From: Simon, Sean A.
Sent: 3/23/2010 10:04:58 AM
To: Redacted
Cc: Allen, Meredith (/O=PG&E/OU=Corporate/cn=Recipients/cn=MEAe)
Bcc:
Subject: RE: Agua Caliente

Sandy,

I have several follow up questions. Please give me call once you've had a chance to review.

1. Is PG&E asking for backstop cost recovery pursuant to Public Utilities Code 399.2.5? If not, please explain why not.
2. Will PG&E seek authorization from FERC for repayment of network upgrade costs associated with the Agua Caliente project?
3. Please explain in detail all parties involved, and their role, in the payment of transmission upgrade costs for the Agua Caliente project and the reimbursement of these costs.
4. If the "reimbursement" for PG&E to fund the network upgrades is treated as a balance sheet asset, explain why PG&E needs Commission approval of this
5. Where will the monies for paying Aqua Caliente the network upgrade costs come from? For example, will PG&E borrow the money? If PG&E borrows the money, how will any discrepancy between the interest rate PG&E pays on the loan vs. the interest rate earned on the TAC funds be settled?

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