From: Jeung, Gary P
Sent: 9/28/2010 9:19:12 PM
To: 'Simon, Sean A.' (sean.simon@cpuc.ca.gov)
Cc: Allen, Meredith (/O=PG&E/OU=Corporate/cn=Recipients/cn=MEAe); Douglas, Paul (paul.douglas@cpuc.ca.gov)
Bcc:
Subject: RE: Abengoa - info needed

Sean:

I don't have the contract in front of me but here is a quick summary:

1. Signed PPA requires RA from the project as part of the attributes. RA value is based on an RA curve that is used for all project evaluations. That value increases as the need for a new resource nears. By 2017 the RA value is between $150 and $200/kW-yr

2. Abengoa realized several months ago that they faced a high risk of not being able to meet the obligations of the contract due to the time it could take for transmission upgrades which would provide the deliverability PG&E needs to count the project for RA.

3. Abengoa approached PG&E about the need for an amendment. Our message was we were willing to work with them so long as the value is not degraded and PG&E's customers are not taking on additional risk. Abengoa continued to work with SCE and the CAISO to get a better understanding of the situation.

4. Potential solutions floated back and forth and earlier this month PG&E proposed the following indicative structure:

1. **Contract Price**: For Contract Years in which the project does not have full deliverability (and thus full RA), the contact price will be $190 (post-TOD). For Contract Years with full deliverability (and thus full RA) the Contract Price will remain unchanged at $196 (post-TOD)
2. **Liquidated Damages for failure to deliver full RA**: Up until the first Contract Year that the project has full deliverability/RA, liquidated damages will be assessed for the portion of full RA (deemed to be 200 MW) that is not delivered. The liquated damages will be the RA Shortfall amount in any Contract Year (e.g. 50 MW, if the project were to only receive 150 MW in RA, given that full RA is 200 MW) multiplied by the Bay Area RA price for that year. The Bay Area RA price will be determined by PG&E's RA procurement efforts (more specific details to be worked out, if the parties are able to come to terms on the broader concept). Until 12/31/2016, a price collar will exist - the minimum RA price will be $50 per kw-year (floor) and the maximum will be $100 per kw-year (ceiling). Beginning on 1/1/2017 and going forward, there will be no price collar for the Bay Area RA price. For example: If the project only receives 150 MW in RA, the calculation would be as follows: 50 MW RA shortfall (200 MW minus 150 MW) multiplied by Bay Area price (assume $75 per kw-year) = $3.75 million for the year.
3. **Termination Right**: If full RA deliverability does not exist by 12/31/2016, PG&E will have a termination right from that point and going forward. If PG&E does not exercise its termination right and the project establishes full deliverability, the termination right will expire.
4. **Option to Extend Contract**: For each Contract Year that the project does not have full RA deliverability, PG&E receives the option to extend the existing contract by an additional year beyond the end of the contract term.

PG&E anticipated that Abengoa would either accept this or if they did not accept this, would notify us as to what the remaining challenges would be to financing. They did not do this. One characteristic that PG&E felt could be a challenge for Abengoa is the termination right starting in 2017. We had internally discussed alternatives to remove a termination right but ensure that PG&E and its customers retained the potential long-term RA value if the project was still unable to provide RA. However, we did not want to propose other alternatives until Abengoa responded.

gary

From: Simon, Sean A. [mailto:sean.simon@cpuc.ca.gov]
Sent: Tuesday, September 28, 2010 4:56 PM
To: Allen, Meredith; Jeung, Gary P
Cc: Douglas, Paul
Subject: Abengoa - info needed

Gary,

Following up on our conversation. Can you please send in an email a brief explanation for why PG&E is requiring modifications to the Abengoa contract. Please include the necessary dates, contract price and market value data points and resource adequacy assumptions. Also, please explain where the negotiations stand and what the next steps are.

Regards,
Sean

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