

Remarks for Resolution E-4436 Item 39/39a North Star Solar

Colleagues, this was a very difficult decision for me, and I have spent a long time considering this project and the more general issues, and I wish to share some of thoughts behind my vote today.

While there are a variety of important factors we should use to measure the reasonableness of a project -- including need, viability, access to transmission, environmental impact, etc -- I think that the issue of cost and ratepayer value will be the critical factor in the coming years.

As some of you know, I have become increasingly alarmed about the potential for rising electricity costs to consumers as we push for a higher proportion of renewable energy. California already has electricity rates that are considerably higher than the national average, and most forecasts I have seen project that rates here will continue to rise in the future, perhaps by as much as 50% by 2020. I don't believe that this dynamic is well understood by both politicians and the general public, and -- like Cmr Florio -- I am most concerned that a sudden realization may cause the public to recoil from "sticker shock". We risk reversing policy direction -- which would be calamitous.

The decision before us today revolves substantially around the question of cost. The staff resolution says, even after PG&E and North Star negotiated to reduce the cost by over 20% during the last couple of months, this contract is not "competitive with PG&E's preliminary shortlisted bids from its 2011 RPS solicitation." The alternate acknowledges this fact but points out that the contract is consistent with PG&E's 2009 RPS procurement plan and -- as is stated in the Confidential Appendix -- that at its original, higher price, this solicitation was near the median of Offers to PG&E in its 2009 RFO.

This decision is a difficult and frustrating one for a number of reasons.

One frustration is that I cannot discuss the actual price with my four colleagues in this setting. I appreciate the need for confidentiality, but in close decisions like this one and -- as a numbers guy -- not being able to talk about the costs in real terms is very constraining.

It is also frustrating that we are required to make this individual go/no go decision in the absence of a wider context and without reference to some kind of overall cost budget.

Fortunately, this will change under Senate Bill X1-2 which governs the new 33% RPS. This law charges the CPUC with establishing, for each utility under its jurisdiction, a limitation on procurement expenditures for all eligible renewable

energy resources used to comply with the 33% RPS. The law says explicitly that this limitation is to be “set at a level that prevents disproportionate rate impacts.”

Although, the cost containment mechanism is yet to be determined, I believe that the only practical way for this to work is for the overall value of a project to be evaluated upfront at the time of the solicitation, rather than at the end of the process as we do now. A consistent, transparent, and well-designed cost containment methodology that is part of the bid evaluation process will reduce the market uncertainty that the current process causes when an individual contract comes before the Commission for final review. I believe that eleventh hour CPUC veto power should be used sparingly.

In terms of this specific project, I don't believe that it is appropriate to compare the cost of this project - - which was part of the 2009 solicitation - - with that of the 2011 solicitation pool. It is true that the 2011 solicitation pool is deep and we are seeing very good prices. But, in my mind, a negotiated and executed contract is not the same thing as a bid price. For me, I think that the appropriate point of comparison is the 2009 solicitation. On that basis, the project looks to be good enough following the most recent price adjustment and I don't believe that a CPUC denial of the contract is warranted.

Now, some might argue [in fact one of the Commissioners may well have done so...], that by denying this contract, which is expensive relative to the most recent cohorts of bids, we will save ratepayers money. For this one, relatively small contract in isolation, that may be true, but I am concerned that over the long term, this approach could have the unintended effect of pushing renewable prices even higher in the future.

The actions of the Commission today act to guide investment decisions in the future, and developers looking at a denial of this project could be discouraged from investing their time and money in Californian projects because of the uncertainty of contracts which we would have introduced as regulators. Ultimately, California needs substantial investments in our energy infrastructure (including renewable generation capacity) and creating this kind of regulatory uncertainty will drive away capital and ultimately will drive up the cost of future projects to ratepayers.

I believe that approving this contract will help to continue a stable and attractive market environment for renewable energy in California, and in the long run will be beneficial to ratepayers. Consequently, I will be voting for the Peevey Alternate to approve this project.

Moving forward, I hope that we together can roll up our sleeves and focus our efforts on creating a transparent cost-containment mechanism for the RPS process very soon. However, I do want to warn the utilities that until such a robust mechanism is in place - - specifically for their 2011 solicitations - - I do expect that they will exercise great skill and discipline in negotiating their contracts to get

maximum value for money for ratepayers. We can only be sparing in our use our 11th hour veto power if you do your work upfront.

With that, I wish to thank the staff who worked on the analysis on this resolution. In my mind, this decision was a close call.