
**RENEWABLES
PORTFOLIO
STANDARD**

**SOLICITATION
PROTOCOL**



June 30, 2006

(Conformed with D.06-05-039)

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- Attachment A: RPS Solicitation Protocol Agreement
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- Attachment G: Form of Power Purchase and Sale Agreement for As-Available Product (Eligible to participate in Eligible Intermittent Resource Program (EIRP))
- Attachment H: Form of Power Purchase and Sale Agreement for an As-Available Product (Not eligible to participate in EIRP)
- Attachment I: Form of Power Purchase and Sale Agreement for a Baseload, Peaking, or Dispatchable Products
- Attachment J: Term Sheet (Buyout Option)
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I. INTRODUCTION

A. Implementation of California Renewables Portfolio Standard Program

The California Renewables Portfolio Standard Program (“RPS Program”) was established by California State Senate Bill 1078, effective January 1, 2003.¹ The RPS Program requires that a retail seller of electricity such as Pacific Gas and Electric Company (“PG&E” or “Utility”) purchase a certain percentage of electricity generated from eligible renewable energy resources (“ERR”). For purposes of this Solicitation and any Agreement executed pursuant hereto, an ERR is a facility that is certified by the California Energy Commission (“CEC”)² and meets all the criteria set forth in Public Utilities Code Sections 383.5 and 399.12 and the CEC’s implementing Guidebooks. Each utility regulated by the Public Utilities Commission of the State of California (“CPUC”) is required to increase its total procurement of capacity and energy generated by ERRs by at least 1% of annual retail sales per year so that 20% of its retail sales are supplied by ERRs by 2017. As a matter of policy, the CPUC has accelerated the deadline to 2010.

B. Request for Bids

PG&E is instituting a process (the “Solicitation”) to request interested parties that meet the criteria established in this document (the “Solicitation Protocol”) to submit in accordance with the directions in this Solicitation Protocol one or more bids to provide capacity and energy generated by existing or planned ERRs to PG&E (each bid is hereinafter referred to as an “Offer”). For purposes of this Solicitation Protocol, the generating facility described in the Offer shall be referred to as a “Project.” An entity submitting an Offer(s) in response to the Solicitation Protocol is hereby defined as a “Participant” in this Solicitation.

As explained more fully below, PG&E is seeking Offers for (a) power purchase, (b) power purchase and buyout option, (c) purchases and sale of generating facility, and (d) purchase of site.

PG&E will evaluate the Offers and then create a list of Offers that meet the evaluation criteria established herein and merit further discussion and negotiation with PG&E (the “Shortlist” of Offers or “Shortlisted” Offers). If an Offer is not included on the Shortlist, it means it did not satisfy the Solicitation Protocol criteria and is not entitled to further consideration by PG&E for this 2006 RPS Solicitation.

A Participant should prepare its Offer(s) with the understanding that (1) the Offer(s) is a binding offer in accordance with Section V.A., “Binding Nature of Offer,” and (2) the result of a successful discussion and negotiation with PG&E would mean entering into a (a) purchase and sale agreement with PG&E using one of the forms of agreement attached hereto as Attachments G-I (each of which can be referred to as either a “Form Agreement” or a “Power Purchase and

¹ See, Cal. Pub. Util. Code §§ 399.11-399.25 and Cal. Pub. Res. Code §§ 25740-25751.

² “CEC” is the State of California Energy Resources Conservation and Development Commission, a.k.a. California Energy Commission.

Sale Agreement”), as supplemented, if applicable, by Attachment J (Buyout Option Term Sheet) or (b) term sheet with respect to PG&E’s ownership of a generating facility, as set forth in Attachment K (“PSA Term Sheet”), or (c) Agreement to be developed for PG&E’s purchase of a site, “Site Agreement.” For purposes of this Solicitation Protocol, use of the term “Agreement” refers to the final, executed future agreement between PG&E and Participant resulting from this Solicitation and based on the Form Agreement or Term Sheet. Please refer to Section VI for details regarding the Form Agreements and Term Sheets.

A Participant is solely responsible for all its expenses related to its Offer or any other expenses incurred in connection with this Solicitation. PG&E agrees and requires that each Participant agree to act in good faith in its performance of obligations under this RPS Solicitation Protocol and, in each case in which PG&E’s or Participant’s consent or agreement is required or requested hereunder, such consent or agreement shall not be unreasonably withheld or delayed.

C. Offer Submittal Deadline

To be considered in this Solicitation, an Offer, as defined in Section I.B, must be received by PG&E in accordance with this Solicitation Protocol no later than 3:00 p.m. Pacific Prevailing Time (“PPT”) on Friday, September 8, 2006.

D. No Guarantee of Offer or Agreement

PG&E welcomes Offers under this Solicitation and anticipates executing contracts, as it has done in the previous three solicitations seeking renewable power. However, PG&E’s solicitation of Offers through the publication of this Solicitation Protocol does not constitute an offer to buy and creates no obligation to execute any Agreement as a consequence of this Solicitation. PG&E shall retain the sole discretion to reject any Offer at any time on the ground that it does not conform to the terms and conditions of this Solicitation Protocol. PG&E also retains the discretion, at any time, in its sole judgment, to: (a) reject any Offer on the basis that it does not provide sufficient customer benefit or that it would impose conditions that PG&E determines are impractical or inappropriate; (b) formulate and implement appropriate criteria for the evaluation and selection of Offers; (c) negotiate with Participants to maximize customer benefit; (d) modify this Solicitation Protocol as necessary to improve the implementation of this Solicitation and to comply with applicable law or other direction provided by the CPUC or any other regulatory entity with applicable jurisdiction; (e) reject any selected Offer not supported by the Procurement Review Group (“PRG”), established pursuant to D. 02-08-071 and made applicable to this Solicitation by D.04-06-015, in a timely manner; (f) condition PG&E's acceptance of any selected Offer on the Participant’s agreement to modify such Offer as recommended by the PRG; and (g) terminate this Solicitation if PRG concurrence is not timely obtained for any selected Offer. Notwithstanding the above, PG&E reserves the right to either suspend or terminate this Solicitation at any time for any reason whatsoever. PG&E will not be liable, by reason of such withdrawal or rejection, to any Participant submitting an Offer in response to this Solicitation.

In its sole discretion, PG&E may also elect to pursue an Agreement with any Participant that has submitted a selected Offer with which the PRG has not concurred, subject to PG&E obtaining



Regulatory Approval of such Agreement as provided in Section XVI of this Solicitation Protocol and the applicable Agreement.

Under no circumstances shall PG&E be contractually bound by the terms of any Participant’s Offer until all the terms of the “Conditions Precedent” set forth in the Agreements, which include PG&E’s execution of the Agreement, CPUC Approval of the Agreement, and rate recovery of payments made thereunder, have been satisfied, or, in PG&E’s sole discretion, have been waived in writing.

II. SOLICITATION SCHEDULE AND APPROVAL PROCESS

A. Solicitation Schedule

The table below summarizes the estimated Solicitation schedule. Further detail of each event in the schedule is provided below.

Table II.1: PG&E Solicitation Schedule

DATE	EVENT
Ongoing	Participant may register on-line at PG&E’s website
June 30, 2006	PG&E issues Solicitation Protocol
July 10, 2006	Participant submits Notice of Intent to Bid and reservation for Pre-Bid Conference
July 20, 2006	Pre-Bid Conference
September 8, 2006	Deadline for Participant to submit Offer(s)
October 20, 2006	PG&E selects Shortlist of Offers and consults with PRG
Q4 2006-Q1 2007	PG&E and Participants negotiate and execute Agreements subject to Regulatory Approval; PG&E submits Agreements for Regulatory Approval

This schedule is subject to change at PG&E’s discretion with CPUC concurrence, at any time. The Solicitation schedule may be affected by, among other things, deliberations of the PRG, negotiations with selected Shortlisted Participants, and proceedings before the CPUC, including, but not limited to, proceedings to obtain Regulatory Approval. PG&E will endeavor to notify Participants of any schedule change, but will have no liability or responsibility to any Participant for failing to do so.

B. Events in Solicitation Schedule

1. Online Registration. Participant may register at the RFO website: www.pge.com/renewableRFO; however, registration is not mandatory. Registering will establish the Participant on PG&E’s notice list and insure that Participant receives timely announcements and updates.
2. PG&E issues Solicitation Protocol: June 30, 2006.

3. Notice of Intent to Bid. Participant shall submit “Notice of Intent to Bid,” Attachment C hereto, by no later than July 10, 2006. The Notice of Intent to Bid shall contain basic Project information and a reservation to attend the pre-bid conference. The Notice of Intent to Bid is nonbinding and failure to submit it by the schedule date will not disqualify a Participant.
4. Pre-Bid Conference. PG&E will hold a Pre-Bid Conference at the following time:

**PG&E 2006 RPS Solicitation
Pre-Bid Conference
Thursday, July 20, 2006
1:00 – 4:00 p.m.**

**PG&E Auditorium
77 Beale Street
San Francisco, CA**

5. Offer Submittal Deadline. Participant’s Offer(s) must be submitted by the deadline shown below. Participant’s Offer must follow the format and include the documents described in Section VIII. Submittals must be tendered electronically and in hard copy. Failure to submit the requested documents and failure to follow the noted format may disqualify the Participant’s Offer(s).

Deadline: Friday, September 8, 2006, 3:00 p.m. (PPT)

6. PG&E Selects Shortlist. PG&E intends to select a Shortlist of Offers for further negotiations. The Shortlist and results of subsequent negotiations will be shared with PG&E’s Procurement Review Group (See Section XIII). A Participant selected for the Shortlist will be required to post a Bid Deposit, in accordance with Section V and execute a Confidentiality Agreement in the form attached to the RPS Solicitation Protocol Agreement (Exhibit 1 to Attachment A) whereby Participant agrees to keep confidential the terms discussed during the course of negotiating the Agreement.
7. CPUC Releases the Market Price Referent (“MPR”). The MPR will be used to calculate how much of Participant’s price will be paid directly by PG&E under the Agreement and how much, if any, will be eligible to be paid as Supplemental Energy Payments (“SEPs”) by the Public Good Charge account administered by the CEC. See Section IV.A below for more details.
8. PG&E and Shortlisted Participants Finalize Agreements. PG&E and Shortlisted Participant(s) will complete negotiations of the Agreement. The final Agreements will be shared with the PRG.

9. PG&E and Final Participants Execute Agreement(s). After the PRG has reviewed the final Agreement(s), PG&E and Participant will sign the Agreement(s). The effectiveness of each Agreement is subject to CPUC Approval as defined in the Agreement and any other conditions precedent set forth in the particular Agreement.
10. PG&E Submits Agreements for CPUC Approval. PG&E will seek final CPUC Approval of each Agreement. If Participant's price exceeds the MPR and Participant intends to seek SEPs from the CEC, Participant should submit an application to the CEC for SEP funding at that time.

The 2006 RPS Solicitation Schedule adopted by the CPUC (and modified per the Energy Division) provides only 42 days between September 8, 2006, the date on which Participant's Offer is due, and October 20, 2006, the date on which PG&E must submit to the CPUC the Utility's Short list, the report on evaluation criteria and selections, and the Independent Evaluator's Preliminary Report. Given this deadline, it is imperative that each Participant's Offer is complete at the time of submission. Participant's failure to provide all required information may prevent PG&E from being able to evaluate and rank the Offer and thus, prevent the Offer's inclusion on PG&E's Shortlist.

III. SOLICITATION GOALS

A. PG&E's Renewable Resource Needs

PG&E is seeking capacity to meet its reserve margin requirements. PG&E is particularly interested in additional dispatchable resources to meet energy and capacity requirements for all subperiods. PG&E will also consider Offers to supply energy even during periods of low need, as the optimal Offers will be those with the best combination of market value, fit with PG&E's portfolio, and contribution to the other criteria specified in this Solicitation.

B. Term

PG&E is seeking Agreements with a delivery term of 10 to 20 years with deliveries commencing in 2007 or beyond. Participants may offer delivery terms of 10, 15 or 20 years or a term that is mutually agreeable and approved by the Commission.

C. Volume

In this Solicitation, PG&E is seeking to procure approximately 1-2% of its retail sales volume or between approximately 700,000 and 1,400,000 MWhs per year. For reference, one percent of PG&E's retail sales volume translates to the following approximate contract capacity at the listed capacity factors:

Table III.1: One Percent of PG&E Sales Volume

Capacity Factor	Contract Capacity Amounts (MW)
100%	81
80%	101
60%	135
40%	203
20%	406

D. Products Sought

PG&E is seeking energy and capacity through two procurement mechanisms: (1) Power Purchase and Sale Agreements and (2) utility ownership. A Participant may submit Offers for either or both types of resource products, as described below.

1. Power Purchase and Sale Agreements
 - a. Eligible Products

Participants may submit Unit-Contingent Offers for the four specific products listed below:

- As-Available
- Baseload
- Peaking
- Dispatchable

The term “Unit Contingent” means that generation must be from the specific ERR identified in the Offer. Offers for As-Available, Baseload, and Peaking products must be 1 MW or greater. Offers for Dispatchable products must be 25 MW or greater to enable them to be efficiently incorporated into PG&E’s system dispatch protocol.

In addition to the product definitions provided in the applicable Form Agreement, the products have the following meaning:

- i) “As-Available” means intermittent energy and capacity deliveries that are not directly controlled by the generator. The only ERRs included within this product category are: (1) wind; (2) solar; (3) run-of-river hydro; or (4) any other technology that PG&E determines qualifies to deliver capacity and energy meeting the criteria set forth in the preceding sentence.
- ii) “Baseload” means firm energy and capacity delivered on a twenty-four (24) hours per day, seven (7) days per week schedule (*i.e.* “24x7”) with an annual capacity factor of at least 80%. This minimum requirement is meant to take into account maintenance forced outages.

iii) “Peaking” means energy and capacity delivered on a schedule of five (5) days a week, eight (8) hours per day (i.e., “5x8”) during June through September with a capacity factor of at least 95%. The specific hours and seasonal period are negotiable.

iv) “Dispatchable” means energy and capacity available for delivery on a day-ahead and intra-day schedule with a monthly availability factor of at least 95% in each of the months of June through and including September. A Project providing a Dispatchable product must have a minimum run time of eight (8) hours or less per day and a minimum down time of 8 hours or less per day.

b. Eligible Combination Offers

PG&E will consider Offers that combine a Peaking product with another product; as such combinations are described below in more detail. Please refer to Attachment D for a sample calculation.

i) Peaking and As-Available Combination

An eligible combination Offer in this category would combine the Peaking product, as defined in this Solicitation Protocol and the Form Agreement for Baseload, Peaking or Dispatchable Products (Attachment I), with additional energy in any time-of-delivery period (“TOD Period”) other than A1 on an As-Available basis, as described in the Form Agreements for As-Available Product (Attachments G and H).

ii) Peaking plus other firm deliveries in any combination of other TOD Periods. Please refer to Article Four, Section 4.2 “TOD Periods” in Attachments G - I for details on the TOD periods.

Combination Offers based on any other products (As-Available, Baseload or Dispatchable) may be bid as separate Offers. For example, if Participant has As-Available facilities that can provide a Peaking product but also can provide additional deliveries outside of the peak period, the Participant may offer the additional power as an As-Available product. If Participant’s facilities provide two blocks of power – a Baseload volume and a Peaking volume – the Participant may submit separate Offers for each product.

2. Utility Ownership

a. Ownership Alternative I – Power Purchase Agreement with Buyout Option

In addition to offering to sell energy and capacity pursuant to one of the power sales options described above, utilizing the applicable Form Agreement(s) attached hereto as Attachments G, H and I, a Participant may also submit an Offer with an option price for

PG&E to acquire, own, and operate the Project (“Buyout Option”) at the end of year (five) 5 or year ten (10) of the delivery term.

i) Terms Governing Buyout Option: Participants offering a Buyout Option should review carefully the “Key Commercial Terms for the Option to Acquire a Renewable Generating Facility” provided as Attachment J, “Purchase and Sale Agreement Term Sheet (Buyout Option)”; in particular, the section entitled “Base Transaction” provides detailed information regarding the structure of the Buyout Option. Participant must be poised to sign a purchase and sale agreement in substantially the form of the applicable Power Purchase and Sales Agreement (either Attachment G, H or I), as supplemented by the terms from Attachment J.

If, during the term of the Agreement, PG&E were to exercise the Buyout Option, then PG&E would notify the Seller and exercise the option in year five (5) or year ten (10) of the delivery term and pay for the buyout in year six (6) or year eleven (11) of the delivery term. Otherwise, if PG&E chooses not to exercise the Buyout Option, then the Agreement shall continue until the original term expires.

ii) Buyout Option Must Meet Certain Criteria: Participant’s Offer under Alternative I shall address how Participant will meet the following criteria:

(1) The Buyout Option would include PG&E’s acquisition of all tangible and intangible assets, rights, and permits, etc., which are required or useful for the ownership and operation of the facility at the end of the pre-determined delivery term. Such assets shall specifically include the Environmental Attributes (as defined in Article One of the Form Agreements attached hereto as Attachments G, H and I).

(2) The Project must be located on land owned or leased by the Participant, with land rights assigned to or purchased by PG&E as part of the Project acquisition.

(3) The Project and transmission interconnection must be designed and constructed in conformance with the California Independent System Operator (“CAISO”)’s various reliability agreements, procedures, protocols, tariffs, and standards.

(4) The Offer shall include (1) the all-in energy and capacity price for all years of the delivery term (this is the contract price that will be paid by PG&E prior to the exercise of the option) and (2) an option exercise price for the Buyout Option.

(5) Qualified Participants may apply for and receive SEPs during the delivery term of the Agreement prior to PG&E's buyout of the Project.

b. Ownership Alternative II – Purchase and Sale Agreement (“PSA”)

In addition to the Offers described in Paragraph III.D.1 above, Participant may also submit an Offer to develop and construct a new ERR Project for purchase by PG&E upon commercial operation of the Project.

i) Terms Governing PSA: Participants offering a PSA should review carefully and provide comments to PG&E on the Term Sheet provided as Attachment K. The sections entitled “Base Transaction” and “Project Design and Construction” provide summary descriptions of the PSA.

ii) PSA Must Meet Certain Criteria: Participant's Offer under Alternative II shall address how Participant will meet the following criteria:

(1) The Project must be located on land owned or leased by the Participant, with land rights assigned to or purchased by PG&E as part of the Project acquisition.

(2) Participant must convey to PG&E all tangible and intangible assets, rights, and permits, etc., which are required or useful for the ownership and operation of the facility. Such assets shall specifically include the Environmental Attributes (as defined in Article One of the Form Agreements attached hereto as Attachments G, H and I).

(3) The Project and transmission interconnection must be designed and constructed in conformance with CAISO's various reliability agreements, procedures, protocols, tariffs, and standards.

(4) Participant must ensure that the Project is constructed, completed, tested and ready for placement into regular commercial operation by the Guaranteed Commercial Operation Date agreed upon in the Agreement (please refer to Attachment K for definition).

(5) Participant is encouraged to include proposals for alternative financing that align the interests of Participant with those of PG&E while minimizing the aggregate initial and long-term cost to PG&E. If Participant proposes an alternative pricing structure, then PG&E strongly prefers that such structure include a deferred purchase price component. Please review the “Purchase Price” section of Attachment K for further details.

c. Ownership Alternative III – Sites for Development

A Participant may also submit an offer for consideration of new or existing sites controlled by the Participant, with land rights assigned to or purchased by PG&E as part of the acquisition (“Sites”). These sites, along with associated development assets, would be acquired by PG&E for the development, construction, and operation of an ERR. Such sites, and all development assets, must be suitable for the development, construction, and operation of a generation facility. Offers must include a demonstration of eligibility as an ERR, and an initial estimate of verifiable ERR potential.

The Site Offer must also include all tangible and intangible assets, rights, permits, etc., which are held by the Participant and which are required or useful in the development, construction, and operation of the Project, including without limitation, existing generation facilities, existing interconnection facilities, water rights, governmental approvals, and books and records enabling PG&E to own and operate the facility.

IV. ELIGIBILITY REQUIREMENTS

PG&E will consider all timely Offers from either existing or new generating facilities.

A. Certification of Facility

1. CEC Certification Process

To participate in PG&E’s Solicitation, the Participant’s Project must use one or more ERRs as a generation source. The CEC is responsible for certifying eligible renewable resources and tracking the procurement of such resources to ensure compliance with the RPS Program. If a Participant has not already done so, the Participant is encouraged to contact the CEC and begin the process of establishing certification of an existing generation facility or pre-certification for facilities not yet on-line. Depending upon the complexity of the application for certification, the CEC may take from as little as ten (10) business days to over thirty (30) business days (or longer if additional information is required) to process an application.

The CEC has published three guidebooks containing detailed information about the RPS Program, certification requirements, and administration of the RPS Program. The titles and internet links to the three CEC guidebooks are provided below. The Participant is responsible for reading and becoming familiar with each of these guidebooks, which are updated periodically by the CEC. The internet link to the CEC’s webpage for announcements and documents under the RPS Program is: <http://www.energy.ca.gov/portfolio>

1. **Renewables Portfolio Standard Eligibility Guidebook** (Publication No. CEC-300-2006-007-F). This guidebook describes the eligibility requirements and process for certifying renewable resources as eligible for California’s RPS and Supplemental Energy Payments (SEPs) and describes how the Energy Commission will design and implement an accounting system to verify compliance with the RPS.

2. **New Renewable Facilities Program Guidebook** (Publication No. CEC-300-2006-006-F). This guidebook describes how the Energy Commission will allocate and award SEPs to cover the above-market costs of renewable energy.

3. **Overall Program Guidebook** (Publication No. CEC-300-2006-008-F). This guidebook describes specific aspects of how the Energy Commission's Renewable Energy Program is administered.

2. SEP Payments

The CEC Guidebooks also contain detailed information about the award of SEPs by the CEC and the choice a Participant in this Solicitation must make between receiving SEPs or receiving funds obtained from a funding award under California State Senate Bill 90 (SB90, Chapter 905, Statutes of 1997, Sher). The CEC documents describing SEPs and SB90 funding alternatives and the steps a Participant must follow to obtain funding are very detailed. If a Participant decides to seek SEP, the Participant shall be responsible for understanding the funding alternatives and complying with the CEC's requirements.

B. Eligible Renewable Energy Resources

To qualify as eligible for California's RPS Program, a generation facility must use one or more of the following renewable resources or fuels (see the *Overall Program Guidebook* for full definitions):

- Biomass
- Biodiesel
- Fuel cells using renewable fuels
- Digester gas
- Geothermal
- Landfill gas
- Municipal solid waste
- Ocean wave, ocean thermal, and tidal current
- Photovoltaic
- Small hydroelectric (30 megawatts or less)
- Solar thermal
- Wind

C. Existing Projects

PG&E will consider any timely Offer from an existing ERR generating facility ("Existing Project"). If the Existing Project is a qualifying facility ("QF"), meaning a generation facility meeting the requirements of the Federal Energy Regulatory Commission's rules (18 Code of Federal Regulations 292) implementing the Public Utility Regulatory Policies Act of 1978 (16 U.S.C.A. 796, *et. seq.*), the Offer must also include: (1) the full name of the QF as well as the QFID number or any other information that the Participant deems sufficient for PG&E to identify the QF project; and (2) the date on which any existing power purchase agreement with

PG&E (“Existing PPA”) will terminate. PG&E is open to Offers to terminate an Existing PPA early and will incorporate into its evaluation any resulting net customer impacts.

An expansion or repowering of an existing project shall be considered a new project.

If Participant proposes to replace the Existing PPA with an entirely new Agreement, the Offer must clearly quantify any proposed increase of electrical energy, and, if applicable, expansion of electrical capacity from the Existing Project above the amount provided for in the applicable Existing PPA.

D. Location of Generating Facility

Participant’s Project must either: (i) be located in California; or (ii) if located outside of California, demonstrate delivery of its energy to an in-state market hub or the in-state substation within the Western Electricity Coordinating Council (“WECC”) transmission system. The Participant and PG&E may negotiate a delivery point location that is located out-of-state as long as the energy is ultimately delivered into the CAISO-controlled Grid or a location that otherwise satisfies applicable CPUC delivery rules. CAISO receipt of out-of-state deliveries must be documented electronically pursuant to North American Electric Reliability Council (“NERC”) protocol. If PG&E selects Participant’s Offer, the Project will have to participate in an RPS tracking and verification system approved by the CEC and satisfy the “Delivery Requirements” established by the CEC.³

The foregoing requirements are subject to change as required to maintain consistency with state law.

E. Energy Storage

Any Offer that meets the foregoing requirements will not be deemed ineligible on the grounds that the Participant proposes to store the energy generated by the ERR(s) prior to delivery to PG&E.

F. Interconnection, Scheduling, Transmission, and Delivery

Each Participant shall be solely responsible for securing all necessary interconnection, distribution, transmission, and scheduling services associated with the Participant’s Project, including any necessary regulatory approval(s) for such services. PG&E will not act as a scheduling coordinator (“SC”) for any Participant; a Participant must be its own SC or engage a third party SC. In case the Project is not located within CAISO Control Area, Participant shall perform services equivalent to those of a SC.

Participant must agree to schedule the contracted amount of electrical output from the Project to PG&E, net of station use and electrical losses.

³ See, “Eligibility of Out-of-State Facilities”, *Renewables Portfolio Standard Eligibility Guidebook* (CEC Publication 300-2006-007-F) adopted April 26, 2006 at p.20.

All deliveries of energy and capacity to PG&E shall be by SC-to-SC transfer and net of all transformation and transmission losses and Generation Meter Multiplier adjustments, in accordance with CAISO Protocols. PG&E prefers the delivery point to be NP-15 but will consider delivery at: (a) SP-15, ZP2-26, or other CAISO zones, (b) CAISO interface points; (c) California locations outside of the CAISO Control Area, or (d) out-of-state locations consistent with IV.D above.

Any Offer that meets the foregoing requirements will not be deemed ineligible on the grounds that the Participant proposes to deliver the energy generated by the Project within a reasonable period of time after generation, provided that all deliveries are supported by verifiable generation metered data from the Project.

G. Dedicated Output

Participant must dedicate the contracted amount of electrical output from the Project to PG&E and agree to not sell, deed, grant, convey, transmit, or otherwise provide to any entity other than PG&E any energy, capacity, ancillary services or any other related electricity product, including Environmental Attributes or Capacity Attributes, as such terms are defined in Article One, “Definitions,” of the Form Agreement.

V. PARTICIPANT’S OFFER

A. Binding Nature of Offer

The “RPS Solicitation Protocol Agreement” attached hereto as Attachment A requires the Participant to agree to be bound by the terms of the Solicitation Protocol and to make specified representations and warranties to PG&E. Any response to this Solicitation Protocol must be accompanied by a copy of the RPS Solicitation Protocol Agreement executed by Participant’s authorized officer. **A Participant submitting an Offer(s) must agree to be bound by its Offer(s) for a period of nine (9) months from the latter of the date of Shortlisting and submission of Bid Deposit. A Participant submitting an Offer to enter into a PSA pursuant to Ownership Alternative II or III must agree to be bound by its Offer(s) for a period of twelve (12) months from the latter of the date of Shortlisting and submission of Bid Deposit.**

B. Good Faith Negotiations

Each party shall act in good faith in its performance under the RPS Solicitation Protocol Agreement and, in each case in which a Party’s consent or agreement is required or requested hereunder, such Party shall not unreasonably withhold or delay such consent or agreement.

C. Bid Deposit

The Participant must provide a deposit (“Bid Deposit”) to PG&E no later than five (5) business days after receiving notice from PG&E that Participant qualifies for PG&E’s Shortlist (i) in the amount of \$3.00 per each kW of Project contract capacity for all Offers except ownership



Alternative III or (ii) \$60,000 in the case of Ownership Alternative III. For example, a Participant proposing a 20,000 kW sale of As-Available energy and capacity must submit a Bid Deposit of \$60,000.

1. Purpose of Bid Deposit

The Bid Deposit is intended to secure the obligation of each Participant during the Offer evaluation period and to insure that each Offer has been carefully considered and represents a binding offer to PG&E. If the Participant fails to submit the Bid Deposit, the Participant's Offer will be rejected and removed from the Shortlist.

2. Form of Bid Deposit

The form of the Bid Deposit may be either (a) a cash deposit through a wire transfer or (b) a Letter of Credit (as defined below). Participant must notify Jack Foley of PG&E's Credit Department via email at JRFC@pge.com or call (415) 973-0004 prior to submitting the Bid Deposit to obtain details of the delivery instructions, and routing and account number requirements.

a. Cash Deposit

PG&E will pay interest on each cash deposit, calculated on a monthly basis and compounded at the end of each calendar month, from the date fully deposited to the earlier of: (i) the return of the cash deposit to Participant or (ii) conversion of the Bid Deposit to Project Development Security (as defined in Section V.C.5 below) under an executed Agreement as applicable for each day cash is held by PG&E. The applicable interest rate will be the rate per annum equal to the Monthly Federal Funds Rate (as reset on a monthly basis, as of the first day of the month, based on the latest month for which such rate is available) as reported in Federal Reserve Bank Publication H.15-519 or its successor publication ("Interest Rate"). The Interest Rate shall be calculated based on a three hundred sixty (360) day year and shall be payable upon return of the cash deposit or conversion of the cash deposit into Project Development Security under an executed Agreement, as described below.

b. Letter of Credit

In lieu of a cash deposit, the Participant can provide, per the directions above, a Bid Deposit using an irrevocable, standby letter of credit, in the form attached hereto as Attachment B, issued by a U.S. commercial bank or a foreign bank with a U.S. branch, with such bank having total assets of at least USD\$10 billion and a senior unsecured long term debt rating of no lower than A2 from Moody's Investor Services, Inc. or its successor ("Moody's") or A from Standard & Poor's Rating Group or its successor ("S&P") ("Letter of Credit"). Costs of the Letter of Credit shall be borne by Participant. The Letter of Credit should be sent by overnight delivery to:

PG&E
77 Beale Street, Mail Code B28L
San Francisco, CA 94105
Attn: Manager, Credit Risk Management

3. Return of Bid Deposit

The Bid Deposit referenced above will be returned to Participant by PG&E under one or more of the following conditions:

- a. Failure of PG&E to satisfy the condition(s) precedent set forth in the Agreement; or
- b. Upon execution and approval of the Agreement and Seller's submission of the collateral required under the Agreement; or
- c. PG&E's rejection of the Offer subsequent to Shortlist selection; or
- d. In the course of negotiation, PG&E and Participant cannot agree on the terms of the Offer and Agreement, and PG&E rejects the Offer and Agreement as submitted by Participant; or
- e. Participant submits a Notice of Withdrawal, as defined in Section V.D.2, and accompanying proof of reason for withdrawal of Offer, within five (5) business days of Participant's selection to PG&E's Shortlist.
- f. Participant has also been shortlisted by another load serving entity for an offer submitted by Participant for the commitment of generation and/or capacity from the same Project and Project location as the Offer submitted to PG&E, and Participant elects a Permitted Withdrawal, as defined by Sections V.D.1.b and V.D.2.a. Documentation of Participant's selection on the other California entity's shortlist must accompany Participant's notification to PG&E.

4. Forfeiture of Bid Deposit

The Participant will forfeit the Bid Deposit in its entirety under the following conditions:

- a. Participant's withdrawal of the Offer other than a Permitted Withdrawal; or
- b. Any material misrepresentation of pricing or non-price information submitted by Participant.

In the event that Participant forfeits the Bid Deposit, PG&E will be entitled to draw upon the Bid Deposit in its entirety as payment for direct and indirect damages incurred in connection with the Participant's withdrawal of Offer or misrepresentation.

5. Bid Deposit as Security Under Agreement

PG&E shall be able to retain any cash deposit or draw on any Letter of Credit provided as a Bid Deposit as security under the Agreement in the event that Participant fails to provide additional security and/or agrees to PG&E's retention of the Bid Deposit as Project Development Security in accordance with the terms of the executed Agreement, if applicable.

D. Multiple Offers of Project

Participant may participate in the RPS Program solicitation of any number of load serving entities. Participant's Offer to sell generation from a Project may be the same or different from its offer to sell such generation to another load serving entity. If Participant's Offer is selected for one or more of the RPS Program solicitation shortlists, then the following terms will govern the disposition of Participant's Offer under this Solicitation Protocol.

1. Selection to PG&E's Shortlist

If PG&E notifies Participant that it has been included on PG&E's Shortlist, then Participant must perform all of the following:

- a. grant PG&E exclusive negotiating rights for the Project within five (5) business days; **and**
- b. withdraw its offer from all other RPS Program solicitation(s) within five (5) business days of the date of PG&E's Shortlist notification; **and**
- c. comply with all other terms of this Solicitation Protocol relating to Offers selected for PG&E's Shortlist, including but not limited to submission of a Bid Deposit (pursuant to section V.C.).

2. Selection to the Shortlist of Another Load Serving Entity

If Participant is participating in the solicitation of another load serving entity and receives notice that its offer has been included on that entity's RPS shortlist prior to receiving such notice regarding PG&E's Shortlist, then Participant has five (5) business days from the date of that shortlist notification to notify PG&E of Participant's election of either paragraph (a) **or** paragraph (b) below.

- a. Withdrawal from PG&E's RPS Program Solicitation. Participant must notify PG&E within the stated five (5) business days that Participant is withdrawing its Offer from PG&E's RPS Program Solicitation. Documentation of Participant's selection on the other load serving entity's shortlist must accompany the notification. If Participant has received notice that it simultaneously has been selected for PG&E's Shortlist, then the terms of Section V.D.1.b. above apply.

- b. Remaining in PG&E's RPS Program Solicitation: If Participant chooses to remain in PG&E's RPS Program Solicitation, then Participant must withdraw its offer from the other load serving entity's RPS Program solicitation within five (5) business days of the date of that shortlist notification.

VI. FORM OF POWER PURCHASE AND SALE AGREEMENTS

A. Overview of Forms

Attachments G, H, and I to this Solicitation Protocol are form power purchase and sale agreements related to Participant's sale of capacity and energy to PG&E from the Project. Attachments G and H apply to the sale of As-Available Product, and Attachment I applies to the sale of Baseload, Peaking or Dispatchable Product. One of these Form Agreements shall be the basis of the final contract agreed upon by PG&E and Participant for Participant's Offer once Participant's Offer has been selected for the Shortlist and the Participant and PG&E successfully negotiate a contract. If Participant is interested in submitting a Buyout Option, then the additional terms found in Attachment J would apply and supplement the terms from Attachments G, H or I. If Participant is interested in submitting a PSA, then the terms found in Attachment K would apply. For Site Offers, PG&E and Participant will need to develop an applicable Agreement.

By submitting an Offer, Participant agrees, if its Offer is selected, to execute the Agreement substantially in the form of the applicable Power Purchase and Sale Agreement (either Attachment G, H or I), as supplemented by the terms from Attachment J if applicable, or Attachment K, and as may be amended in Participant's Offer. PG&E will determine whether any proposed modifications or alterations of the Form Agreement are material and reserves the right to decline to execute any Agreement with a selected Participant.

B. Need for Complete Offer Packages

The 2006 RPS Solicitation Schedule adopted by the CPUC provides only forty-two (42) days between September 8, 2006, the date on which Participant's Offer is due, and October 20, 2006, the date on which PG&E must submit to the CPUC its Shortlist, the Shortlist report on evaluation criteria and selections, and Independent Evaluator's Preliminary Report. Given this deadline, it is imperative that each Participant's Offer be complete at the time of submission. Participant's failure to provide all required information may prevent PG&E from being able to evaluate and rank the Offer and thus, may prevent the Offer's inclusion on PG&E's Shortlist.

C. Proposing Revisions to Forms

Form Agreements: Participant shall in its Offer(s) submit a copy of each of the Form Agreement(s) that apply to each Offer(s), including if applicable, Attachment J or K, all revised to show all modifications proposed by Participant. Please follow the directions below for the submission of documents with revisions.

1. Revisions/Comments: The Participant must specifically identify all requested exceptions, revisions and/or modifications to the Form Agreement and must set forth the actual text of the proposed exception and/or modification within the text of the Form Agreement. Participant is welcome to provide comments or a discussion of Participant's desired position on a separate document, but these must be accompanied by specific revised language within the Form Agreement itself as this will greatly facilitate the evaluation and negotiation process. In addition, Participant must state in its Offer whether acceptance by PG&E of the proposed exceptions, revisions and/or modifications, if any, are material conditions of the Participant's Offer.

2. Terms Binding: Participant's revised Form Agreement will be considered part of the Participant's binding offer; that is, PG&E will assume that the Participant is willing to execute an Agreement as revised and submitted. The extent of Participant's revisions, comments, and material conditions will be considered in PG&E's overall evaluation of the Offer(s).

VII. COMMUNICATIONS BETWEEN PG&E AND PARTICIPANTS

PG&E has established a website at www.pge.com/renewableRFO where all Solicitation Protocol documents, information, announcements and Q&A's are posted and available for Participants to download.

To promote the accuracy and consistency of all Solicitation-related information for all Participants, PG&E prohibits Participants from speaking directly with PG&E employees about the commercial terms and conditions of this Solicitation except in organized workshops or conferences. PG&E strongly prefers that all communications take the form of an e-mail directed to RenewableRFO@pge.com. With respect to matters of general interest raised by any Participant, PG&E may, without reference to the specific Participant raising such matter or initiating the inquiry, post responses on its website. PG&E may, in its sole discretion, decline to respond to any e-mail or other inquiry without liability or responsibility. PG&E will hold a pre-bid conference as another opportunity to ask questions.

VIII. REQUIRED INFORMATION

A. Overview

All Offers must be received in *both* hard copy and electronic form by **Friday, September 8, 2006, at 3:00 p.m. (PPT)**. If there is a discrepancy between the electronic and hard copies, the hard copy will prevail.

Hard copy documents: Participants must submit four (4) bound and one (1) unbound copy.

Electronic Documents: Participant shall submit two (2) CDs, each containing one electronic copy of all documents contained in Participant's Offer(s). The electronic documents for Attachments A, D, E, F, G, H, I, J, and K MUST be in a Microsoft Word or Excel file, as



applicable. Any proposed changes to the text of those documents must be in a Microsoft Word file marked to show all changes; please DO NOT password protect the files. Adobe Acrobat or other such pdf files or non-editable files are ONLY acceptable if the document is a picture, diagram, map or other preprinted brochure or material.

In addition, please create separate files for each Attachment and include the Participant's name (a short acronym is fine) in the electronic file name for each file. This will allow PG&E to easily keep each Participant's electronic files separate from those of other Participants.

Offers must be delivered via hand-delivery or overnight delivery to:

**RPS Solicitation
Energy Supply Department
245 Market Street, Room 1285A, Mail Code N12G
San Francisco, CA 94105**

Telephonic, telegraphic, e-mail, or facsimile transmission of a Participant's Offer is not acceptable.

B. Number of Offers Allowed Per Project

Participant may submit up to six (6) discrete Offers for each Project. The following instructions apply to every Offer from a Participant intending to utilize production tax credits: Current federal legislation only provides production tax credits to those ERRs placed in service by December 31, 2007. PG&E can offer no assurances as to whether or not the production tax credit will be extended, or the form it may take in any extension. Therefore, for any single Offer utilizing production tax credits, Participant must submit two pricing alternatives under the Offer, one with and one without production tax credits. The two pricing alternatives will count as one Offer under the six-Offer limit for each Project.

C. Required Forms

Participant shall format its Offer so that each item is set behind a numbered tab corresponding to the tab numbers noted below.

Tab 1. Signed RPS Solicitation Protocol Agreement (Attachment A): Please include a signed copy of Attachment A of this Solicitation Protocol, attesting to Participant's agreement to be bound by the conditions of the Solicitation Protocol and including the Confidentiality Agreement (Attachment A and Exhibit 1 thereto) in submitting Participant's Offer.

Tab 2. Offer Form (Attachment D):

Participants seeking to enter into a Power Purchase Agreement must provide a fully completed Offer Form (Attachment D). Please provide all applicable information requested in the Attachment D Offer Form, which is composed of the following distinct tables and charts:



Instructions and Description of Combination Offers

- D-1: Participant Proposal Project Description and Contact Information
- D-2: Participant Proposal – Energy Pricing Sheet
- D-3: Estimated Energy Production Profile (for years 1 through 30)
- D-4: Dispatchable Product Profile
- D-5: Ownership Data
- D-6: Transmission Data.

Separate sets of Attachment D shall be filled out and submitted for each discreet Offer submitted. Please be sure to indicate on Sheet D-1 the generation and ERR type, and whether the Offer includes a Buyout Option.

Participants submitting an Ownership Alternative I Offer (Buyout Option) must provide all of the above, plus a fully completed Ownership Term Sheet (Attachment J).

Participants submitting an Ownership Alternative II Offer (PSA) must provide a fully completed Offer Form (Attachment D) that includes the applicable pricing sheet and a Project Generation Profile (except for a Dispatchable product.) Alternative II Offers will also need to include a fully completed Ownership Term Sheet (Attachment K).

Participants submitting an Alternative III Offer (Sites for Development) must provide a fully completed Offer Form (Attachment D) that includes the applicable overview sheet, pricing sheet and ownership data sheet.

- Tab 3. Credit and Finance Information (Attachment E): Provide all of the information requested in Attachment E of this Solicitation Protocol. Please arrange your information in the order listed in Sections A – F of Attachment E, and separate the responses for Sections A – F with sub-tabs for each section.
- Tab 4. Consent Agreement, FERC Order 2004 Waiver (Attachment F): Please sign and return a copy of Attachment F, authorizing PG&E’s transmission department to share certain transmission information with PG&E’s merchant business unit, as further explained in Section XX of this Solicitation Protocol.
- Tab 5. Project Description: Please provide a written description of the existing or proposed Project, not to exceed 10 pages, single spaced, that contains at least the following information:
 - (a) A description of the electricity generation process sufficient to establish to PG&E’s satisfaction that the generating facility will deliver energy generated by means of one or more ERRs; including, if fueled by biomass, digester gas or landfill gas, or municipal solid waste conversion, a description of access to a lasting and stable fuel supply, including the contractual term of such access;

- (b) Information about the major and auxiliary equipment of the generating facility;
- (c) Description of all permits and discretionary approval required from local, state, and federal authorities for both the Project and any transmission upgrades under consideration and the status of such approval(s), including any public opposition;
- (d) Description of the Project's proximity to environmentally sensitive areas (wetlands, sensitive species and habitat, etc.), potentially sensitive receptors (sensitive populations, such as schools, residential areas, commercial areas or areas of high security risk, etc.), and culturally sensitive areas (any cultural clearances obtained from state and federal agencies and any tribal interests in the project);
- (e) Description of all water supplies, air emission offsets and other consumables of the Project requiring advanced procurement or planning;
- (f) Description of the viability of the technology, including historical performance information, and Participant's experience with developing, constructing, operating and maintaining facilities of the technology;
- (g) Description of potential adverse environmental impacts associated with the proposed Project, if any, and Participant's mitigation plan for limiting such impacts;
- (h) Description of Participant's community development plans (general or specific, depending on stage of development) and Participant's knowledge of any future development plans in the community (low income housing, schools, etc.);
- (i) Description of Participant's plans, if any, for Supplier Diversity, as further described in Section XI.E.3 of this Solicitation Protocol; and
- (j) Indication of whether Participant has entered into Project Labor Agreements ("PLA") or Maintenance Labor Agreements ("MLA") in California for the proposed project and specify when and where.

Tab 6. Site Control: Please provide a legal description of the Project site sufficient to confirm the location and Participant's legal control of the Project site, including any necessary easements and rights-of-way.

- (a) Please provide **both** a street map **and** an 8 ½ x 11 copy of the appropriate section of a USGS (or equivalent) map showing the location of the Project, access roadway and the rights-of-way for all interconnecting utilities.

- (b) Confirm current zoning for the Project site and any available information on development plans for the vicinity, including but not limited to, any applicable land use plan in effort for the proposed term of the Agreement.
- (c) Provide a description of any possessory rights that must still be acquired and/or which are not yet secured for the entire term of the proposed Agreement.

Tab 7. Project Milestone Schedule: Please provide a Project milestone schedule describing financing, permitting, engineering, procurement, construction, and startup timelines and status.

Tab 8 Transmission and Interconnections: Please provide the following information related to the transmission requirements of the Project. Please refer to and address the issues raised in Section X below when responding to this request.

- (a) The current or proposed point of interconnection to the transmission system within California, including the relevant transmission cluster as specified in the Transmission Cost Ranking Report, the distance from the Project to the electric interconnection point, and a description of any transmission upgrades required.
- (b) Status of the CAISO transmission system interconnection application and studies, if any.
- (c) If the Participant has a completed System Impact Study or a Facility Study for the Project, please provide a copy of that study.
- (d) Status of Participant’s application for transmission and/or distribution services, as applicable.
- (e) If Participant desires PG&E to assess the potential for sharing gen-tie costs among it and other selected Participants as provided by CPUC Decision 04-06-013, finding of fact 3, Participant must list its gen-tie costs separately in its Offer in sufficient detail to enable a reasonably reliable evaluation of the potential for the sharing of gen-tie costs.

Tab 9. CEC, SEP and SP90 Funding: Please identify any CEC funds awarded to, or expected to be received by, Participant and/or any entity or person associated with the Participant’s facilities under the Offer, setting forth the information about the funding, including, without limitation, any subsidies, awards, grants, payments, or special tax treatment or credits available to Participant by virtue of Participant’s generation or proposed generation using ERR’s.

If Participant holds any New Renewable Resource Account (“NRRA”) funds under SB90, provide a status report on the holding of those funds. Participant shall indicate if it will choose to continue to receive SB90 funds for the Project and agree to be

ineligible for SEPs, or if it will relinquish the SB90 funds and compete for potential SEPs for the Project.

Tab 10. Experience and Qualifications: Please describe the Participant's experience and staff qualifications, including but not limited to:

- (a) The staff make-up and size and the identification and resumes of Participant's key personnel and management;
- (b) Experience and qualifications in developing, financing, designing and constructing, and operating and maintaining power generation facilities; contracting to sell and deliver long-term power supplies; and
- (c) A description of the personnel structure of the proposed facility's development, design and construction, and operations and maintenance organizations.

Tab 11. Form Agreements: For each Offer, please submit a copy of each applicable Form Agreements (Attachment G, H, or I) along with the information requested in Section VI, including all revisions and comments to the Form Agreement. If the Participant is submitting a Buyout Option or PSA, the Participant shall also submit a fully completed copy of Attachment J or K, as applicable, including all revisions and comments proposed by Participant. Participant shall (i) fill in **all** the blanks, (ii) make **all** of the selections requested in the Cover Sheet and Articles Three, Four, Eight, and Ten, and (iii) request exceptions and/or modifications to the applicable Form Agreement. Please follow the directions found in Section VI.C for the submission of documents with revisions.

Tab 12 Consistency with California's RPS Goals.

- (a) In establishing the RPS Program at Cal. Pub. Util. Code §§399.11 and 399.14(a)(5), the California State Legislature signaled its expectation that the RPS Program may help improve a number of social and environmental factors. The Participant should consider how its ERR facility can accomplish or promote one or more of the following:
 - Increase the diversity, reliability, public health, and environmental benefits of the energy mix;
 - Promote stable electricity prices;
 - Protect public health;
 - Improve environmental quality;
 - Stimulate sustainable economic development;
 - Create new employment opportunities;
 - Reduce reliance on imported fuels;
 - Ameliorate air quality problems;
 - Improve public health by reducing the burning of fossil fuels; and

- Provide tangible demonstrable benefits to communities with a plurality of minority or low-income populations.
- (b) In D. 04-07-029, the CPUC identified benefits to low income or minority communities, environmental stewardship, local reliability, repowering, and resource diversity as factors to be incorporated in PG&E’s Offer evaluation.

Participant is encouraged to describe in its Offer how its ERR facility can provide one or more of the social or environmental factors listed above. Please refer to Section XI.E below to see how PG&E will evaluate Participant’s Offer regarding these factors.

Tab 13 Description of the Project’s Water Usage. Description of the environmental stewardship of the Project with respect to the impact of the Project on California’s water quality and use and the relationship to the CPUC’s Water Action Plan adopted on December 15, 2005. Offer must describe all on-site water usage, identify all feasible measures to minimize water consumption, and describe a proposed water usage mitigation plan. The Offer must also describe all potential water discharge as a result of the proposed operation of the Project, estimate the potential impact of Project operation on local water quality, and describe the Project’s proposed water quality mitigation plan.

IX. CALCULATION OF OFFER PRICE

A. Pricing for Power Purchase and Sale Agreements

Offers for the four Products, except Ownership Alternatives I, II, and III, must be made in the following units:

Table IX.1: Product Pricing Units

Product	Price Units
As-Available	\$/MWh
Baseload	\$/MWh
Peaking	\$/MWh
Dispatchable	Capacity: \$/kW-year Energy: \$/MWh

Participants will enter prices into the Offer Sheet (Attachment D). Prices should be fixed for the delivery term of the Agreement, *i.e.*, no indexed prices, although they may be different from year-to-year. Prices should include any gen-tie costs as a separate price component, as discussed further in Section X. The price should be an all-in-price for energy and capacity.

For As-Available, Baseload, and Peaking products, Sellers will be paid for energy delivered, in \$/MWh, according to the Time of Delivery (“TOD”) schedule shown in *Table IX.2* below that reflects the relative value of the energy during the respective periods. For example, Sellers will be paid their contract price times 1.959 for each Super-Peak hour of energy delivery from June 1



to September 30. Similarly, Sellers will be paid their contract price times 0.584 for each Night Hour of delivery from March 1 to May 31.

As noted in Section III.D, PG&E will consider Offers that are combinations of products. Given that the TOD factors represent the value of the energy for the particular period, Offers that span products, *e.g.*, a Peaking product with additional energy outside of the 5x8 Peak period, will not be disadvantaged because they include two different products. They will be evaluated based on their combined energy deliveries and resulting TOD value.

Table IX.2: Time of Delivery (TOD) Periods & Factors

Monthly Period	Super-Peak ^{1,4}	Shoulder ^{2,4}	Night ^{3,4}
Jun – Sep	1.959	0.903	0.626
Oct.- Dec., Jan. & Feb.	1.471	1.03	0.731
Mar. – May	1.319	0.843	0.584

Definitions:

1. Super-Peak (5x8) = HE (Hours Ending) 13 - 20, Monday - Friday (*except* NERC holidays).
2. Shoulder = HE 7 - 12, 21 and 22, Monday - Friday (*except* NERC holidays); and HE 7 - 22 Saturday, Sunday and *all* NERC holidays.
3. Night (7x8) = HE 1 - 6, 23 and 24 all days (*including* NERC holidays).
4. NERC (Additional Off-Peak) Holidays include: New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day. Three of these days, Memorial Day, Labor Day, and Thanksgiving Day occur on the same day each year. Memorial Day is the last Monday in May; Labor Day is the first Monday in September; and Thanksgiving Day is the 4th Thursday in November. New Year’s Day, Independence Day, and Christmas Day, by definition, are predetermined dates each year. However, in the event they occur on a Sunday, the “NERC Additional Off-Peak Holiday” is celebrated on the Monday immediately following that Sunday. However, if any of these days occur on a Saturday, the “NERC Additional Off-Peak Holiday” remains on that Saturday.

For Dispatchable products, capacity payments will be paid based on demonstrated availability. *Table IX.3* below allocates the annual capacity payment among the 12 months of the year by Time of Availability (TOA) according to the relative value of capacity in each month. The sum of the TOA factors equals exactly one.

Table IX.3: Time of Availability and Minimum Availability Factors

Month	TOA Factor	Minimum Availability
Jan	4.7%	90%
Feb	2.9%	90%
Mar	2.3%	70%
Apr	3.2%	70%
May	4.2%	70%
Jun	7.1%	95%
Jul	15.7%	95%
Aug	17.8%	95%
Sep	16.9%	95%

Oct	10.3%	90%
Nov	7.6%	90%
Dec	7.3%	90%
100.0%		85%

To receive the full fixed payment in a given month, the Project will have to demonstrate an Availability Factor at or above the specified Minimum Availability for that month. To improve the potential value of its Offer, the Participant has the option, but not the obligation, to offer higher Minimum Availability Factors in its Offer on the Dispatchable worksheet of the Bid Form (Attachment D).

Participants must also provide a Project Generation Profile (a Project Availability Profile for Dispatchable products). The applicable profile should represent the Contract Capacity Factor (Contract Availability Factor for Dispatchable products) and take into account planned maintenance and estimated rates of Forced Outage, as defined in the Agreement.

Projects providing Baseload or Peaking products must meet the Capacity Factors by TOD Period as specified in *Table IX.4* below:

Table IX.4: Minimum Capacity Factors for Baseload & Peaking Products

Monthly Period	Time of Delivery Period		
	Super-Peak	Shoulder	Night
Jun – Sep	95%	90%	80%
Oct. – Dec., Jan. & Feb	90%	85%	65%
Mar. – May	80%	75%	65%

To the extent the Seller does not meet the above Capacity Factors, the Seller will be liable for Performance Adjustments. For Baseload and Peaking products, for each 1 percentage point by which the Capacity Factor in each TOD Period is less than the Performance Requirement for such TOD Period, Seller shall owe the following percentages of its period revenues:

Table IX.5: Performance Adjustments for Substandard Delivery

Monthly Period	Time of Delivery Period		
	Super-Peak	Shoulder	Night
Jun – Sep	3.00%	2.00%	1.25%
Oct. – Dec., Jan. & Feb.	2.50%	1.75%	1.25%
Mar. – May	1.50%	1.25%	1.00%

Note: Revenues calculated as the maximum potential revenue for the operations period. See the applicable Form Agreement for the Dispatchable product performance adjustments.

X. TRANSMISSION

Transmission availability and transmission-related costs will be part of the Solicitation evaluation. Figure X (map) and *Table X.1* identify the substation clusters and associated

available transmission capacity that are contained in PG&E's Transmission Ranking Cost Report. These clusters are for the sole purpose of ranking resource bids in this RPS Solicitation process and were developed from a) responses by developers in the CPUC investigation to resolve transmission constraint issues (CPUC I.00-11-001, Transmission Proceeding), b) information on renewable resource potentials developed by the CEC⁴ and c) responses to PG&E's annual requests for information to assess development potential. The latest survey was conducted pursuant to Assigned Commissioner and Administrative Law Judge's Ruling in CPUC OIR 04-04-026 dated November 9, 2005. Participants who wish to connect to a PG&E substation not identified in the clusters should choose the cluster closest to the desired injection point. Likewise, Participants who wish to connect to a non-PG&E transmission facility should choose the cluster in the host utility's Renewables Portfolio Standard Protocol closest to the desired injection point in accordance with CPUC Decision 04-06-013, Attachment A. The Transmission Cost Ranking Table provides guidance to Participants on transmission availability and on the cost of potential network upgrades.

A. Direct Assignment (or Gen-Tie) Facilities

The Participant shall include in its bid price the estimated cost of all the facilities needed to interconnect the renewable energy generation facility to the first point of interconnection with the transmission system grid. These facilities are referred to as direct assignment facilities, or "gen-ties". Direct assignment facilities include the transformer bank used to step-up the generation output to transmission voltage, the outlet line between this step-up transformer bank and the transmission system, and protection and communication facilities needed for interconnection and safe operation of the generator.

If Participant desires PG&E to evaluate the potential for sharing gen-tie costs among it and other selected Participants in the same cluster, as provided by CPUC Decision 04-06-013, finding of fact 3, Participant must identify its gen-tie costs in its Offer, including the above-listed direct-assignment facilities, in sufficient detail to enable a reasonably reliable evaluation. The gen-tie costs should be stated on the Offer Form in both total capital costs (in first year dollars) and \$/MWh (\$/kW for Dispatchable products) so that PG&E can make the appropriate Offer price.

B. Network Upgrades

Network upgrades include all facilities necessary to: (1) reinforce the transmission system after the point where a renewable project's electricity first interconnects with and enters the subject utility's transmission grid; and (2) transmit or deliver the full amount of power from the Project. Network upgrades include transmission lines, transformer banks, special protection systems, substation breakers, capacitors, and other equipment needed to transfer power to the consumer.

⁴ Included CEC Preliminary Renewable Resource Assessment (PRRA), published on July 1, 2003 (100-03-009CR), the CEC Renewable Resource Development Report (RRDR) finalized in November, 2003 (500-03-080F) and the CEC Strategic Value Analysis Draft Consultant Report published in July 2005

For purposes of bid evaluation, the developer has two opportunities to avoid the imputation of the cost of transmission upgrades to its bid. These options are presented in PG&E's Bid Offer Forms, Attachment D to the Protocol. The "Participant Proposal – Energy Pricing Sheet" contains an optional "Dispatch Down Provision." A bidder may specify the MW of curtailable capacity in the context of its election to be dispatched down. Alternatively, a bidder may specify a "Generation Profile" (which appears as a separate sheet in Attachment D) that does not trigger transmission upgrades. There, the bidder is requested to provide a generation profile forecast of each month's average-day net output energy production, stated in MW by hour, by month and by year.

Since the constrained areas are described in the TRCR section of PG&E's RPS Solicitation Protocol, PG&E assumes that the Participant has shaped its generation profile as much as possible to take advantage of the location-specific transmission availability contained in the TRCRs. In response to PG&E's 2004 RPS Solicitation, many bidders were able to bid in generation profiles that effectively avoided triggering the next level of transmission upgrades. PG&E will evaluate the submitted generation profile or curtailment election when attributing the cost of any transmission adders to submissions in response to its 2006 RPS Solicitation.

1. Transmission cost adders

Transmission cost adders to reflect the cost of potential network upgrades will be developed for bid evaluation purposes as follows:

i. Renewable Resource Projects With Completed System Impact Study and Facilities Studies

For renewable resource projects that have already obtained cost estimates from completed System Impact Study and Facilities Studies ("SIS/FS") through the CAISO Interconnection Process, the Participant shall submit the CAISO cost estimate for the needed Network Upgrade with the Offer. PG&E will then use the SIS/FS cost estimate to evaluate and rank the Offers pursuant to CPUC Decision 03-06-071 and Decision 04-06-013.⁵

ii. Renewable Resource Projects Without Completed System Impact Study and Facilities Studies

For renewable resource projects that have not completed and obtained the cost estimates from the SIS/FS through the CAISO Interconnection Process, PG&E will use the Transmission Ranking Costs included in *Tables X.1*. These Transmission Ranking Costs are part of a Transmission Ranking Cost Report PG&E prepared and filed in compliance with Assigned Commission and Administrative Law Judge's

⁵ CPUC Decision 04-06-013, Attachment A contains a detailed description of the methodology for development and consideration of transmission costs in initial RPS procurement.

Ruling in OIR 04-04-026 dated November 9, 2005. PG&E's Transmission Ranking Cost Report identifies and provides cost information associated with transmission upgrades that may be needed to interconnect new renewable energy generation facilities to the grid and provide the transmission capacity needed to accommodate the facility's output⁶.

2. Transmission Ranking Cost Table

In developing their Offers, Participants that have not completed the SIS/FS should use the Transmission Ranking Costs for information regarding expected network upgrades.

It is important to note that PG&E's estimates of transmission costs will be used solely for the purpose of ranking and evaluating Offers. The actual transmission upgrade cost for a specific renewable project may differ from these estimates and PG&E is not responsible or in any way liable for deviations between estimated and actual costs.

Consistent with CPUC Decision 04-06-013 Attachment A and Decision 05-07-040, PG&E has developed Transmission Ranking Costs based on potential transmission congestion, the associated proxy transmission network upgrades, and the associated capital costs that may be needed to accommodate each cluster of renewable resources. The clusters provide a basis for grouping the Offers for evaluation purposes; the Project may physically be connected to points near, but not necessarily at, the cluster from which its Offer is to be evaluated. For each cluster, PG&E has identified various levels of possible additional transmission capacity and the related costs.⁷ Accordingly, Level 1 reflects the available transmission capacity after taking into account all approved reliability and economic transmission projects, as well as upgrades planned for generation projects in the CAISO interconnection queue based on their completed System Impact Studies and Facilities Studies. The next Level and subsequent Levels reflect the next most cost-effective proxy network upgrade(s). The number of Levels depends on the number of proxy network upgrades to reasonably accommodate the anticipated total amount of renewable resources in each cluster.

Table X.1 lists PG&E's Transmission Ranking Costs by cluster and by seasonal delivery period. *Table X.1* shows the network upgrade costs for deliveries in: (1) peak and shoulder periods only; (2) night periods only, and (3) all periods year-round. The break-out of costs by delivery period may be useful for Projects with the ability to control their dispatch to avoid deliveries during periods that would trigger large upgrade expenses in the evaluation process (see Section D below).

⁶ The report costs will be based on conceptual transmission studies submitted previously in I.00-11-001, other conceptual transmission studies, and System Impact Studies and Facilities Studies prepared for projects that have initiated the CAISO interconnection process.

⁷ Costs are equal to the total capital cost of the proxy transmission network upgrade project and are stated in 2006 constant dollars. Net present value (NPV) amounts of each alternative would differ.

In *Table X.1*, for projects located north of PG&E's service territory, the associated cluster will be Round Mountain Substation. For projects located east of PG&E's service territory, the associated cluster will be Summit Metering Station. Pursuant to CPUC Decision 04-06-013, Seller is responsible for transmission service charges incurred by the generation facility to transmit the power to PG&E's service territory from facilities located outside California. For Projects located south of PG&E's service territory, the associated cluster will be PG&E's Midway Substation. Pursuant to CPUC Decision 04-06-013, Transmission Ranking Cost(s) published by SCE and SDG&E to transmit power to PG&E's service territory from corresponding clusters in SCE or SDG&E service territory will be added to PG&E's Midway Cluster Transmission Ranking Cost in PG&E's evaluation of project-related transmission costs for Offers from projects located south of PG&E's service territory. However, pursuant to Decision 05-07-039, in which the CPUC authorized PG&E to accept delivery at any point within CAISO, and Decision 06-05-039, in which the CPUC authorized PG&E to accept deliveries from ERR Projects anywhere within the state of California, PG&E will also consider alternative commercial arrangements, such as remarketing or swaps, and choose the most cost-effective option using least-cost best-fit principles.

C. Need for Application for Interconnection through the ISO

All Shortlisted Projects selected in this Solicitation must apply for interconnection through the ISO generation Interconnection Process and complete the System Impact Study and Facilities Study. It is through this ISO process that costs of connecting a renewable resource to the grid can be determined. Please see www.aiso.com for the CAISO Interconnection Process and the PG&E web site for its Interconnection requirements.

D. Curtailing Project Generation Output to Reduce Transmission Adder

To potentially increase the value of its Offer, Participant has the opportunity, but not the obligation, to propose a certain level of curtailability. To propose such curtailability, Participant should complete the "Optional Dispatch-down Provision" section of the Energy Pricing Sheet, included as Attachment D-2.

**FIGURE X
PG&E SUBSTATIONS ASSOCIATED WITH
RENEWABLE RESOURCE CLUSTERS**

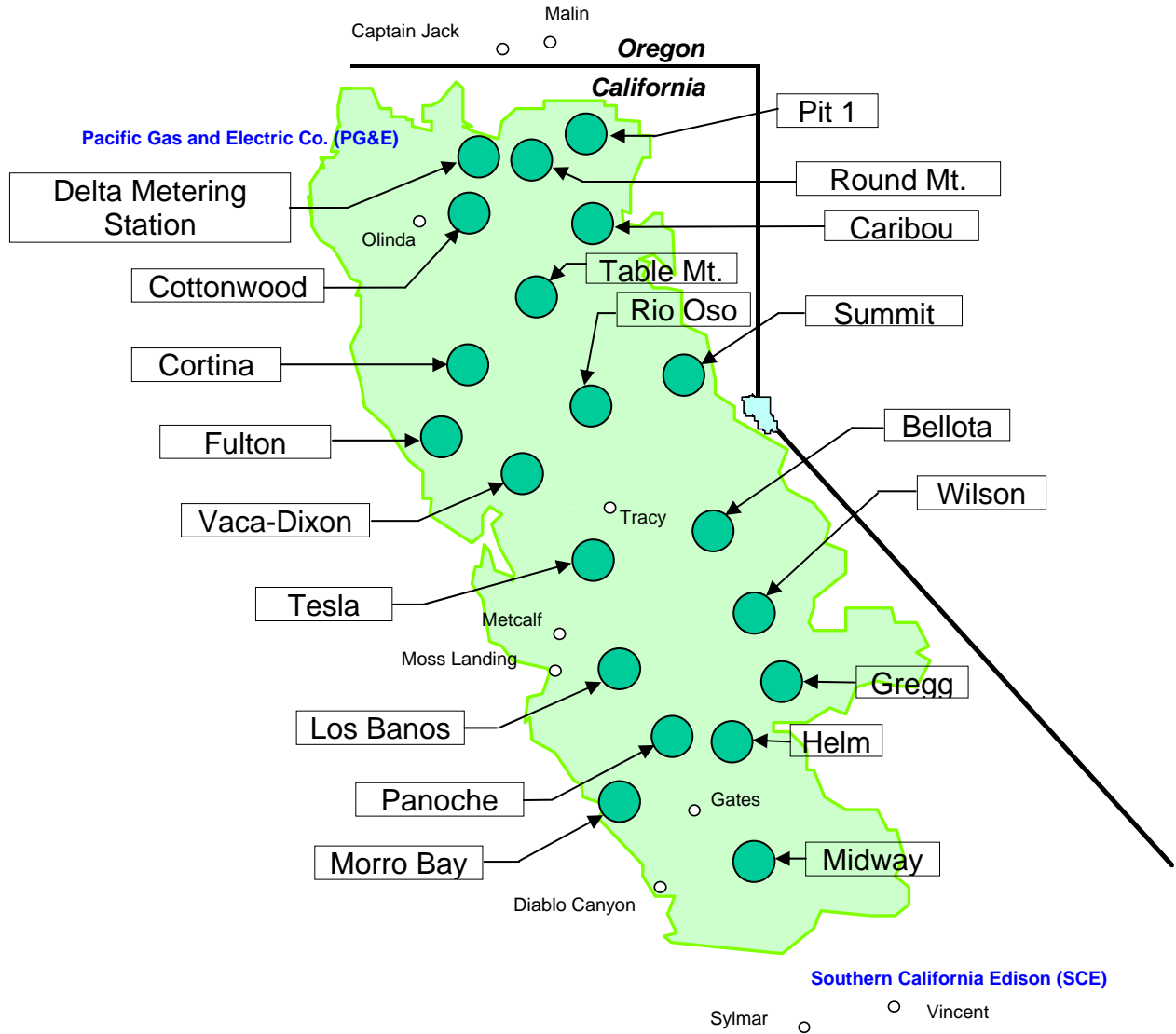


Table X.1: Transmission Ranking Cost Where PG&E is the Purchaser

(For Potential New Generation)

Substation Associated With Cluster Of Potential Generation	Level	Peak and Shoulder Year Round			Night Year Round			Base Load and As Available Year Round		
		Maximum MW of Potential Generation In each Level	Cost of Proxy Network Upgrades to accommodate MW Level of Potential Generation (\$ millions in 2006 dollars)		Maximum MW of Potential Generation In each Level	Cost of Proxy Network Upgrades to accommodate MW Level of Potential Generation (\$ millions in 2006 dollars)		Maximum MW of Potential Generation In each Level	Cost of Proxy Network Upgrades to accommodate MW Level of Potential Generation (\$ millions in 2006 dollars)	
			Proxy Voltage Support Devices*	Other Proxy Transmission upgrades		Proxy Voltage Support Devices*	Other Proxy Transmission upgrades		Proxy Voltage Support Devices*	Other Proxy Transmission upgrades
Bellota 230 kV	1	500	27	0	500	27	0	500	27	0
Caribou 230 kV	1	0	0	0	100	5	0	0	0	0
	2	50	3	183	300	16	36	50	3	183
	3	450	24	36	200	11	31	450	24	36
Cortina 115 kV	1	0	0	0	350	19	0	0	0	0
	2	300	16	18	250	13	49	300	16	18
	3	300	16	49				300	16	49
Cottonwood 230 kV	1	0	0	0	200	11	0	0	0	0
	2	700	38	183	600	32	31	700	38	214
Delta Metering Station 115 kV (PP&L)	1	0	0	0	0	0	0	0	0	0
	2	200	11	27	100	5	27	100	5	27
Fulton 230 kV	1	500	27	0	350	19	0	350	19	0
	2				250	13	19	250	13	19
Gregg 230 kV	1	0	0	0	1000**	54	0	0	0	0
	2	400	22	4				400	22	4
	3	300	16	4				300	16	4
	4	100	5	25				100	5	25
	5	150	8	35				150	8	35
Helm Sub 230 kV	1	0	0	0	500	27	0	0	0	0
	2	500	27	4	0	0	0	500	27	4
Los Banos 230 kV	1	500	27	0	350	19	0	350	19	0
Midway 230 kV	1	1000	54	0	0	0	0	0	0	0
	2				1100	59	482	1000	54	482
Morro Bay 230 kV	1	0	0	0	0	0	0	0	0	0
	2	100	5	13	500	27	482	500	27	495
Panoche 230 kV	1	0	0	0	500	27	0	0	0	0
	2	900	48	4	100	5	25	500	27	4
	3				400	22	43	500	27	68

Substation Associated With Cluster Of Potential Generation	Level	Peak and Shoulder Year Round			Night Year Round			Base Load and As Available Year Round		
		Maximum MW of Potential Generation In each Level	Cost of Proxy Network Upgrades to accommodate MW Level of Potential Generation (\$ millions in 2006 dollars)		Maximum MW of Potential Generation In each Level	Cost of Proxy Network Upgrades to accommodate MW Level of Potential Generation (\$ millions in 2006 dollars)		Maximum MW of Potential Generation In each Level	Cost of Proxy Network Upgrades to accommodate MW Level of Potential Generation (\$ millions in 2006 dollars)	
			Proxy Voltage Support Devices*	Other Proxy Transmission upgrades		Proxy Voltage Support Devices*	Other Proxy Transmission upgrades		Proxy Voltage Support Devices*	Other Proxy Transmission upgrades

Pit 1 230 kV	1	0	0	0	100	5	0	0	0	0
	2	200	11	183	100	5	12	200	11	195
	3	300	16	23	400	22	43	300	16	65
Rio Oso 230 kV	1	0	0	0	0	0	0	0	0	0
	2	250	13	50	500	27	11	250	13	50
Round Mt 230 kV	1	0	0	0	100	5	0	0	0	0
	2	400	22	183	300	16	31	400	22	214
	3	400	22	56				400	22	87
Summit Metering Station 115 kV	1	0	0	0	50	3	0	0	0	0
	2	200	11	30	150	8	30	200	11	30
Table Mt 230 kV	1	0	0	0	350	19	0	0	0	0
	2	750	40	183	400	22	31	750	40	214
Tesla 230 kV	1	1000	54	0	0	0	0	0	0	0
	2				1000	54	4	1000	54	4
Vaca Dixon 230 kV	1	0	0	0	1000	54	0	0	0	0
	2	500	27	35				500	27	35
	3	1000	54	139				1000	54	139
Wilson 230 kV	1	400	22	0	500**	27	0	400	22	0

* Static VAR Compensator (SVC) is used as a proxy for voltage support devices required. The size of the SVC at each Level assumes the capacity in each level will be fully utilized. However, since addition of voltage support devices is less “lumpy” than other transmission facilities, it is separately listed so that the size, and hence, cost can be prorated based on the size of the resource bid.

** The maximum potential generation for these levels assumes that it is cost effective to increase pumping at Helms Pump Storage Plant (PSP) during off-peak (night) periods using the new generation at these clusters. In addition, for the off peak (night) hours for the months of June through September, the maximum MW generation in each level could be increased by another 300 MW when maximum pumping at Helms PSP is likely.

XI. EVALUATION OF OFFERS

PG&E will base its evaluation of Offers upon the information contained in the submitted Offer forms. This evaluation will identify the Projects with which PG&E will enter into negotiations, that is, “Shortlisted Projects”. Participants are responsible for the accuracy of all figures, descriptions and calculations. Evaluation criteria include Market Valuation, Portfolio Fit, Credit, Status of Project, Technology Viability, Modifications, Transmission Cost Adders and Integration Costs, and Other Factors noted in Section XI.E. Projects that incorporate the Buyout Option, PSA, or Site will be evaluated using the same criteria, as applicable, as other Projects.

Each Offer will be assessed on each of the criteria described in this Section XI. Offers will be ranked according to an ordering mechanism that systematically compares offers using the scores on all of the evaluation criteria and then ranks the offers for Shortlist selection. The ordering process assures that each Offer will be ranked appropriately based on both the market valuation and the score ascribed to each Offer on each of the evaluation criteria described in this Section. For example, Offer A will be ranked higher than Offer B if Offer A has a score at least as high as Offer B on each of the evaluation criteria and if Offer A has a score higher than Offer B on at least one of the criteria. Following the establishment of a Shortlist, negotiations will be conducted with respect to each Participant’s Shortlisted Offer(s).

A. Market Valuation

1. Initial market price

Market Valuation compares an Offer’s costs to its market value. An Offer’s cost is reflected in the Offer’s pricing. An Offer’s benefits are the market value of the energy, capacity, and ancillary services. The risks and uncertainties associated with an Offer’s costs and benefits will be considered as part of Market Valuation. These costs and benefits do not include the costs and benefits associated with an Offer’s impact on PG&E’s portfolio positions. The impact on the portfolio is addressed in Section XI.B below (Portfolio Fit).

PG&E will assess the market value of the energy deliveries based on initial energy delivery date and delivery term of the Transaction, price, and TOD profile.

2. Price Structure

For As-Available, Baseload, and Peaking products, the contract price is a single all-in price, in \$/MWh. For Dispatchable products, the contract price is submitted as a fixed price (in \$/kW-yr) and a fixed energy price (in \$/MWh).

From the information provided in Participant’s Offer, a Market Valuation will be made of the energy to be delivered or, in the case of Dispatchable products, the energy to be made available. For each product offered to PG&E, the contract price will be compared to the market value of the energy deliveries reflecting the delivery point location.

Baseload and Peaking products are viewed as forwards, so the contract price will be valued against appropriate forward price curves.

As-Available products are viewed as variable-quantity forwards, where the quantities take into account the forecasted schedule of deliveries, so the contract price will also be valued against appropriate forward price curves. Risks associated with uncertainty of delivery will be considered.

Dispatchable products are viewed as options, with the contract energy price as the option strike and the contract fixed price as the option premium; the energy option will be evaluated using an option pricing model. Both the incremental costs and benefits of ancillary services will be assessed.

The value of capacity associated with each Offer will be assessed.

These assessments of energy, capacity and ancillary services will yield the net benefit (market value minus contract price) of each Offer being offered to PG&E.

PG&E will also consider the debt equivalent impacts of an Offer consistent with the guidance adopted in CPUC Decision 04-12-048. Debt equivalence in this context refers to the debt-like characteristics of contracts not classified as interest bearing liabilities under Generally Accepted Accounting Principles.

B. Portfolio Fit

PG&E will compare the “fit” between the Project’s online date and generation profile with PG&E’s portfolio needs, taking into account the Offer's contract price and forward price curves. An Offer that provides reliable energy that serves to meet PG&E’s forecasted short positions will be preferred to a comparably priced Offer that provides less reliable energy or that provides power during periods when PG&E is long and may be required to remarket the power.

C. Additional Factors

1. Credit

The Credit component of the evaluation will determine the Participant’s capability to perform all of its financial and financing obligations under the Agreements, and the Participant’s ability to provide collateral to secure its obligations under the applicable Agreement. In evaluating Offers, PG&E will consider the Participant's financial strength as determined by PG&E, the amount of financing committed to the Project, as well as the amount of acceptable security that Participant offers. In its evaluation, PG&E will also consider PG&E’s overall credit concentration with the Participant, including any of Participant’s affiliates.

Credit will be evaluated for Participant’s offering a sale under a PPA or PSA based on the Participant’s agreement to post acceptable security in a form and amount acceptable to PG&E, as described further below, during the following periods:

- (a) between the date on which the Agreement is executed and a date that is within thirty (30) days following the Agreement’s CPUC Approval, as defined in

the Form Agreement, in the amount of \$3/kW in the form of a Letter of Credit or cash;

(b) between the date that is within thirty (30) days following CPUC Approval and the generating facility’s Commercial Operation Date, as such terms are defined in the Agreements, in the amount of \$20/kW in the form of Letter of Credit or cash (as used herein, security provided in this Section XI.C.(1)(a) and (b) are collectively “Project Development Security”); and

(c) from the Commercial Operation Date of the facility until the end of the Delivery Term, as such term is defined in the Agreements, in the form of cash, Letter of Credit, or guaranty acceptable to PG&E, in the amounts indicated in the Performance Assurances Standards table below (as used herein, “Delivery Term Security”).

The Delivery Term Security will be based upon the maximum potential revenue from the Project during the Delivery Term. Participants must be able to demonstrate their financial ability to provide such security. If the amount of the Project Development Security, or Delivery Term Security offered by Participant in its Offer is below the applicable amount indicated in *Table XI.1* below, PG&E may not give any value to Participant’s offer of Credit when evaluating the Offer.

Table XI.1: Performance Assurance Standards

10 Yr Contract	15 Yr Contract	20 Yr Contract
Project Development Security: \$3/kW with an increase to a total of \$20/kW; Delivery Term Security: 6 months revenue	Project Development Security : \$3/kW with an increase to a total of \$20/kW; Delivery Term Security: 9 months revenue	Project Development Security: \$3/kW with an increase to a total of \$20/kW; Delivery Term Security: 12 months revenue

2. Status of Project

PG&E will assess the developmental stage and financial wherewithal of the Project behind each Offer. Those in operation or advanced development (*e.g.*, permits received, equipment purchased, sites and easements obtained, transmission studies completed, financing obtained, status of design/construction) will be preferred to those in early stages of development.

3. Technology Viability

PG&E will assess the potential for the Project to operate as proposed based on resource risk, historical commercial data of the technology and Participant experience. Resource risk will be assessed on whether resource availability and sustainability has been proven. Technology feasibility will be assessed on the state of commercialization of the technology. Participant



experience will be assessed on whether the Participant has experience with the specific technology offered or whether the Participant has experience with other renewable or conventional power generation.

4. Modifications

PG&E will assess the materiality and cost impact of any proposed modifications to Solicitation requirements and Form Agreements (Attachment G, H, I, J, or K, as applicable).

D. Adjustment for Transmission Cost Adders and Integration Costs

1. Transmission Cost Adders

Any transmission cost adders or integration costs attributed to the Project will also be considered in bid ranking. Transmission cost adders are described in Section X.B. Integration costs are defined as the costs and values of integrating an electrical resource such as a generation project into a system-wide electrical supply. The primary categories of integration costs are regulation and load following.

In Decision 05-07-039, the Commission authorized the utilities to accept delivery at any point within the control area of the CAISO for the express purpose of increasing the number of bids. Deliveries to locations outside of utility service territories became eligible for the RPS, thus avoiding the cost and delay of securing transmission to import the electricity to utility load centers. To this end, the Commission modified the directions in Decision 04-06-013 for the transmission ranking of bids to include adjustments for the costs associated with delivery outside the utility service territory.

In D. 06-05-039, the CPUC authorized PG&E to accept deliveries from ERR Projects anywhere within the state of California. The Commission contemplates that delivery from a generating unit could be made to the local load serving entity (LSE), and that a corresponding amount of electricity could be received by PG&E at a different location by arrangement with the recipient LSE. Commercial arrangements may enable projects to avoid potentially significant transmission upgrade expenses.

In this Solicitation, PG&E may accept the electricity at a CAISO delivery point or another delivery point outside of PG&E's service territory and avoid the cost of congestion through the use of typical commercial arrangements. Examples of such arrangements include remarketing of the delivered energy, utility swaps, use of transmission adjustment bids and obtaining transmission as it becomes available. PG&E will continue to utilize the TRCR values to assess the cost of transporting the energy to its load center, but PG&E will also consider the cost of alternative commercial arrangements and choose the most cost-effective option using least-cost best-fit principles. Ultimately, who pays for the cost of transmission is negotiable, subject to PG&E's ability to recover the cost.

The actual cost of necessary transmission upgrades will be based upon the results of the SIS and FS.

2. Establishing the Transmission Cost of Out-of-Service Territory Bids

CPUC Decision 04-06-013 provides that for power accepted at any point in the CAISO-controlled Grid (basically on the network of either PG&E, SCE or SDG&E), the transmission impact of the Project will be ranked based on the combination of transmission ranking costs provided by the host utility, the transmitting utility and the purchasing utility. For example, if a Project is located in SDG&E territory and selling power to PG&E, the transmission adder would be based on the transmission ranking cost at the SDG&E cluster closest to the generator's location in SDG&E, the transmission ranking cost at the SCE cluster closest to the interconnection point between SDG&E and SCE, and the transmission ranking cost at the PG&E cluster closest to the interconnection point between PG&E and SCE (*i.e.*, Midway). However, as noted above, PG&E will also consider possible commercial arrangements that might be more economical than physical transmission upgrades and choose the most cost-effective option using least-cost best-fit principles.

If a Project were located within California but outside the CAISO-controlled Grid, the Participant would incur a "wheeling" charge and other related charges to transport the electricity to an interface with the CAISO Grid. The Participant could be expected to include the wheeling and related charges in its bid price, so the transmission cost adder would be based only on the cluster closest to the interconnection point between the host utility and the CAISO-controlled Grid. For example, if a Project were located in SMUD's service area, its Offer price would include the cost of wheeling through the SMUD system. Its transmission cost adder would be based on the transmission ranking cost at the closest cluster to the point of receipt between PG&E and SMUD (*e.g.*, Bellota). However, as noted above, PG&E will also consider possible commercial arrangements that might be more economical than physically transmitting the power to the PG&E grid and will choose the most cost-effective option using least-cost best-fit principles.

If a Project is located outside of California, the Participant would similarly include the cost of wheeling through the host utility and any intervening utilities in its Offer price. The transmission cost adder would be based on the transmission ranking cost at the cluster closest to the interconnection point where its power would enter PG&E's territory (*e.g.* for power coming in from the Pacific NW, the cluster would be Round Mountain). However, as noted above, PG&E will also consider possible commercial arrangements that might be more economical than physically transmitting the power to the PG&E grid and will choose the most cost-effective option using least-cost best-fit principles.

3. Integration Costs

PG&E is required, pursuant to the Pub. Util. Code Section 399.14(a)(2)(B), to consider integration costs in the rank ordering and selection of least-cost and best-fit renewable resources. In implementing this provision, the CPUC has directed PG&E to rely on the results of the integration studies conducted by the CEC. The CEC issued an interim report, "*California RPS Integration Costs Analysis-Phase I: One Year Analysis of Existing Resources*", in December 2003. The CEC's report recommended an integration methodology and preliminary values, but the methodology and preliminary values are still undergoing CEC review. CPUC D.04-07-029 directed PG&E to assume an integration value of zero in its least-cost, best-fit evaluation for the

2004 RPS solicitation. PG&E will continue to assume this value of zero unless it is updated in a future CPUC decision.

E. Consistency with Goals of California's Renewables Portfolio Standard

1. Social, Environmental, Local Reliability, and Resource Diversity Benefits

Any non-quantitative factors identified in CPUC D.04-07-029 asserted in the Offer will be incorporated in PG&E's Offer evaluation. As directed by CPUC D.04-07-029, a Project in which these factors play a significant part, which would have narrowly missed being Shortlisted, may be included on the Shortlist.

2. Legislative Finding and Declaration (Cal. Pub. Util. Code Section 399.11). The Legislature has found that increasing California's reliance on renewable energy resources may do each of the following:

- increase the diversity, reliability, public health and environmental benefits of the energy mix;
- promote stable electricity prices;
- protect public health;
- improve environmental quality;
- stimulate sustainable economic development;
- create new employment opportunities;
- reduce reliance on imported fuels;
- ameliorate air quality problems;
- improve public health by reducing the burning of fossil fuels;
- provide tangible demonstrable benefits to communities with a plurality of minority or low-income populations.

As noted above, Participants are requested to describe each of the attributes of the Project that accomplish one or more of the objectives of the RPS program. All such assertions will receive full consideration during PG&E's evaluation of the Offer. In the event that two Projects are quantitatively similar, the Project that objectively demonstrates a stronger likelihood of achieving more of the Legislature's enumerated RPS goals will receive greater consideration than the other Project. A Project that has a high level of environmental permitting certainty and planned project features designed to minimize potential environmental and socioeconomic impacts will be considered more favorably than one lacking these qualities.

3. Impact of the Project on California's water quality and use and the relationship to the CPUC's Water Action Plan adopted on December 15, 2005, as described in Section VIII.C. of this Protocol.

To the extent a Proposal uses water on site, its proposed use of water will be reviewed for consistency with the CPUC's recommended water conservation practices and goals.

4. Supplier Diversity

It is the policy of PG&E that Women-, Minority-, and Disabled Veteran-owned Business Enterprises (WMDVBEs) shall have the maximum practicable opportunity to participate in the performance of Agreements resulting from this solicitation. PG&E encourages Participants to carry out PG&E's policy and contribute to PG&E's supplier diversity goal of 21.5% of all procurement, distributed as 5.0% for WBEs, 15.0% for MBEs, and 1.5% for DVBES. The good faith efforts of Participants to subcontract with WMDVBEs is a factor that will be considered in the bid evaluation process.

XII. CONFIDENTIALITY/SARBANES-OXLEY DISCLOSURE

A. Confidentiality

Except with PG&E's prior written consent, no Participant shall disclose its participation in this Solicitation (other than by attendance at any meeting held by PG&E with respect to the Solicitation) or collaborate on, or discuss with any other Participant or potential Participant bidding strategies or the substance of any Offer(s), including without limitation the price or any other terms or conditions of any Offer(s).

Except as provided below, all information and documents clearly identified by Participant as "Proprietary and Confidential" on the page(s) on which confidential information appears shall be considered confidential information. PG&E shall not disclose such information and documents to any third parties except for PG&E's employees, agents, counsel, accountants, advisors, or contractors who have a need to know such information and have agreed to keep such information confidential and except as provided below.

Notwithstanding the foregoing, it is expressly contemplated that the information and documents submitted by Participant in connection with this Solicitation will be provided to the CPUC, its staff, and the PRG for their review. PG&E will seek confidential treatment under the currently applicable protective order in CPUC Docket No. 01-10-024 and/or, if the currently applicable protective order is not deemed applicable, will seek a new protective order from the CPUC pursuant to California Public Utilities Code section 583 and General Order 66-C of the CPUC, with respect to any Participant-supplied non-public Solicitation information and documents ("Participant's Confidential Information") that are submitted by PG&E to the CPUC for the purpose of obtaining Regulatory Approval. PG&E will also seek confidentiality and/or non-disclosure agreements with the PRG applicable to confidential information submitted by Participants in connection with the Solicitation. PG&E cannot, however, ensure that the CPUC will afford confidential treatment to Participant's Confidential Information, or that confidentiality agreements or orders will be obtained from and/or honored by the PRG or the CPUC.

PG&E retains the right to disclose any information or documents provided by Participant to the CPUC, the PRG, CEC and to any other entity in order to comply with any applicable law, regulation, or any exchange, control area or CAISO rule, or order issued by a court or entity with competent jurisdiction over PG&E at any time even in the absence of a protective order,

confidentiality agreement or nondisclosure agreement, as the case may be, without notification to Participant and without liability or any responsibility of PG&E to Participant.

As provided in Section II.B.6, once a Participant is selected for PG&E's Shortlist, the Participant must execute a Confidentiality Agreement attached to the RPS Solicitation Protocol Agreement (Attachment A) and return such Confidentiality Agreement, along with the required Bid Deposit within five (5) business days of notification of their selection in order to continue to participate in the Solicitation.

B. Sarbanes-Oxley Disclosure

For each Participant who enters into an Agreement with PG&E, Generally Accepted Accounting Principles and Securities and Exchange Commission rules require PG&E to evaluate if the Participant's financial information must be consolidated by PG&E. Some general guidelines for determining whether consolidation must occur include:

- i) Determination if the Participant is a variable interest entity under Generally Accepted Accounting Principles;
- ii) Determination of allocation of risk and benefits;
- iii) Proportion of total project output being purchased by PG&E;
- iv) Proportion of expected remaining project life being committed to PG&E; and
- v) Pricing provisions of the Agreement; that is, does the Agreement contain fixed long-term prices or does pricing vary over the term of the Agreement based on market conditions or other factors.

If PG&E determines that consolidation is required, PG&E shall require the following during every calendar quarter for the term of an Agreement:

- i) Complete financial statements and notes to financial statements; and
- ii) Financial schedules underlying the financial statements, all within fifteen (15) days of the end of each quarter.

Any information provided to PG&E shall be treated confidentially and only disclosed on an aggregate basis with other similar entities for which PG&E has power-purchase contracts. The information will only be used for financial statement purposes and shall not be otherwise shared with internal or external parties.

XIII. PROCUREMENT REVIEW GROUP REVIEW

Following completion of the evaluation and rankings of Offers, PG&E will submit the results of the evaluation and its recommendations to the PRG. Such information will include at least the all-in cost ranking of Offers, an explanation of the application of transmission cost adders and other integration costs, the use of non-price evaluation criteria, and PG&E's recommendations based on such information. If the PRG concurs with PG&E's recommendation to select an Offer without material modification, PG&E will proceed to notify selected Participants in the manner provided in Section XIV below. PG&E, in its sole discretion, shall determine whether a

modification proposed by the PRG is material. In the event that the PRG proposes material modifications to PG&E's recommendation, or does not concur with some or all of the results of the evaluation, PG&E may, in its sole discretion and without limitation, do any of the following, as it deems appropriate: (1) inform identified Shortlisted Participants of the results of the PRG evaluation and seek Regulatory Approval of identified Offers in accordance with this Solicitation Protocol without regard to the recommendation of the PRG; (2) notify identified Shortlisted Participants of the modifications proposed by the PRG and, if such modifications are mutually acceptable to PG&E and the affected Participants, seek Regulatory Approval of the selected Offers as modified; (3) if recommended by the PRG, reevaluate the Offers and submit the reevaluated results to the PRG for additional review; (4) reject the Offers; or (5) terminate the Solicitation. PG&E has no obligation to obtain the concurrence of the PRG with respect to any Offer.

PG&E assumes no responsibility for the actions of the PRG, including actions that may delay or otherwise affect the schedule for this Solicitation, including the timing of the selection of Participants and the obtaining of Regulatory Approval.

XIV. NOTIFICATION TO SELECTED PARTICIPANTS

Assuming that the tentative Solicitation schedule set forth in Section II above is not modified, PG&E expects to be able to provide e-mail notification to Participants whose Offers have been Shortlisted by October 6, 2006, and invite the Shortlisted Participants to conduct discussions and negotiations with PG&E regarding Participant's Offer. PG&E anticipates notifying those Participants not selected to the Shortlist shortly thereafter. PG&E also reserves the right to contact selected Participants during the evaluation process to clarify any Offers.

XV. EXECUTION OF AGREEMENT

By submitting an Offer, Participant agrees, if its Offer is selected, to execute the Agreement substantially in the form of the applicable Form Agreement as may be amended in Participant's Offer. PG&E, in its sole discretion, will determine whether any proposed modifications or alterations of the Form Agreement are material and reserves the right to decline to execute any Agreement with a selected Participant.

XVI. REGULATORY APPROVAL

As described in each Agreement, Participant's obligation to deliver, and PG&E's obligation to purchase, electric power from Participant's project are expressly conditioned on the occurrence of Regulatory Approval and other conditions precedent set forth in that provision. As used within this Solicitation Protocol and in the context of the Solicitation, "Regulatory Approval" means a final and non-appealable order or orders of the CPUC, without conditions or modifications unacceptable to the Parties, or either of them, which does the following:

1. Approves PG&E's Agreement with Participant in its entirety, including payments to be made by PG&E, subject to CPUC review of PG&E's administration of the Agreement, and finds PG&E's entry into the Agreement is reasonable.
2. Authorizes PG&E to recover approved payments and/or revenue requirements in utility revenue.
3. Finds that any procurement pursuant to the Agreement constitutes procurement from an eligible renewable energy resource which is either *incremental* procurement or procurement for the purpose of baseline replenishment with respect to PG&E's obligations pursuant to the California Renewables Portfolio Standard, CPUC Decision 03-06-071, or other applicable law.

XVII. PARTICIPANT'S WAIVER OF CLAIMS AND LIMITATION OF REMEDIES

Except as expressly set forth in this Protocol, by submitting an Offer, Participant knowingly and voluntarily waives any rights under statute, regulation, state or federal constitution, or common law to assert any claim or complaint or other challenge in any regulatory, judicial or other forum, including the CPUC, except as expressly provided below, FERC, the Superior Court of the State of California ("State Court") or United States District Court ("Federal Court") concerning or related in any way to the Solicitation, the Solicitation Protocol and/or any attachments to the Solicitation Protocol ("Waived Claims"). The assertion of any Waived Claims by Participant at the CPUC, FERC, State Court, or Federal Court, or otherwise shall, to the extent that Participant's Offer has not already been disqualified, automatically disqualify such Offer from further consideration in the Solicitation or otherwise, and may result in PG&E electing to terminate the Solicitation.

By submitting an Offer, Participant further agrees that the only forums in which Participant may assert any challenge with respect to the conduct or results of the Solicitation is the CPUC's RPS OIR docket, R.04-04-026⁸ or through the alternative dispute resolution ("ADR") services provided by the CPUC pursuant to Resolution ALJ-185, August 25, 2005. The ADR process is voluntary in nature, and does not include processes, such as binding arbitration, that impose a solution on the disputing parties. However, PG&E will consider the use of ADR under the appropriate circumstances. Additional information about this program is available on the CPUC's website at the following link:

http://www.cpuc.ca.gov/PUBLISHED/Agenda_resolution/47777.htm

Participant further agrees that other than through the ADR process, the only means of challenging the conduct or results of the Solicitation is a protest to an Advice Letter Filing seeking approval of one or more Agreements entered into as a result of the Solicitation, that the sole basis for any such protest shall be that PG&E allegedly failed in a material respect to conduct the Solicitation in accordance with this Protocol, and the exclusive remedy available to Participant in the case of such a protest shall be an order of the CPUC that PG&E again conduct

⁸ Order Instituting Rulemaking to Implement the California Renewables Portfolio Standard Program, Rulemaking 04-04-026.

any portion of the Solicitation that the CPUC determines was not previously conducted in accordance with the Solicitation Protocol. Participant expressly waives any and all other remedies, including, without limitation, compensatory and/or exemplary damages, restitution, injunctive relief, interest, costs, and/or attorneys fees. Unless PG&E elects to do otherwise in its sole discretion during the pendency of such a protest or ADR process, the Solicitation and any related regulatory proceedings related to the Solicitation, including the RPS OIR, will continue as if the protest had not been filed, unless the CPUC has issued an order suspending the Solicitation or PG&E has elected to terminate the Solicitation.

Participant agrees to indemnify and hold PG&E harmless from any and all claims by any other Participant asserted in response to the assertion of a Waived Claim by Participant or as a result of a Participant's protest to an advice letter filing with the CPUC resulting from the Solicitation.

Except as expressly provided in this Protocol, nothing herein including Participant's waiver of the Waived Claims as set forth above, shall in any way limit or otherwise affect the rights and remedies of PG&E.

XVIII. TERMINATION OF THE SOLICITATION – RELATED MATTERS

PG&E reserves the right at any time, in its sole discretion, to terminate the Solicitation for any reason whatsoever without prior notification to Participants and without liability of any kind to or responsibility of PG&E or anyone acting on PG&E's behalf. Without limitation, grounds for termination of the Solicitation may include the assertion of any Waived Claims by a Participant or a determination by PG&E that, following evaluation of the Offers, there are no Offers that provide adequate customer benefit.

PG&E reserves the right to change the Offer evaluation criteria for any reason, to terminate further participation in this process by any Participant, to accept any Offer or to enter into any definitive Agreement, to evaluate the qualifications of any Participant, and to reject any or all Offers, all without notice and without assigning any reasons and without liability to PG&E or anyone acting on PG&E's behalf. PG&E shall have no obligation to consider any Offer.

In the event of termination of the Solicitation for any reason, PG&E will not reimburse Participant for any expenses incurred in connection with the Solicitation except the Bid Deposit as expressly provided in Section V.C. PG&E shall have no obligation to reimburse any Participant's expenses regardless of whether such Participant's Offer is selected, not selected, rejected or disqualified.

Unless earlier terminated, the Solicitation will terminate automatically upon the execution of one or more Agreements by selected Participants as described herein.

XIX. PARTICIPANT'S REPRESENTATIONS AND WARRANTIES

Each Participant submitting an Offer shall be deemed to have made the following representations and warranties to PG&E, which representations and warranties shall be deemed to be incorporated in their entireties into each Participant's Offer. Participant shall

execute and provide the RPS Solicitation Protocol Agreement (Attachment A) attesting to Participant's agreement to be bound by the conditions of the Protocol in submitting Participant's Offer.

- A. Participant has had the opportunity to seek independent legal and financial advice of its own choosing with respect to the terms and conditions of the Protocol;
- B. Participant has obtained all necessary authorizations, approvals and waivers that will enable Participant to execute this Protocol Agreement and commit to the terms provided in Participant's Offer;
- C. Participant is not an affiliate of PG&E, PG&E Corporation, or any of their affiliates;
- D. The Offer provided by Participant pertains solely to generation from a facility that uses or will use an ERR or ERRs to produce the energy to be sold to PG&E;
- E. Participant is submitting its Offer(s) subject to all applicable laws including, but not limited to, the Federal Power Act and all amendments thereto, and the California Public Utilities Code Sections 383.5, 399.11 et. seq. and 454.5, as may be amended time to time;
- F. Participant has not engaged and will not engage in oral, written, or any other form of communication with any other entity submitting an Offer to PG&E in response to PG&E's 2006 RPS Solicitation issued June 16, 2006 ("Solicitation");
- G. Except as permitted pursuant to Section V.C. of the Protocol, Participant has not offered or committed and will not offer or commit the output of the generating facility which output (including the renewable attributes) is the subject of Participant's Offer to PG&E to any other party during the period of time that Participant's Offer(s) is/are deemed binding for purposes of the Solicitation, as set forth in the Protocol; and
- H. Participant's Offer is a binding offer, for the applicable time periods set forth in the Protocol, subject only to PG&E's acceptance, in PG&E's sole discretion, at any time prior to the termination of the Solicitation, and satisfaction or waiver of any unsatisfied conditions precedent or subsequent to the resulting power purchase agreement or term sheet, as applicable.

BREACH BY ANY PARTICIPANT OF THE FOREGOING REPRESENTATIONS AND WARRANTIES IS, IN ADDITION TO ANY OTHER REMEDIES THAT MAY BE AVAILABLE TO PG&E UNDER APPLICABLE LAW, GROUNDS FOR IMMEDIATE DISQUALIFICATION OF SUCH PARTICIPANT, AND, DEPENDING ON THE NATURE OF THE BREACH, MAY ALSO BE GROUNDS FOR TERMINATING THE SOLICITATION IN ITS ENTIRETY.

XX. FERC ORDER 2004 NOTICE

Pursuant to the FERC Standards of Conduct issued November 25, 2003, enacted through FERC Order 2004, PG&E's transmission planning group unit ("Transmission") is prohibited from sharing non-public transmission-related information to the PG&E's marketing or "merchant" business unit. In order to evaluate any transmission system benefits proposed in an Offer, Transmission would need to share its conclusions regarding the local reliability component of each Offer with PG&E's merchant business unit. To that end, PG&E seeks a waiver from each Participant authorizing Transmission to share such conclusions with PG&E's merchant business unit. The form of waiver is attached hereto (Attachment F) and is available on the RPS Solicitation website. Please sign the waiver and return it to PG&E with your Offer.