

From: Allen, Meredith
Sent: 10/20/2010 10:38:37 AM
To: 'Schwartz, Andrew' (as2@cpuc.ca.gov)
Cc:
Bcc:
Subject: CONFIDENTIAL: Sunpower

CONFIDENTIAL

Andy,

We had a call with Sunpower this morning to discuss a price reduction in the PPA to share any benefits of the cash grant in lieu of ITC and the DOE loan guarantee. They stated that the current economics of the 40 MW PPA would not allow them to reduce the price given increased project costs and the fact that they are very close to finalizing a deal with a partner who would own the entire 250 MW at that site. They have been negotiating this deal for 6 months. Pursuant to this deal, Sunpower would build and operate the project and the equity would be provided by the partner.

Through these negotiations, the partner has reviewed all the project financials, including the increased costs, the potential ARRA benefits and the revenues from both PPAs (210 MW and 40 MW). Sunpower indicated that reducing the revenues from the 40 MW PPA at this point in time would jeopardize the close of that transaction, particularly given the increased costs the project has experienced. For example, the mitigation requirements in the County's draft EIR is 5 to 1. That means for a 2,000 acre project they would need to set aside 10,000 acres at a time when land costs for solar projects are increasing by multiple factors. This partner is planning to make a significant cash commitment of \$100 million prior to end of the year to ensure that the project is eligible for the cash grant and therefore, the economics and timing are critical to them.

From PG&E's perspective, it increases the viability of both the already approved 210 MW PPA and the 40 MW PPA to have a partner provide the equity for the entire 250 MW project and mitigates against Sunpower seeking price increases if they can't find other financing, which is difficult to do for a project of this size.

All in all given the timing of the transaction with the third party, the increased viability of the entire 250 MW and the already good prices in both PPAs, we do not believe it worth jeopardizing the viability of the entire 250 MW for the potential for a small percentage price reduction on the 40 MW PPA.

Hope that is helpful. Please let me know if you need more information. Also, the agreement with the partner is very confidential and has only been provided to PG&E in the context of our NDA with Sunpower.

Thanks,
Meredith