

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

Order Instituting Rulemaking to Continue
Implementation and Administration of
California Renewables Portfolio Standard
Program.

Rulemaking 11-05-005

**CLEAN COALITION RESPONSE TO PG&E MOTION TO HOLD RAM AUCTIONS IN
ABEYANCE**

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The Clean Coalition respectfully submits this response to Pacific Gas & Electric’s (“PG&E’s”) Motion to hold the 2016 and 2017 RAM in abeyance until the Commission rules on PG&E’s Petition for Modification, submitted on July 14, 2016.

The Clean Coalition is a nonprofit organization whose mission is to accelerate the transition to renewable energy and a modern grid through technical, policy, and project development expertise. The Clean Coalition drives policy innovation to remove barriers to procurement and interconnection of distributed energy resources (“DER”)—such as local renewables, advanced inverters, demand response, and energy storage—and we establish market mechanisms that realize the full potential of integrating these solutions. The Clean Coalition also collaborates with utilities and municipalities to create near-term deployment opportunities that prove the technical and financial viability of local renewables and other DER.

The Clean Coalition respectfully urges the Commission to deny PG&E’s motion for the following reasons:

- The Clean Coalition opposes the motion because it will lead to substantial losses for developers and therefore higher costs for ratepayers. If the Commission allows PG&E to hold in abeyance or cancel the auctions required by the 2014 decision extending the RAM program through 2017, higher costs for ratepayers will result. Due to the expiration of the Investment Tax Credit (“ITC”) and Production Tax Credit (“PTC”) in the coming years, the delay in procurement resulting from granting the motion

would prevent projects from utilizing these subsidies. Granting the motion would further lead to higher costs by frustrating market expectations. Developers have spent significant resources preparing for this RFO, and these costs would increase and be factored into the next solicitation if PG&E's motion is granted. The new Phase 2 interconnection study requirement for submitting a RAM bid will further raise costs and forward planning time for the next solicitation.

- The RPS is a floor not a ceiling, and the Commission has already ordered PG&E to conduct the 2016 and 2017 RAM RFOs. PG&E should procure RPS resources in a more steady and consistent fashion rather than using the current approach that does not provide certainty to the market.
- A recent report from the Union of Concerned Scientists suggest that meeting the state's 2030 greenhouse gas emissions reductions targets may require achieving 50 percent renewables by 2024, which will require an accelerated pace of renewables procurement, not the slowdown PG&E argues is necessary.¹
- PG&E's argument that further cost reductions for renewable resources may result, justifying further deferral of procurement, is flawed. If the Commission had followed this rationale a decade ago, prices for renewables would not have dropped to the levels currently observed.

I. Discussion

PG&E requests that the Commission hold the 2016 RAM auction in abeyance until the Commission has ruled on PG&E's earlier Petition for Modification ("PFM") to cancel its 2016 and 2017 RAM auctions. PG&E argues: "Holding the 2016 solicitation in abeyance will benefit PG&E, potential bidders, interested parties, and the Commission by ensuring that these groups do not expend time and resources on a solicitation that may ultimately be cancelled."²

¹ James H. Nelson & Laura M. Wisland, Union of Concerned Scientists, *Achieving 50 Percent Renewable Electricity in California: The Role of Non-Fossil Flexibility in a Cleaner Electricity Grid* (Aug. 2015), available at <http://www.ucsusa.org/sites/default/files/attach/2015/08/Achieving-50-Percent-Renewable-Electricity-In-California.pdf>.

² PG&E Motion at 2 (July 14, 2016).

The Clean Coalition opposes the PG&E motion and also the February PFM that is the basis for PG&E's current motion. PG&E argues speciously that no parties will be harmed by holding the solicitation in abeyance or by cancelling the 2016 and 2017 RAM auctions.³ This argument is faulty for a number of reasons, including the fact that the Commission, at the utilities' urging, recently changed the requirement for a RAM bid from a Phase 1 interconnection study to a Phase 2 interconnection study. Obtaining a Phase 2 interconnection study can take two years or more and result in costs of up to \$70,000 for study fees. When engineering and legal costs are added, the cost can easily exceed \$100,000. PG&E misleadingly claims that developers who have expended this level of funds and have taken 2-3 years to prepare for the upcoming RFOs will not be harmed by either cancelling the auctions or holding the auctions in abeyance.

The Commission granted an earlier PG&E PFM, which altered PG&E's PV program by adding remaining capacity in that program to RAM.⁴ In granting the PFM, the Commission ordered PG&E to hold the 2016 RAM auctions in 2016 and 2017. That decision stated:

PG&E's petition for modification is granted. One half of the remaining capacity in the Solar PV program is transferred to RAM 6. The remaining 1/2 is transferred and shall be offered in two future solicitations, one in 2016 and one in 2017. PG&E shall file an Advice Letter 1 to identify the number of MW transferred to RAM 6 and the amount transferred to those future solicitations to be held in 2016 and 2017. We expect the total capacity to be approximately 200 MW.⁵

Accordingly, PG&E must offer the RAM auction in 2016.

- a. *Renewable energy developers require reasonable certainty and consistency in procurement programs.*

As discussed further in Section (c) below, uncertainty can be highly damaging to well-functioning markets. There is never complete certainty in any market, but the Commission should be vigilant about the value of predictability in procurement and the need to avoid

³ PG&E states: "No party will be harmed by holding the 2016 solicitation in abeyance. PG&E has not yet issued any solicitation materials, and thus it is unlikely that any party has expended time or resources preparing for the solicitation." PG&E Motion at 4 (July 14, 2016). This is untrue because PG&E's rules for RAM auctions require that applicants start planning 2-3 years in advance of a RAM auction—not months before PG&E as apparently suggesting with this strange statement.

⁴ D.14-11-042 at 92 (Nov. 20, 2014).

⁵ *Id.*

unnecessarily introducing more uncertainty regarding procurement programs—particularly for those focused on smaller project sizes than the RPS RFOs. In these programs, developers are generally less capitalized and risks are concomitantly higher. The Commission has, however, in recent years approved a number of renewable energy program changes that go against this long-standing market rule—including shifting hundreds of megawatts from the IOU PV programs prematurely into RAM and ReMAT.⁶ The Clean Coalition strongly urges the Commission to deny the motion in this instance in order to lessen the uncertainty present in the small utility-scale renewables markets.

b. The RPS is a floor, not a ceiling, and there is new data suggesting that the 2030 RPS targets must be met by 2024 in order to meet the state’s GHG reduction targets.

As Governor Brown has highlighted, the RPS is a floor, not a ceiling.⁷ Arguments that PG&E is on track to meet its RPS requirements ignore the benefits of exceeding the RPS requirements. A recent report from the Union of Concerned Scientists suggests that meeting the state’s 2030 greenhouse gas emissions reductions targets may require achieving 50 percent renewables by 2024, which will require an accelerated pace of renewables procurement, not the slowdown PG&E requests.⁸

c. PG&E provides no convincing evidence that conducting the 2016 and 2017 RAM RFOs will increase ratepayer costs.

PG&E’s argument that the Commission should defer further procurement of renewables because costs may decline in the future is not well supported by evidence. In fact, the claim is contradicted by other factors described below. Waiting for prices to drop further than they already have is a recipe for inaction, and such a course of inaction fails to help bring about the

⁶ D.14-11-042 (Nov. 20, 2014).

⁷ Office of Gov. Brown, Press Release, *Governor Brown signs legislation to boost renewable energy* (April 12, 2011), available at <https://www.gov.ca.gov/news.php?id=16974>.

⁸ James H. Nelson & Laura M. Wisland, Union of Concerned Scientists, *Achieving 50 Percent Renewable Electricity in California: The Role of Non-Fossil Flexibility in a Cleaner Electricity Grid* (Aug. 2015), available at <http://www.ucsusa.org/sites/default/files/attach/2015/08/Achieving-50-Percent-Renewable-Electricity-In-California.pdf>.

circumstances necessary for further price drops to occur. If the Commission had followed this rationale a decade ago, prices for renewables would not have dropped to the levels currently observed.

The cost of renewables has dropped significantly in the last decade, in part because of California's leadership on renewables procurement. But this context does not justify delaying procurement in the present instance. Much of this decline has been led by falling material and solar equipment costs, as these have become global commodities, and they represent an increasingly small share of total costs. With equipment price declines stagnating, as is expected in a maturing market, most forecasts do not expect to see the same rate of price reduction in the coming years. Even if prices do drop further, however, the impact of such cost reductions would be small because they represent only a fraction of current project costs. Other factors that have driven cost reductions are low interest rates, increasing access to capital, and most importantly, business cost reductions resulting from robust industry participation in a highly competitive market.⁹ Indeed, a major reason for the establishment of the RAM and ReMAT procurement mechanisms was to develop a medium- and small-scale renewable industry in California with experience and supply chains to support efficient project development and a steady pipeline of qualified proposals competing for procurement. Extended failure to offer procurement in this market sector will put at risk the progress that has been made in bringing costs down, and inhibit further experience-based price reductions.

Delaying procurement also prohibits qualified competitive projects from proceeding, forcing them to withdraw and discouraging participation in the market. In order to maintain an active competitive market, participants must have a reasonable expectation of market demand (i.e., that there will actually be an opportunity to bid and potential to win a contract).

In terms of costs to ratepayers, PG&E's motion ignores the impact of tax credits on the cost of renewables. Congress has agreed to extend the ITC—and PTC for wind—at the current 30-

⁹ Galen Barbose & Naïm Darghouth, Lawrence Berkeley National Laboratory, Tracking The Sun Report VIII: The Installed Price of Residential and Non-Residential Photovoltaic Systems in the United States (Aug. 2015), *available at* https://emp.lbl.gov/sites/all/files/lbnl-188238_1.pdf.

percent rate through 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021, and 10 percent in 2022. Because these credits are gradually phased out in that timeframe, RAM projects not achieving delivery by 2019 will add a 4% ITC reduction to their costs, and additional 4% the following year, and 12% the next year. This economic reality weighs heavily in favor of procurement in 2016 and 2017, per the current RAM schedule put in place by the Commission for this period, because these procurements typically require 24-36 months to start delivery. If the Commission grants PG&E's request, ratepayers will lose the opportunity to realize these ITC and PTC benefits and will likely pay higher prices for RAM procurement—not lower, as PG&E argues. PG&E provides no realistic projections supporting its position that costs will decrease at a rate sufficient to offset the scheduled reductions in ITC value.

d. Developers will be harmed and costs to ratepayers will increase under PG&E's sought cancellation of the 2016 and 2017 RFOs.

PG&E argues in its motion that developers will not be harmed, and future prices will therefore not be affected, by the sought cancellation of the 2016 and 2017 RFOs. This statement is inaccurate because PG&E and the other investor-owned utilities succeeded in changing the interconnection requirements for the RAM RFOs, now requiring a completed Phase 2 study or its equivalent just to bid into the RAM. Southern California Edison, in its reply to protests on its recent energy storage RFO application stated succinctly: “[I]n reality, it can take almost two years simply to get a Phase 2 interconnection study.”¹⁰ Accordingly, developers seeking to bid into the 2016 and 2017 RFOs have already entered the interconnection queue, which itself comes after acquiring site control (required for the interconnection application to be submitted), negotiating a land lease (required for site control), and performing the initial permitting work (economically required before negotiating a land lease). Just entering the interconnection queue for a Phase 1 study costs \$50,000 plus \$1,000 per megawatt, plus related engineering and legal work. Therefore, substantial costs up to \$100,000 have already been expended by many developers in direct anticipation of the 2016 and 2017 RAM auctions.

Moreover, there are required milestones for developers in the interconnection queue that may in

¹⁰ Southern California Edison Company's (U 338-E) Reply to Protests and Responses to Its Application for Approval of Contracts Resulting from Its 2014 Energy Storage Request for Offers (ES RFO) at 15, A.15-12-003 (Jan. 25, 2016).

many cases lead to loss of the queue position for those developers who have expended the required funds and time to obtain a Phase 2 study. When a developer loses a queue position they have to start the process over and expend the same funds again. The Rule 21 tariff requires that an Independent Study Process project submit a financial security posting within 60 days of issuance of the final System Impact Study report.¹¹ For example, SCE requires two separate payments for the initial posting of Interconnection Financial Security.¹² The first is due 60 days after issuance of the Final Interconnection Facility Study Report, and it amounts to 15% of the total interconnection construction cost or \$7.5 Million, whichever is less. A second deposit of an additional 20% is due 60 days later—120 days after the study report is finalized. In light of these substantial costs, a developer will not likely make the financial security posting without a PPA. Therefore, if a PPA is not obtained by this deadline, the project would have to withdraw from the queue, and the time and funds required to obtain the final System Impact Study would have been wasted. This issue is common to all types of projects that will be seeking a RAM PPA because similar requirements exist under the WDAT and CAISO interconnection tariffs for other interconnection procedures. For the reasons stated above, canceling the 2016 and 2017 RAM auctions will raise costs for ratepayers in the future as developers seek to recoup prior interconnection costs in later solicitations.

II. Conclusion

For the reasons discussed above, the Clean Coalition respectfully urges the Commission to reject PG&E's motion.

Sincerely,



Tamlyn Hunt

Consulting attorney for the Clean Coalition

¹¹ SCE Rule 21 Tariff § F.3.b.iv.

¹² SCE Rule 21 Tariff § F.4.b.

VERIFICATION

I, Tamlyn Hunt, am the attorney for the Clean Coalition and am the organization's representative for this proceeding. I am authorized to make this verification on the organization's behalf. The statements in the foregoing document are true of my own knowledge, except for those matters which are stated on information and belief, and as to those matters, I believe them to be true.

I am making this verification on the Clean Coalition's behalf because I have unique personal knowledge of certain facts stated in the foregoing document. I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 29, 2016, at Santa Barbara, California.

A handwritten signature in black ink, appearing to read 'TH' followed by a long horizontal stroke.

Tamlyn Hunt