

From: Allen, Meredith
Sent: 7/7/2011 1:15:39 PM
To: 'jf2@cpuc.ca.gov' (jf2@cpuc.ca.gov); 'Douglas, Paul' (paul.douglas@cpuc.ca.gov);
'Simon, Sean A.' (sean.simon@cpuc.ca.gov)
Cc:
Bcc:
Subject: CONFIDENTIAL: Terragen Coyote Canyon

CONFIDENTIAL

Julie, Paul, Sean,

As I mentioned, PG&E had agreed that it would be helpful to have more information concerning the interconnection of the project and the project's ability to meet the PPA's milestones prior to issuing a draft resolution for the project. In the latest workplan, we had therefore suggested a 10/6 CPUC meeting.

While Terragen can physically interconnect to the CAISO from Nevada through a long gentie they currently own, Terragen had concerns with the downstream network upgrade costs estimated by the ISO and requested additional time to post their deposit. The ISO rejected Terragen's request and Terragen appealed the CAISO's decision with FERC. As a result, Terragen did not make their deposit to the ISO. Terragen's appeal has been dismissed.

Terragen is currently working on a JV with a third party to use their LGIA. They plan to sign a non-binding term sheet with the third party this week and then will focus on negotiating an operating agreement. Once that agreement is negotiated, they will approach the ISO to determine whether Coyote Canyon can use the LGIA. Concurrently, Terragen is also going through the CAISO's Cluster 4 interconnection process.

Terra-Gen indicated to us this week that they are spending approximately \$30 million in drilling expenses before obtaining PPA financing. They are in the process of drilling wells and they plan to spend \$10 million to drill a core and slim well in August, but will likely delay that drilling schedule absent action on the PPA. They have indicated that they are concerned that a delay in the drilling schedule could impact the overall project schedule. Although they have a financing delay in the PPA and expect to meet the PPA milestones, they stated that their major concern is that drilling delays may cause issues with achieving COD by 12/31/2013 which is the cash grant deadline for geothermal projects.

One possible way to balance these interests would be to issue a draft resolution in August for a 9/22 CPUC meeting. That would provide Terragen with some indication on the thinking on the PPA. This approach could be conditioned on Terragen providing updated information on the interconnection in mid-August or whatever deadline you believe is necessary. We have not approached Terragen with this idea as we first wanted to get your thoughts on whether this made sense and is even feasible.

Please let me know if additional information would be helpful or you would like to discuss.

Thanks,
Meredith