

**CONFIDENTIAL**

April 14, 2010

To: Susannah Churchill (CPUC – Energy Division)  
From: Joe Lawlor (PG&E)

Hi Susannah – below are the responses to your additional few questions regarding the DTE Stockton contract.

Questions

Re. Question 1 on max /min price: What I am looking for is the max and min *levelized* price (both TOD adjusted and not) for the full length of the contract. I see from your reply that the max levelized price is \$137.09/\$141.09/MWh, but I do not see any min levelized price (both TOD adjusted and not). I assume it's lower than the base price b/c low fuel prices would result in the price decreasing below base.

Please state the min levelized price (both TOD adjusted and not).

Answer:

To compute the minimum price we assumed the same generation profile for the unit and starting in 2018 included a negative \$12.50/MWh adjustment (i.e. assuming fuel prices are so low that the Seller pays PG&E \$12.50/MWh). In that case, the prices requested are:

- Levelized contract price over the term of the contract assuming a \$12.50 payment from seller to buyer starting in 2018 (due to very low fuel prices): \$121.21/MWh
- Levelized TOD adjusted contract price over the term of the contract assuming a \$12.50 payment from seller to buyer starting in 2018 (due to very low fuel prices): \$125.02/MWh

Re. Question 2) on GHG change of law provision: You state that seller "refused to accept the potential risk of future GHG **legislation** under the prices offered since if GHG costs later came into effect it could make the plant unviable under the offered pricing." AB 32 regulations and resulting prices will not be as a result of new legislation, but rather will flow from new administrative rules promulgated under existing law; this is why I am unclear if AB 32-related cost increases are meant to be in this category. However, it looks from the PPA language like cost increases resulting from AB 32 rules would qualify. Please clarify.

Answer: Correct, costs resulting from implementation of AB32 would qualify under this term.