PG&E's fall could hurt state push for cleaner energy

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It was a milestone worthy of a global stage: At an international climate change conference in New York exactly one year ago Thursday, PG&E Chief Executive Geisha Williams announced that 33 percent of the utility's electricity in 2017 came from solar, wind and other renewable sources, beating California's aggressive green-energy mandates by a full three years.

"We at PG&E are deeply committed to the California vision of asustainable energy future," she said.

A year later, Williams is out, PG&E is bankrupt — and the utility is making noise about backing out of some of its commitments to use renewable energy. In a court filing Tuesday, PG&E told the bankruptcy judge it wants the authority to cancel some of its renewable-energy contracts — many of which force PG&E to buy power at above-market rates.

Experts say the issue goes beyond Pacific Gas and Electric Co. and could undermine California's efforts to battle climate change. Aside from whether PG&E will ultimately cancel any supply contracts, other utilities could find financing deals with solar farms and other renewable suppliers more difficult because investors are becoming wary of pouring money into the state.

"California is now a riskier place to do business," said the Environmental Defense Fund's Michael Colvin, a former adviser to the California Public Utilities Commission. "This is a statewide problem."

Typically, the big utilities don't build their own solar and wind farms; instead they sign contracts to buy power for multiple years from independent developers.

PG&E has contracts worth a combined $44 billion on the books, according to court papers. Many of them, especially with solar-power providers, were signed years ago, when solar was four times more expensive than now, said Severin Borenstein, an energy economist at UC Berkeley. Investment firm Credit Suisse estimated that PG&E could save $2.2 billion a year if it could buy renewable energy at today's cheaper prices.

So PG&E has financial incentive to back out on some of those contracts — and bankruptcy law generally allows bankrupt companies to cancel existing contracts as long as the judge approves.

“The concern is that in bankruptcy, the contracts may be exposed to being terminated,” said Jan Smutny-Jones, director of the Independent Energy Producers Association in Sacramento. “That is the fear. Obviously we are looking to assurances that PG&E will continue to honor those contracts.”

So far, PG&E is promising nothing. In fact, it’s hinting it might want to get out of some of its renewable energy agreements.

The issue pits PG&E against renewable suppliers — and the federal government. On Jan. 25, the Federal Energy Regulatory Commission ruled that it has “concurrent jurisdiction” with the bankruptcy court to decide whether PG&E can back out of any renewable energy contracts.

On Tuesday, the same day it filed for bankruptcy, PG&E asked the bankruptcy judge to invalidate FERC’s decision and give the bankruptcy court exclusive authority over those contracts. The utility’s lawyers argued in court papers that PG&E has plenty of electricity, is paying “above-market rates” for much of its renewable energy, and should have the freedom to withdraw from its contracts.

PG&E “may decide that the most prudent avenue is to reject certain (contracts) in the exercise of their business judgment,” the utility’s lawyers wrote. “While it is entirely possible that the debtors ultimately decide to reject non, or avery limited number of their (contracts), the debtors will sustain irreparable harm if FERC were to compel a different outcome.”

The green-energy industry is on high alert. Even before PG&E filed for bankruptcy, Wall Street credit-rating agency Fitch downgraded to “junk bond” status the ratings of two major renewable projects that sell exclusively to PG&E: a solar farm near San Luis Obispo owned by financier Warren Buffett’s Berkshire Hathaway Energy, and a string of geothermal geysers in Sonoma and Lake counties owned by Calpine Corp. of Houston.

The two projects produce a combined 1,200 megawatts of power, enough to serve 900,000 homes. The carbon displaced by the San Luis Obispo plant alone is the equivalent of taking 73,000 cars off the road, according to Berkshire Hathaway.

California elected officials such as Gov. Gavin Newsom have vowed that the utility's bankruptcy won't derail the state's march toward a carbon-free future.

Green advocates also take comfort in PG&E's performance during its first bankruptcy, in 2001. The company had a relatively small number of renewable energy contracts in place, which were required by federal law, and honored all of them.

Now, however, the company has more contracts in place, as the California Legislature has dramatically ramped up the requirements on utilities to make use of renewable energy.

The state's first "renewable portfolio standard" was signed into law by then-Gov. Gray Davis in 2002. The law required utilities to become 20 percent renewable by 2017.

A 2011 law established a 33 percent green-energy minimum by 2020 — the threshold that PG&E boasted about meeting three years early. And last September, former Gov. Jerry Brown signed SB 100, requiring utilities to be 50 percent green by 2026, 60 percent by 2030 and 100 percent by 2045.

Meeting those targets will require a lot of investments by California's utilities in the coming years. PG&E's predicament won't help. Neither will the fear that as mega-wildfires become more routine, other utilities could get dragged down financially.

"It could have a chilling effect for financing the renewable projects ... that everybody acknowledges we need to meet our aggressive climate goals in California," said Sean Gallagher, a vice president with the Solar Energy Industries Association's California office. "It could go beyond projects for PG&E, because other utilities are facing similar kinds of issues."

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