From: Allen, Meredith
Sent: 8/31/2011 8:57:28 PM
To: 'Murtishaw, Scott' (scott.murtishaw@cpuc.ca.gov)
Cc:
Bcc:
Subject: CONFIDENTIAL: Solar Reserve

Scott,
We reviewed both the import capacity and allocation issues that we discussed the other day. Our understanding is below. As noted, there are scenarios in which the import capacity will not be available and PG&E will not be allocated enough capacity to provide RA for the Solar Reserve project. PG&E, therefore, will need a binding commitment from the CAISO that the import capacity will be available and allocated to PG&E for the term of the PPA. As we discussed, if the CAISO cannot provide this assurance, PG&E will not move forward with the transaction.

Given the price of this project at nearly $190/MWh, the less expensive market alternatives for RPS projects with start dates in the 2015-2016 timeframe and the fact that our need for RPS energy is not as great, we cannot move forward with a transaction that places any additional material risk on customers. Our guiding principle with these solar thermal projects is that we would work with the developers and move forward with amendments, if we could preserve the original value of the PPA for our customers. With Abengoa, we were able to achieve that goal given that they were willing to take on the risk that RA may not be available for the project. Unfortunately, Solar Reserve is not willing to take on that risk and therefore, we have been working on a regulatory approach that would not place material risk on our customers given the fact that they are already bearing the burden of a high priced PPA that could be terminated. If a regulatory approach will not work and Solar Reserve is not willing to take on the additional risk, we do not see a path forward for this PPA. We will still have the Abengoa, NextEra Genesis and Bright Source solar thermal PPAs in our portfolio.

Please let me know if you have questions or would like to discuss.
Thanks,
Meredith

Import Capacity: Our understanding is that the annual import capacity is calculated based on historical usage. While there is some accommodation for new capacity that then also becomes existing and is subject to the same calculation. As a result, if the imports go down in one year, the import capacity drops. While the ISO advisory estimates are helpful, they do not guarantee that there will be that much capacity at each intertie for each year. Given that the import capacity is not guaranteed each year for the term of the PPA, there is a risk that insufficient RA capacity will be available for the project. If the CAISO is willing to make a binding commitment for the term of the PPA that the import capacity will be available and will be allocated to PG&E, this risk would be addressed.

Allocation of Capacity: The annual allocation of RA capacity is based on nomination, unless the capacity is oversubscribed. In that situation, PG&E would receive a pro rata share based on load. As a result, if sufficient capacity is available under the current rules, PG&E should receive an allocation. The larger concern is that the import capacity is not available or rules change. As mentioned above, if the CAISO is willing to make a binding commitment that the import capacity will be available and will be allocated to PG&E, this risk would be addressed.