



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA**

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Application of Pacific Gas and Electric Company
to Implement and Recover in Rates the Cost of its
Photovoltaic (PV) Program

A.09-02-019

**COMMENTS OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION
ON THE PROPOSED DECISION OF ALJ EBKE**

February 16, 2010

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The California Large Energy Consumers Association ("CLECA") hereby submits its Comments on the Proposed Decision ("PD") of ALJ Ebke.¹ While we believe that Judge Ebke's PD represents a very significant improvement over the approach set forth in PG&E's application, we have continuing concerns regarding the costs of this proposed program and we urge that further protection of ratepayers be included within any authorization to the utility to pursue mid-size solar PV generation projects.

The PD Appropriately Rejects the Utility's Proposed Approach to the Pricing of 500 MW of New Mid-Sized Solar PV Generation

PG&E has proposed that it be authorized to construct up to 250 MW of new mid-size solar PV generation at prices based on its estimate of the cost of service for such generation, and that it also be authorized to purchase an additional 250 MW of solar PV generation from third party suppliers at prices equal to its cost of service rates. CLECA, DRA, the California Farm Bureau and several other parties raise concerns regarding the high cost of the proposed utility-

owned solar PV generation, and regarding the use of the utility's cost of service for purposes of pricing the purchase of solar PV generation from third party suppliers. These ratepayer representatives voiced strong concern about the absolute cost of the proposed medium-sized solar PV program, as well as concern about the effect of the proposed pricing structure on costs.

CLECA noted that PG&E's long-term cost of ownership ("LCOE") figure of 29 plus cents (time differentiated) is more than 3.5 times the current cost of its overall generation portfolio and more than 2.5 times the Market Price Referent ("MPR") cost.² CLECA also noted that for the first full year of operation the cost of the program would be a staggering 38 cents/kWh, nearly five times the current overall generation portfolio cost.³ The DRA voiced similar concerns but focused also on the fact that the use of an estimated utility revenue requirement both for the 250 MW of utility-owned generation and for the pricing of the 250 MW of third party generation would remove any price benefits which might be obtained through the exercise of competition among suppliers.

ALJ Ebke's PD directly addresses the concerns raised by these parties, stating:

We are persuaded by concerns raised about the program costs, specifically the concerns that the program cost estimates are not fully justified and that the proposed UOG price does not effectively allow for the benefits of competition. In particular, we agree with the thrust of DRA's view that as proposed "neither the UOG nor the PPA component of the program will create the competitive environment that is supposed to protect the ratepayers from overpaying for renewable energy."⁴

As a result of these concerns about the value of competition in pricing, the PD turns the utility pricing proposal around. Instead of approving the utility's plans to price its own

¹ While CLECA is aware of the ALJ's instruction to the parties to submit separately their comments on the PD and the Alternate Proposed Decision, CLECA's concerns are common to both the PD and the APD and it has no comments on the issues which differentiate the two.

² CLECA Opening Brief at pp. 12-13, CLECA Reply Brief at pp. 1-2.

³ Id., at pp. 14-15.

⁴ PD, at pp. 19-20, citing DRA's Opening Brief at p. 5.

generation on an estimate of cost of service and to price third party supplies using the same figure, the PD requires PG&E to use competitive solicitation prices for purposes of pricing both types of power. Specifically, the PD authorizes PG&E to conduct a series of solicitations for solar PV generation in this medium size range, 50 MW per year for five years, thereby allowing the competitive market to determine pricing. It also authorizes the utility to build a similar amount of utility-owned solar PV generation with the revenue requirement for such power determined by the average prices of the winning bidders in each competitive solicitation. The PD states its approach as follows:

In pursuing this approach we seek to ensure that ratepayers are essentially held indifferent between projects developed by the utility and those developed by independent power producers. Furthermore, we believe this approach, by largely holding PG&E to the same pay-for performance standards that IPPs are held to, ensures that PG&E is well-motivated to maximize the performance of these facilities over time.⁵

CLECA believes this is a very significant improvement in the overall structure of the program, and we applaud the ALJ for adopting this competitive approach. We believe in the use of competition as a tool to control the price of electric generation - indeed, it is for this reason that we strongly support a broader solicitation of renewable power, without set asides or special consideration for particular types of renewable generation. While we recognize the value, in the right circumstances, of utility ownership, we are always wary of utility proposals to build or to purchase renewable generation without the use of the competitive procurement process which the Commission has developed. We believe the ALJ has come up with a better approach.

⁵ PD, at p. 24.

The PD Should Be Modified To Provide for Commission Review and Approval of the Prices Resulting From the Competitive Solicitation Prior to Authorizing Either the Purchase From Third Parties or the Construction of Utility-Owned Solar PV Generation

While the pricing structure set forth in the PD is a significant improvement over that set forth in PG&E's application, CLECA's concern about the prospect of utility ratepayers being saddled with very high prices for a large amount of new generation remains. The fact is that solar PV generation is considerably more expensive than both the traditional mix of generation in the utility's portfolio and the other types of renewable generation that is available to it. The Commission's MPR, which it uses to evaluate new RPS generation proposals, is currently in the 10¢-12¢/kWh range, while PG&E's estimate of the LCOE for its utility-owned solar PV generation is over 29¢/kWh on a time-differentiated basis. That is a huge price gap, and CLECA questions why the Commission would approve projects which are so much more expensive than other renewable alternatives.

The PD appears to acknowledge that solar PV is more expensive than other renewable sources, although it reiterates the often heard assertion that solar PV prices are falling, citing testimony from PG&E witness Wan and an article from a publication called Solarbuzz.⁶ CLECA does not know whether installed solar PV prices are in fact falling, but even if they are they have a long way to fall before they will be competitive with the MPR and with the prices paid for other types of renewable power. While the PD's requirement that PG&E conduct a series of solicitations, and that it select the best prices from those solicitations both for choosing third party projects and for pricing its own projects, is likely to bring us the best available pricing for this sort of mid-range solar PV generation, it is not clear that it will result in reasonable prices.

We believe that the Commission should not rely entirely on the results of the solicitations which PG&E may conduct. Rather, it should review the results of such solicitations and make a

determination that ratepayers will be well served by the addition of the renewable power at the winning price levels. The PD makes clear its perception of the advantages of solar PV projects - that they are anticipated to be permitted and constructed in less time, that they will be distributed across the existing grid, and that they are modular - underlie its enthusiasm for this type of mid-size project. CLECA understands that these are potential advantages, but the Commission should evaluate those advantages in context of the extra cost that such projects are very likely to create.

The Commission needs to make an affirmative decision whether these advantages are worth an extra 12¢-17¢/kWh over the MPR. It is not sufficient to state that we will simply rely on the competitive solicitations which PG&E will conduct. What if the winning bidders in a solicitation have proposed a 35¢/kWh price? Would PG&E be free to enter into a purchase contract with such bidders? Would it be free to build its own solar PV generation at that price? At what point is solar PV generation simply too expensive for inclusion in the utility's renewable portfolio? We believe the Commission needs to continue to be involved to review the results of the solicitations and to assure itself, on behalf of the ratepayers, that the cost of the new power is truly reasonable all things considered.

Dated: February 16, 2010

Respectfully submitted,

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⁶ PD, at pp.17-18.

CERTIFICATE OF SERVICE

I, the undersigned, declare that I am employed in the County of Contra Costa, California, that I am over the age of eighteen years and not a party to the within action. My business address is 67 Carr Drive; Moraga, CA 94556.

On February 16, 2010, I electronically served a true copy of the document described as **COMMENTS OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION ON THE PROPOSED DECISION OF ALJ EBKE** attached hereto on the accompanying service list. :

SEE ATTACHED SERVICE LIST

Executed on February 16, 2010 at Moraga, California.

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

/s/
Christine Dable
Legal Assistant to William H. Booth

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