From: Redacted
Sent: 2/10/2010 9:46:45 AM
To: 'Simon, Sean A.' (SVN@cpuc.ca.gov)
Cc: Allen, Meredith (/O=PG&E/OU=Corporate/cn=Recipients/cn=MEAe)
Bcc:
Subject: RE: Agua Caliente

Sean,
I did not understand that you wanted a justification of reasonableness.

PG&E agreed to this provision in order to get RA credit for the project. Given the very tight credit market, the Seller was not willing to front the transmission upgrades and wait 5 years for refund, even if PG&E was willing to agree to a PPA price adjustment. The alternative was to get an energy-only resource, with no chance of RA.

We calculated RA value at $40/mwh. You can see this in Appendix D, where we show the capacity value as $0-$40/mwh (without and with RA). In a single year, capacity value is $27 million ($40/mwh*688,000 mwh/year) = $27.5 million. This number is well in excess of any financing costs, making the proposal very reasonable.

Sandy

From: Simon, Sean A. [mailto:svn@cpuc.ca.gov]
Sent: Wednesday, February 10, 2010 7:50 AM
To: Redacted
Cc: Allen, Meredith
Subject: RE: Agua Caliente

Sandy,

This is very helpful, thanks.

At the meeting with Nextlight, ED also asked for analysis to justify why having PG&E fund the transmission upgrade costs, as set forth in the PPA, is reasonable. Pleas let me know what the status of that request is.

Regards,
Sean

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From: Redacted
Sent: Tuesday, February 09, 2010 5:25 PM
To: Simon, Sean A.
Cc: Allen, Meredith
Subject: Agua Caliente

Sean,

As we discussed, here is some more detail on PG&E's proposed accounting for the transmission costs addressed in Section 4.1 (b) of the Agua Caliente contract.

PG&E typically defines an incurred cost that would be recorded in the ERRA balancing account as an expense according to Generally Accepted Accounting Principles (GAAP). The cost to purchase power for our customers is an example of an expense. Expenditures that would be capitalized in accordance with GAAP are generally not recovered in balancing accounts because there is no associated expense. Collateral deposits that PG&E posts with a counterparty are an example of an expenditure that is classified as a asset (a receivable) from the counterparties. The expenditure for a collateral deposit, or some portion thereof, could become a GAAP expense recoverable in ERRA if there is a realized gain or loss associated with the collateralized transaction.

The payment for transmission upgrades that is specified in the PPA, and the subsequent repayment over the 5 year refund period would be an advance or a loan, with the expected refund treated as an accounts receivable, and recorded on the company's books as an asset. The asset would be returned with interest over the course of the term of the agreement. The only cost to be borne by customers and recorded in ERRA, if any, would be any cost to borrow the funds advanced in excess of interest earned.

Treatment of the transmission reimbursement as a balance sheet asset, rather than an expense to be recovered from ratepayers through ERRA is consistent with how PG&E accounts for other outlays of cash such as prepayments, collateral, or deposits. This accounting treatment was discussed in PG&E's 2006 ERRA Compliance proceeding opening testimony as it related to collateral deposits. Decision 07-11-27, COL 2, found PG&E's PG&E's procurement-related revenue and expenses recorded in its ERRA balancing account during the Record Period are reasonable and prudent

Since the reimbursement is a balance sheet item associated with timing of cash flow, and not a purchased power expense, and since PG&E's proposed accounting is consistent with GAAP and CPUC policy, no additional direction is required in the resolution, other than the finding that PG&E requested: "The utility's costs under the PPA shall be recovered through PG&E's Energy Resource Recovery Account."

Sandy