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09-06-11

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

Application of Pacific Gas and Electric
Company to Recover Pumped Storage Study
Costs (U 39 E)

A.10-08-011

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
REPLY COMMENTS ON AUGUST 8, 2011, PROPOSED DECISION
DISMISSING APPLICATION WITHOUT PREJUDICE**

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September 6, 2011

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Pacific Gas and Electric Company ("PG&E") respectfully submits the following reply comments on the Proposed Decision Dismissing Application Without Prejudice ("PD") filed in this proceeding by Administrative Law Judge ("ALJ") Yip-Kikugawa on August 8, 2011. For the reasons stated in its opening comments, PG&E believes it would be premature for the California Public Utilities Commission ("Commission") to dismiss the Application as proposed in the PD given the long-lead time associated with developing a pumped storage project for the benefit of customers and the renewable integration information that is proposed to be developed next year in the Long-Term Procurement Plan proceeding, R.10-05-006. Moreover, to dismiss the Application now only to have PG&E potentially re-submit it in early 2012 is cumbersome at best and potentially duplicative.

In addition to PG&E, the Independent Energy Producers Association ("IEP") and the Western Power Trading Forum ("WPTF") submitted comments on the PD. IEP requests that the Commission modify the PD to clarify that in any subsequent application, PG&E must address the Commission's policies on utility-owned generation, competitive procurement and treatment of development costs. WPTF in its comments raises the issues of utility-owned generation and development costs, but appears to believe that the PD addresses them.

The comment that PG&E must in any subsequent application address the Commission's policies on utility-owned generation and competitive procurement is without merit. Simply stated, because PG&E is not proposing to construct the Mokelumne Pumped Storage Project ("Project") in this Application, it is not required to show that the Project meets any applicable criteria for utility-owned generation. If, after performing the feasibility studies outlined in the Application, PG&E determines that construction of the Project is feasible and in the best interest of its customers, it would initiate a new proceeding at the Commission seeking authority to have the Project constructed. In the course of that proceeding, PG&E recognizes that it would need to address any applicable criteria for utility-owned generation. However, PG&E need not, and, in fact, could not, make such a showing prior to determining whether the Project is feasible, as the comment suggests.

The suggestion that PG&E's shareholders should absorb the development costs associated with the Project is equally unavailing. As stated in PG&E's initial comments on the PD, PG&E would be incurring the study costs to assure reliable electric service for its customers. Under traditional cost-of-service ratemaking, prudently incurred costs to provide utility service are recoverable from customers. Thus, IEP's and WPTF's suggestion that PG&E's shareholders should pay such costs runs counter to traditional cost-of-service ratemaking principles.

The asserted justification for IEP's and WPTF's position is that in order to maintain a "level playing field," investor-owned utilities such as PG&E must be subject to the same cost recovery risks faced by independent producers and that such entities absorb development costs associated with unsuccessful projects.¹ However, the argument fails to acknowledge that independent producers sell the output of their projects at market rates and earn market returns. In contrast, under a cost-of-service ratemaking model, PG&E's return is set at a regulated utility

¹ IEP Protest at pp. 6-8; WPTF Protest at pp. 7-8.

rate of return and cost savings on project capital are passed directly back through to customers. In this way, independent producers can realize a significantly greater upside than can utilities, making them better positioned to absorb stranded development costs. In light of this imbalance, it is reasonable for utilities to receive the benefit of upfront cost recovery assurances for projects that ultimately are not constructed.

CONCLUSION

For the foregoing reasons, PG&E respectfully requests that the Commission reject the comments filed by IEP and WPTF, grant its Application, or, at a minimum, decline to dismiss it.

DATED: September 6, 2011

Respectfully submitted,
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