

From: [Redacted]
Sent: 2/4/2011 2:49:24 PM
To: Simon, Jason (jason.simon@cpuc.ca.gov); 'Simon, Sean A.' (sean.simon@cpuc.ca.gov)
Cc: Allen, Meredith (/O=PG&E/OU=Corporate/cn=Recipients/cn=MEAe)
Bcc:
Subject: Sempra Mesquite follow-ups

CONFIDENTIAL MATERIAL

Sean and Jason:

Here are the two follow-up items from our conversation earlier today.

1. Can RA can be obtained under a Pseudo-PGA?

We expect that RA can be obtained under a Pseudo-PGA. Currently, the conventional resources delivering under pseudo-tie agreements count for system RA. However, the CAISO rules have not been finalized for pseudo-tie arrangements for intermittent resources. Thus it is not certain whether the project will qualify for RA under a Pseudo-PGA arrangement. Whether or not Sempra connects with a PGA or pseudo-PGA, the CAISO will need to make a finding of Full Capacity Deliverability in order to qualify for RA. However, if the CAISO does not grant Sempra Full Capacity Deliverability Status by full COD, the price of the contract is reduced by \$20/MWh, multiplied by the fractional portion of the Contract Capacity that is Energy only and is not deliverable, until such time as Sempra receives an assessment from the CAISO that the entire Contract Capacity of the Project is fully deliverable. The \$20/MWh (\$24/MWh post-TOD) reduction is approximately equal to the lost RA value.

2. Why is PGA preferred over PPGA (pseudo-tie)

Sempra has told us that they prefer to operate under an ordinary PGA, as that option is available now and already clearly defined. The rules for Pseudo-PGAs are still being worked out, and as a result, a pseudo-PGA could not be signed for several months. Sempra has already made good progress with the CAISO to get their metering solution accepted. The CAISO metering solution has similar costs as the pseudo-tie, but a faster path to participating generator agreement.

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Regulatory Relations Manager
Pacific Gas & Electric Co.

[Redacted]