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California Energy Commission

Lowering the Effective Cost of Capital for Generation Projects

Q&A

Moderator: Steve Zaminski, SVP

Starwood Energy Group

June 27, 2006

Observations about Renewable Projects

- Meeting the CA RPS is difficult
- Smaller projects
- Credit implications for entrepreneurial developers
- Other costs / obstacles

Non-quantitative Impact of Credit

- Double down - Material increase in risk for developers
- Effect on competition
- Controllable risk?

Credit Cost: Renewables

- Wind project
  - Adds ~6%[1] to the capital cost[2]

Source: KEMA Inc. / Black & Veatch draft report, June 2006, Starwood Energy Group estimates.

(1) Assumes pre-bid security ($3/kw), 6 months to resolve short-list before cash is posted for development security ($20/kw) at PPA execution and 24 months of development/construction to reach COD before a letter of credit is obtained at a cost of 3% per annum for operating collateral. Assumes carrying cost of cash is 12% and a discount rate of 10%. Foregone debt (8% interest on fully-amortizing debt over life of PPA) capacity is estimated by assuming the 3% annual fee on the letter of credit for operating collateral reduces the total available cash flow for debt service.

(2) Assumes a developer bids into PG&E's 2006 Renewables RFO with a 100 MW wind facility with a capacity factor of 35% and a 20 year contract price of $60/MWh.

Credit Cost: Peaker

- Peaker (supports renewables)
  - Adds ~9%[1] to cost[2]

- Requires ~8% higher capacity payment[1]
  - Carrying cost
  - Reduced debt capacity

Source: KEMA Inc. / Black & Veatch draft report, June 2006, Starwood Energy Group estimates.

(1) Assumes pre-bid security ($5/kw), 6 months to resolve short-list before cash is posted for development security ($10/kw) at PPA execution and submission to CPUC for approval, 12 months for CPUC approval before cash is posted for increased development security ($60/kw) and 24 months of development/construction to reach COD before a letter of credit is obtained at a cost of 3% per annum for operating collateral. Assumes carrying cost of cash is 12% and a discount rate of 10%. Foregone debt (8% interest on fully-amortizing debt over life of PPA) capacity is estimated by assuming the 3% annual fee on the letter of credit for operating collateral reduces the total available cash flow for debt service.

(2) Assumes a developer bids into PG&E's 2005 All-source RFO with a 100 MW range peaker facility.

PPA Interconnection Issues

Additional obstacles / risk

- Process and timing to determine cost
- Developer risks from interconnection

Tom French – CA ISO

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