariffs
Following CEC IEPR Workshop of December 1, 2008
Docket No. 09-IEP-1G 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 that there are significant barriers to increasing renewable energy deliveries that are independent of standardized contracts or pricing incentives. For example, the barriers and delays regarding permitting and transmission are hindering delivery of renewable energy to Californians. The renewables procurement process, conversely, is not. Permitting and transmission barriers must be addressed on an exigent basis so that the counterparties with whom PG&E has signed contracts can move forward with the construction of their facilities and begin delivering renewable energy to PG&E and its customers

PG&E has supported a streamlined contracting process to reduce counterparties' transaction costs and to shorten contract approval times. PG&E's 2009 RPS pilot submitted to the CPUC would eliminate the need for counterparties to submit bids or to negotiate contracts. Such a program, which sets forth performance assurances and requirements, is the superior vehicle for ensuring that system reliability is maintained and that developers have an incentive to meet their contractual milestones. PG&E believes that its streamlining proposal will significantly enhance and accelerate the renewable energy contracting process.

With regard to the KEMA Second Draft Report ("KEMA Report"), PG&E concurs with the reports findings that "a must-take FIT without some means to solidify commitments" in the form of performance obligations, milestones, security deposits and other measures would be problematic.¹ Accordingly, PG&E does not support KEMA's recommendation for a must-take feed-in tariff for projects up to 20 MW in size. PG&E's proposed 2009 RPS pilot program, as outlined below and previously discussed in PG&E's October 10th, 2008 comments to the CEC, contains the means to solidify developer performance and contains appropriate provisions to achieve increased renewable energy deliveries for

¹ KEMA "California Feed-In Tariff Design and Policy Options – Second Draft Consultant Report." California Energy Commission, November 2008, pp.57-59.
<http://www.energy.ca.gov/2008publications/CEC-300-2008-009/CEC-300-2008-009-D2.PDF>

customers. Finally, the KEMA Report included a number of recommendations that require additional detail before the final report is adopted.

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

PG&E has several existing and proposed programs to facilitate contracting with renewable generators. Existing programs include an annual RPS solicitation, bilateral contracting, and a feed-in tariff for public water and waste water agency generators and other small renewable generators with nameplate capacity of 1.5 MW or less. Through the competitive solicitation and bilateral contracting process, PG&E has signed more than 40 contracts comprising more than 3,600 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 twelve commercial arrangements using that tariff. Below, PG&E describes its existing feed-in tariffs, annual renewable solicitation, bilateral renewable contracting opportunities, and its proposal for stream-lined renewable contracting.

A. Existing Feed-in Tariffs

PG&E's existing feed-in tariffs are composed of a standardized power purchase agreement (PPA), 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. 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 twelve contracts for over 8 MW in just six months.

A companion program to the Small Renewable Generator Power Purchase Agreement 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 MPR, established by the CPUC annually, and the total MW under the two programs is capped at 498 MW statewide, allocated to the three investor-owned utilities and other small utilities. Municipal Utility Districts do not participate in this program.

B. Annual RPS Solicitation

PG&E holds annual RPS contract solicitations. Through this competitive process, counterparties may negotiate price and terms and conditions that, in many instances, better suit customers and the developers negotiating a particular contract.

C. Bilateral Contracting Alternatives

There may be circumstances where a counterparty seeks to enter into negotiations outside of a competitive process, including unique circumstances, timing, willingness to post bid deposits and emerging technologies. These generators have the option to seek one-on-

one negotiations with PG&E as a way of constructing a more flexible or unique contractual agreement.

D. PG&E's 2009 RPS Contract Pilot Program

In addition to the streamlined Small Renewable Generator Feed-In Tariff described above, PG&E has also proposed a pilot program in its 2009 RPS Plan that will simplify the contracting process for renewable generators of all sizes. PG&E's proposal provides a process under which the time required for contract negotiation and CPUC approval process will be significantly reduced. Under that proposal, the Commission would "pre-approve" any contract PG&E submits after emerging from the RPS RFO process, that does not modify the Commission-approved form PPA terms and conditions and whose bid price ends up at or below the MPR. Participation in the pilot program is not limited by generator size (e.g., limited to renewable facilities under 1.5 MW, etc.).

PG&E proposed further streamlining to its proposed pilot program in its November 7, 2008, data request response in the CPUC's AB 1969 proceeding. In that proceeding, PG&E indicated that it would accept signed contracts using its form PPA on a "first-come, first-served" basis, up to the program cap of 800 GWh in its first year. If PG&E reaches this cap, it would submit contracts for formal CPUC approval, unless the CPUC determines via decision or resolution to increase the cap. The program would effectively eliminate the bidding and negotiation process for any renewable generator that accepts the form PPA's terms and conditions.

This program will significantly reduce the time it takes to approve a renewables contract, as well as developer transaction costs. This will also put downward pressure on projects priced above the MPR, which will ultimately benefit customers. Both the CPUC and PG&E have the right to reject offered projects for reasons including, but not limited to, the impacts of counterparty concentration risk, non-viability, and failure to post required deposits.

III. PG&E Supports Feed-In Tariffs with Appropriate Design Elements

PG&E is supportive of additional contracting alternatives that appropriately balance generator, customer, and utility concerns as outlined below. Expansion of the existing feed-in tariffs, with no performance assurances or reliability consideration, would not achieve such a balance.

- *State-Wide Applicability* – All load-serving entities – investor-owned utilities, POUs, 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 efforts and further standards. Reliable electric service, including the addition of operationally flexible resources that can work in conjunction with renewables, must be a key element of any feed-in tariff system.
- *Additional Analysis* is necessary to balance the public policy objectives – PG&E supports ongoing analysis of the impacts of feed-in tariffs 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 a renewable feed-in tariff. 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 system should not be an open-ended, must-take obligation for IOUs and their customers. Contractual requirements for performance, performance assurances, delivery obligations, penalties for non-performance must be included in any expanded FIT program in order to protect customer interests. Absent appropriate performance requirements, the utility’s risk of non-compliance with resource adequacy and RPS program requirements is increased, along with risks to maintaining system reliability. For example, if PG&E is uncertain when a generator will begin to produce energy and there are no guaranteed construction start dates or commercial operation dates, PG&E may not have the appropriate amount of information for its long-term procurement planning.

IV. The Feed-In Tariff Proposed In The KEMA Report Should Not Be Adopted

On pages 53-54 of KEMA’s Report, specific elements of a cost-based feed-in tariff are outlined. Among the recommendations are “a must take” tariff, “cost-based,” “technology-differentiated pricing” and “size differentiated” feed-in tariffs. KEMA appears to gloss over the statutorily required performance requirements for RPS contracts, stating at p. 59 that it is “antithetical to the concept of a feed-in tariff to establish pre-operational performance requirements as a core rationale.” KEMA’s recommendation on this point is not well-founded. 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 PG&E's 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. 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. These types of provisions are critical to developing FITs that not only incent renewable development, but ensure that customers are protected in terms of reliability and performance

B. Larger Projects Usually Have More 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 2 MW may avoid the time and the study fees, leading to potentially quicker interconnections for the small generator.

The interconnection tariffs have a streamlined process for projects smaller than 2 MW in recognition of the fact that bigger project can have a more significant adverse impact on the grid. Depending on local conditions, more extensive system protection and reinforcement requirements may be needed. Projects that interconnect at the transmission level must go through the CAISO interconnection process under Small Generator Interconnection Procedures – 20 MW or less.

It is not clear what KEMA is recommending as to interconnection changes. Its Issues and Options Paper (CEC-300-2008-003-F), in Chapter 11, seems to suggest updating and standardizing Rule 21, a CPUC tariff that is not used for RPS interconnections, to which FERC rules apply. However, in the Second Report, at pages 34 and 58, KEMA concludes that there was not a strong case made for reversing or amending the current interconnection process.

V. Conclusion

PG&E does not advocate an expansion of the existing feed-in tariffs. It does recommend that the CPUC and the CEC recognize the merits of PG&E's 2009 RPS Pilot Program, with the additional streamlining contained in its November 7 comments to the CPUC. PG&E thanks the Commission for reviewing these written comments and looks forward to the opportunity to further work with the Commission toward meeting California's renewable energy goals.