BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Implement and Recover in Rates the Costs of its Photovoltaic (PV) Program (U39E).	A.09-02-019 (Filed February 24, 2009)

REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION AND ALTERNATE PROPOSED DECISION ADDRESSING PACIFIC GAS & ELECTRIC'S SOLAR PHOTOVOLTAIC PROGRAM

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February 22, 2010

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I. PG&E's Rejection Of The PD/APD Ratemaking Is Unsupported And Contradicted By The Evidence.

PG&E complains that the PD/APD overall cost cap is "not tenable."[1] PG&E argues that the PD/APD assumption that projects are built at the original bid price is flawed.[2] The Commission should ignore these claims as they are unsupported by any record evidence. Moreover, PG&E fails to demonstrate why its original proposal should prevail. The PD/APD rightly rejected PG&E's cost estimates and contingency factors for the UOG projects based on the record developed in the proceeding.[3] PG&E's cost estimate was based on a 5 MW project while PG&E was actually planning to build much larger projects in the 10-20 MWs range. PG&E lacked detail in panel disposal costs and the overall cost estimates were based on stale summer of 2008 solar PV price consultant opinions. The PD/APD are correct that the most relevant comparison for PG&E's

[1] PG&E Comments on PD at p. 3; PG&E Comments on APD at p. 3.

[2] PG&E Comments on PD at p. 4; PG&E Comments on APD at p. 4.

[3] PD at pp. 20-21; APD at pp. 22-23.

program is to similarly sized RPS projects.[4] As the record shows, PG&E's proposed UOG and PPA $295/MWh LCOE is grossly over-priced when compared to what the California solar PV market has to offer.

Further, the Commission need look no further than the next voting meeting on Thursday, February 25, 2010 to gauge the condition of California's solar PV market. The Commission will be voting on Resolution E-4314 addressing PG&E's power purchase agreement with Topaz Solar Farms.[5] As the Resolution clearly shows (Confidential Appendix A, Table A) PG&E is paying much less for solar PV contracts than the estimates for its own solar PV program. Moreover, these contracts are with reputable and viable developers like First Solar, Sun Power, and Sempra. PG&E's claim that RPS projects are not completed at the original bid prices is unsupported and controverted by the evidence. For example, Sempra/First Solar's 10 MW Solar PV plant that delivers to PG&E's territory is on-line and was built at the original bid price. Similarly, SCE's 21 MW Blythe Solar PV farm is also on-line and was built at the original bid price.

DRA testimony demonstrated how inflated PG&E's solar PV program prices are when compared to the California solar PV market.[6] PG&E's 2009 RPS RFO results and shortlist confirms this. DRA's opening brief shows how flush PG&E's 2009 RPS RFO is with solar PV bids for projects comparable to those proposed in PG&E's program.[7] PG&E's 2009 RPS shortlist includes plenty of solar PV bids, 20 MWs and smaller, that would qualify under the PD/APD cost cap. And, these shortlisted bids have all survived PG&E's and the Independent Evaluator's viability screens. Notably, this viability screen used in PG&E's 2009 RPS RFO is the same one required by the PD/APD.

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[4] PD at p. 22; APD at p. 24.

[5] Item 23 on the Consent Agenda, February 25, 2010 Commission Meeting, Res E-4314. Confidential Appendix A. Table A: PG&E's recently approved PPAs, and PPAs pending approval, with solar PV projects, p. 14.

[6] DRA Opening Testimony, Confidential, p. 11. PG&E Solar PV RPS Contracts vs. PG&E Solar PV UOG (Derived from Table 4 of PG&E Supplemental Testimony).

[7] DRA Confidential Opening Brief, pp. 6-7. Lists the number of bids, types of bids, and pricing that is representative of PG&E's 2009 RPS RFO.

A. PG&E Fails To Show How Traditional Cost Of Service Ratemaking At A $295/MWh Levelized Cost Of Energy (LCOE) Is Better Than The PD/ APD Alternative Ratemaking At Market Prices for Ratepayers.

PG&E claims that the PD/APD cost recovery is flawed.[8] PG&E also claims that its proposed UOG program brings the greatest benefit to customers.[9] However, PG&E fails to show how its proposal of traditional cost of service ratemaking at a $295/MWh levelized cost of energy (LCOE) is more beneficial to ratepayers than the PD/APD Alternative Ratemaking at market prices. The PD/APD are correct that given PG&E's high program price, ratepayers will be better served by a program that relies on market competition.[10] The PD/APD provide ratemaking and cost recovery based on what the market can provide. PG&E is not required to build UOG based on the alternate ratemaking. DRA assumes PG&E will only build UOG if it can meet or beat the average weighted price that results for the solar PV solicitations. That is the point. The Commission has stated that it encourages IOUs to actively assess the feasibility of utility ownership when and where it makes sense.[11] If PG&E cannot build these solar PV projects at or below the prices offered by the market, then clearly it does not make sense to build UOG in this case. Rather, the market should provide these resources.

B. Ratepayers Will Receive All Of The Benefits of Utility-Ownership Regardless Of Which Type Of UOG Cost Recovery Is Adopted.

PG&E is misleading when it states that the cost-of-service model provides customer benefits while suggesting that the alternative ratemaking proposed by the PD/APD does not.[12] That is simply false. Ratepayers will receive all of the benefits of utility-ownership regardless of which type of UOG cost recovery is adopted. The only

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[8] PG&E Comments on PD at pp. 2-8; PG&E Comments on APD at pp. 2-8.

[9] PG&E Comments on PD at p. 2; PG&E Comments on APD at p. 2.

[10] PD at pp. 23-24; APD at pp. 25-26.

[11] D.08-02-008, Opinion Conditionally Accepting Procurement Plans for 2008 RPS Solicitations.

[12] PG&E Comments on PD at p. 5; PG&E Comments on APD at p. 5.

difference is how PG&E will recover its costs under cost-of-service ratemaking versus its cost recovery under the PD/APD alternative ratemaking. Under the PD/APD, ratepayers will still receive the benefits of PV facilities that are dedicated for their useful lives to public service and continued Commission oversight over these facilities. Under the PD/APD, the UOG facilities will continue to provide benefits to ratepayers even after the capital costs are fully paid.

C. The PD/APD Ratemaking Captures The Benefits Of The Dynamic Distributed Solar PV Market Whereas PG&E's Original Proposal Does Not.

The PD/ADP correctly point out that the solar PV market is dynamic and rapidly changing.[13] The PD/APD thus provide a UOG cost recovery that accounts for that dynamic nature by resetting PG&E's cost recovery based on the results of the annual solar PV solicitations. On the other hand, the cost recovery proposed by PG&E would not account for the dynamic and rapidly changing solar PV market. Under PG&E's proposal, PG&E would be able to recover a LCOE up to $295MWh without a reasonableness review for the entire 250 MWs of the program, regardless of what the actual market prices turn out to be. PG&E's assurances that it will come back for PPA re-pricing if the market trends down "significantly" are unpersuasive. The PD/APD are more efficient by imposing market discipline on PG&E's UOG construction, rather than hoping for it.

The argument that traditional cost of service ratemaking is necessary for PG&E's program is unsupported given the nature of the facilities. Specifically, under this program, PG&E could be building dozens of smaller distributed solar PV facilities. The risk profile for an individual $10 Million solar PV project is much different from that of a $1 Billion fossil fuel powered plant. The expected life of the two types of generation is also significantly different. The life of a solar PV farm is generally estimated at 20 years whereas a nuclear or fossil plant may have 40 year life. The initial investment required

[13] PD at p. 18; APD at p. 23.

by PG&E is also significantly different. Under PG&E's solar PV program, PG&E will only invest incrementally as it builds single PV facilities. Under a single fossil fuel plant, the upfront investment is much higher. Considering these differences, the alternative ratemaking proposed by the PD/APD makes sense.

Respectfully submitted,

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February 22, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION AND ALTERNATE PROPOSED DECISION ADDRESSING PACIFIC GAS & ELECTRIC'S SOLAR PHOTOVOLTAIC PROGRAM"** in **A.09-02-019** by using the following service:

[**X**] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on the 22nd day of February, 2010.

/s/ REBECCA ROJO
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