2004
Long Term Request For Offers
Power Purchase

Pacific Gas and Electric Company®

March 18, 2005

TABLE OF CONTENTS

LIST OF APPENDICES

I. INTRODUCTION AND OVERVIEW

A. Overview

Pacific Gas and Electric Company ("PG&E") is issuing this Request for Offers ("RFO") to obtain power resources through a solicitation of interest from power plant owners/developers for a Power Purchase Agreement with PG&E ("Power Purchase"), or, for newly built dispatchable generation facilities for sale to PG&E ("Facility Ownership"). PG&E originally issued RFOs for this purpose on November 2, 2004. PG&E suspended those RFOs on January 7, 2005, in order to evaluate and respond to the California Public Utilities Commission ("CPUC") long–term plan decision (D.04-12-048, issued December 16, 2004 - the "CPUC Long Term Plan Decision"). In accordance with the CPUC Long Term Plan Decision, PG&E will evaluate Offers for Power Purchase or Facility Ownership together. Also in accordance the CPUC Long Term Plan Decision, an independent evaluator ("Independent Evaluator") will be utilized.

PG&E also seeks to replace the 135 megawatt fossil-fuel generation facilities at its Humboldt Bay Power Plant ("HBPP") in Eureka, California. Offers relating to the Humboldt Bay Power Plant replacement described below will be evaluated separately.

PG&E is seeking Power Purchase Agreements and related documentation ("PPA") contracts for Capacity, Energy and Ancillary Services with one or more dispatchable generating facilities meeting the eligibility requirements listed in Section III.

Respondents ("Participants") may reply to either or both of the alternatives under this RFO. If a Participant submits a reply offering both Power Purchase or Facility Ownership for the same generation facility, PG&E would execute only one agreement, either a PPA in the case of Power Purchase, or a Purchase and Sale Agreement and related documentation ("PSA") in the case of Facility Ownership for that facility. A PPA or a PSA, with related documentation, is alternatively or collectively referred to as a "Contract" or "Agreement".

PG&E currently estimates that it will need to acquire, either through PPAs or Facility Ownership, dispatchable capacity of approximately 1,200 MW in 2008, and an additional 1,000 MW in 2010. There is a preference for adding peaking capacity in 2008.

For Participants submitting bids for shaping resources (as defined in Section II.B.), PG&E requests that participants provide proposals that contain an option allowing PG&E to delay the delivery date for up to two years past 2010. For more information see Section II.A.

B. Expected Schedule

The expected schedule for this RFO process is:

March 18, 2005:	PG&E issues RFO
March 28, 2005:	Deadline for Participants to initiate electric and gas interconnection studies
April 8, 2005	Participants asked to submit Notices of Intent to Offer if not previously submitted
April 27, 2005:	Initial Offers Due
July, 2005:	PG&E selects shortlist and distributes supplemental information requests, draft Agreements and other RFO materials
September, 2005:	Final Offers Due
Nov / Dec, 2005:	PG&E and winning Participants execute Agreements subject to Regulatory Approval
December, 2005:	PG&E submits Agreements for Regulatory Approval

To be considered in this RFO an Offer must be received by PG&E in accordance with this RFO no later than 3:00 P.M. (PPT) on, April 27 , 2005 (an "Initial Offer").

After receipt of the Initial Offers, PG&E will review them and select a short list for a second and final offer (a "Final Offer"; Initial Offers and Final Offers are collectively referred to as "Offers"). See Section V ("RFO Schedule and Approval Process") for additional RFO schedule details.

Separate supply side PG&E RFO processes are under way for renewable resources (the Renewables Portfolio Standard ("RPS") RFO), and for energy call options (the Intermediate Term Capacity and Energy RFO).

PG&E will be seeking CPUC approval of all agreements resulting from this RFO prior to their taking effect to obtain assurances of cost recovery on its long-term commitments.

C. Disclaimers for Rejecting Offers and/or Terminating this RFO

PG&E's request for Offers through the publication of this RFO does not constitute an offer to buy and creates no obligation to execute any Agreement or to enter into a transaction under a Agreement as a consequence of the RFO. PG&E shall retain the right at any time, in its sole discretion, to reject any Offer on the grounds that it does not conform to the terms and conditions of this RFO. PG&E also retains the discretion, in its sole judgment, to: (a) reject any Offer on the basis that it does not provide sufficient ratepayer 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 any Participant to maximize ratepayer benefits; (d) modify this RFO as it deems appropriate to implement the RFO and to comply with applicable law or other direction provided by the CPUC; and (e) terminate the RFO should the CPUC not authorize PG&E to execute Agreements of the type sought through this RFO. Notwithstanding the above, PG&E reserves the right to either suspend or terminate this RFO at any time for any reason whatsoever. PG&E will not be liable in any way, by reason of such withdrawal, rejection, suspension, termination or any other action described in this paragraph to any Participant, whether submitting an Offer or not.

In its sole discretion, PG&E may also elect to pursue an Agreement with any Participant that has submitted a selected Offer, subject to PG&E obtaining Regulatory Approval of such Agreement as provided in Section XVIII of this RFO and the Agreement. Under no circumstances shall PG&E be contractually obligated to any Participant prior to PG&E's execution of an Agreement with the Participant nor until Regulatory Approval, as defined herein and in the applicable Agreement, has either been obtained or, in PG&E's sole discretion, waived.

II. RFO GOALS

A. PG&E Resource Needs

In December, 2004, PG&E's "2005 – 2014 Long Term Procurement Plan" was approved by the CPUC. The approval authorizes PG&E to procure dispatchable peaking and shaping resources (as defined in Section II.B.) to fill in the gaps between projected production from existing generation and contracted resources and projected demand. Since PG&E's deficit is initially more of a capacity need, PG&E prefers that peaking type resources are added during the first five months of 2008.

To meet this projected need, PG&E welcomes Offers from new generating facilities that meet the specifications noted in Section III. PG&E will also accept offers from Qualifying Facilities that meet the specifications in Section III. Optimal Offers will be those that best allow PG&E to produce energy products that are compatible with PG&E's requirements, and contribute to the other criteria specified in Section IV.

Although PG&E prefers resources that will commence delivering energy in 2008 or no later than 2010, PG&E would place value on an option, exercisable by PG&E in it sole discretion, to delay the initial delivery date for any shaping resource from the guaranteed date up to two years past 2010 (a "Delay Option").

In addition to the above needs, PG&E also needs to replace the 135 megawatt fossil-fuel generation facilities at its Humboldt Bay Power Plant in Eureka, California.

B. Power Purchase Products

PG&E is seeking peaking and/or shaping products. Peaking type resources, in the context of this RFO, are typically expected to have low annual capacity factors, and usually have relatively higher variable costs or higher heat rates and lower fixed costs. Shaping resources are expected to provide flexible operating capacity with energy production that will vary on a daily, seasonal and annual basis. For example, depending on market conditions, for example, dry hydro, shaping resources could operate a significant amount of the year. Shaping resources are expected to have relatively lower variable costs and higher fixed costs. All resources must be dispatchable. PG&E should be able to schedule the resources in the day-ahead, hour-ahead, and real-time markets, subject to the plant's operational constraints.

PG&E will not consider Offers from partial Units. With the exception of offers from resources with current QF status, Offers for all Products must be 25 MW or greater. Specific operating flexibility must be defined by the Participant. For details, see Appendix F, Offer Data Form – Power Purchase.

For offers from gas-fired facilities, PG&E's preferred contract structure is a fuel conversion (tolling) structure. The documentation requested in this RFO is generally structured to accommodate gas-fired units and a fuel conversion agreement. Participants offering a power purchase arrangement other than a fuel conversion agreement should adapt the documentation as needed to exclude provisions for gas delivery by PG&E. For power purchase arrangements for Units fired by a fuel other than gas, regardless of the pricing structure offered, Participants are requested to break out capacity, fixed O&M, variable O&M and fuel costs to aid PG&E in comparing Offers.

From a long-term strategic portfolio planning perspective, PG&E seeks to develop a diversified portfolio of both ownership and contractual resources as well as resources with varying lives. Such diversity provides flexibility in adapting to a variety of uncertainties including load and price. Given this, PG&E would prefer that PPA contracts resulting from the long term RFO have a five to ten year time frame.

C. Replacement of Expiring Qualified Facility ("QF") Contracts

In this solicitation, PG&E also will consider offers from existing and new Qualifying Facilities to replace power from QF contracts that will expire between 2006 and 2010. These QF resources must be 1 MW or greater in size. QFs may bid the general generation profiles of typical QF contracts. However, to enhance their competitiveness, QF offers should be priced attractively compared to other solicitation offers and market alternatives. All other things being equal, preference will be given to those projects offering dispatchability. Thus, expiring and new QFs have an opportunity to bid as a dispatchable plant as described above in the Products Section or as replacement power for expiring QF contracts.

A QF participant that has ongoing contract commitments must provide an offer with price, terms and conditions independent of its QF status assuming the ongoing QF commitment is terminated. Termination arrangements must be separately negotiated PG&E's with Power Contracts

Department. The QF bidder must set forth its plan to terminate any ongoing QF commitments in order for PG&E to evaluate the viability of its Long Term RFO QF bid. It is anticipated that any arrangement for the termination of an ongoing QF commitment will be approved by the CPUC when and if a QF offer is a winning offer under the Long Term RFO and a contract is executed and submitted to the CPUC for approval.

D. Humboldt Bay Power Plant Replacement

PG&E is also seeking to replace the 135 megawatt fossil-fuel generation facilities at its HBPP. This plant is needed for local area reliability, and replacement proposals will be required to satisfy specific functional specifications, and must be located in Humboldt County. Offers to replace the HBPP will generally follow the same protocol as other Offers.

PG&E prefers that the facility have a Commercial Operations Date during 2008, but will consider offers with on-line dates through August 31, 2009.

Current studies indicate that the replacement generation capacity be no less than 135 MWs and no more than 168 MWs assuming the retirement of HBPP and no transmission system upgrades or reinforcements. Generators that are greater than 168 MW may require system reinforcements or other mitigating measures, which would be identified as part of a project's SIS.

In addition, facilities must meet the functional specifications specified in Appendix J.

Participants who wish to arrange a visit to the site should contact Mark Smith, Engineering Manager at the Humboldt Bay Power Plant at (707) 444-0844.

III. ELIGIBILITY REQUIREMENTS

PG&E will consider offers that meet the specifications noted below:

A. Power Purchase

1. New generating facilities, must have a Commercial Operations Date (as defined in the RFO Term Sheet, Appendix D) no earlier than January 1, 2007, and no later than May 31, 2010.
2. An existing QF in PG&E's service territory as of November 2, 2004 that meets the requirements of this section. A Qualifying Facility must meet the requirements of the Federal Energy Regulatory Commission's rules (18 Code of Federal Regulations Part 292) implementing Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C.A. 796, et. seq.) and has not waived these rights as regards to PG&E.
3. Minimum offer term of 5 years.
4. Minimum offers of 25 MW or greater (1 MW for all QFs).
5. Deliveries of the products (capacity, energy and ancillary services) must commence no earlier than January 1, 2007, and not later than May 31, 2010.
6. The Participant must provide for firm physical delivery of its generation to a busbar at a specified delivery point (designated by Seller) within the area designated as NP15, as presently defined by the California Independent System Operator Corporation ("CAISO"). However, QF's may also provide delivery within the area designated as ZP26 by the CAISO.
7. The Participant must initiate a transmission System Impact Study, as defined in Section IX and a Preliminary Application for Gas Service, as defined in Section X. Applications to initiate these studies must be received by March 28, 2005.
8. The Participant must satisfy the Offer Deposit requirements set forth in Section VI.C.
9. Participant must demonstrate no later than the submission of its Final Offer, that it has control by ownership or long-term lease over the proposed site or an option to control the proposed site through ownership or a long-term lease.
10. Only "unit specific" offers will be accepted.
11. Offers shall confer upon PG&E exclusive rights to the unit's capacity based on agreed upon operating flexibility, and subject to CAISO requirements.
12. Participant must agree (i) to schedule and dedicate the contracted amount of electrical output to PG&E, net of station use and electrical losses; and (ii) not sell, deed, grant, convey, transmit, or otherwise provide any energy, capacity, ancillary services or any other related electricity product, including Environmental Attributes, as defined in the Standard Terms Decision (CPUC D-04-06-014), or capacity attributes associated with the output to an entity other than PG&E.

B. HBPP Replacement

1. New generating facilities, must have a Commercial Operations Date (as defined in the RFO Term Sheet, Appendix D) no earlier than January 1, 2007, and no later than August 31, 2009.
2. Minimum offer term of 5 years.
3. Total Peak Capacity of at least 135 MW on a single site.
4. The Functional Specifications listed in Appendix J.
5. The proposed project's generation must physically interconnect to a busbar within Humboldt County.
6. The Participant must initiate a transmission System Impact Study, as defined in Section IX and a Preliminary Application for Gas Service, as defined in Section X. Applications to initiate these studies must be received by March 28, 2005.
7. The Participant must satisfy the Offer Deposit requirements set forth in Section VI.C.
8. Participant must demonstrate no later than the submission of its Final Offer, that it has control by ownership or long-term lease over the proposed site or an option to control the proposed site through ownership or a long-term lease.
9. Only "unit specific" offers will be accepted.
10. Offers shall confer upon PG&E exclusive rights to the unit's capacity based on agreed upon operating flexibility, and subject to CAISO requirements.
11. Participant must agree (i) to schedule and dedicate the contracted amount of electrical output to PG&E, net of station use and electrical losses; and (ii) not sell, deed, grant, convey, transmit, or otherwise provide any energy, capacity, ancillary services or any other related electricity product, including Environmental Attributes, as defined in the Standard Terms Decision (CPUC D-04-06-014), or capacity attributes associated with the output to an entity other than PG&E.

IV. EVALUATION OF OFFERS

To evaluate Offers, PG&E will primarily consider Market Valuation, Portfolio Fit, Credit, Viability, Transmission Impact, Debt Equivalence Impact, Environmental Characteristics, Participant Qualifications, and Conformance with PG&E's non-price terms and conditions. Each of these primary criteria is discussed below.

In accordance with the CPUC Long Term Plan Decision, PG&E will evaluate Offers for Power Purchase or Facility Ownership together, and will utilize an Independent Evaluator.

Offers relating to the HBPP replacement will be evaluated separately.

Market Valuation means how an Offer's cost compares to an Offer's benefits, from a market perspective. 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 offered. These costs and benefits may include: fixed and variable costs; transaction costs, such as market bid-ask spreads; location-specific value, as represented by zonal or nodal price differentiation; and operating flexibility, as represented by option value. 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 particular costs and benefits associated with the Offer's impact on PG&E's portfolio positions and possible attendant market transactions by PG&E.

An important component of market valuation benefit is operating flexibility. PG&E uses option valuation models to quantify how operating flexibility contributes to market valuation.

Portfolio Fit means how well an Offer's features match PG&E's portfolio needs. In particular, the value of an Offer's capacity, energy, and ancillary services is adjusted to account for PG&E's portfolio positions, including temporal and locational aspects. Portfolio fit thereby weighs an Offer's costs and benefits in the context of PG&E's portfolio needs. In contrast, the market valuation component considers an Offer's costs and benefits without taking into account PG&E's portfolio needs.

Credit means the Participant's capability to perform all of its financial and other obligations under the Agreements, including, without limitation, the Participant's ability to provide performance assurance under the Agreements. PG&E will consider the Participant's financial strength as determined by PG&E as well as any credit enhancements acceptable to PG&E that Participant may offer with its proposal. PG&E will also consider its overall credit concentration with any particular Participant.

Viability means the probability that the resource(s) associated with an Offer can be financed and completed as required by the Agreement and will be available to provide capacity and energy and/or ancillary services when called upon.

Transmission Impact means the effect of an Offer on the electric transmission system. In evaluating an Offer, PG&E will consider the network upgrade costs as described in Section

IX.C. – System Impacts. PG&E will also consider congestion risk, impact on RMR costs, and other locational attributes associated with an Offer.

Debt Equivalence in this context refers to the debt-like characteristics of PPAs not classified as interest bearing liabilities under Generally Accepted Accounting Principles. PG&E will consider the debt equivalent impacts of an Offer.

Environmental Characteristics includes air emissions including carbon dioxide, nitrogen oxides, sulfur dioxide and particulates, and other potential environmental impacts. The quantities and potential costs to PG&E and to society associated with these characteristics will be considered.

Participant Qualifications means the experience and technical expertise of the Participant putting forth the Offer.

Conformance with PG&E's non-price terms and conditions means the degree to which the Participant accepts PG&E's proposed terms and conditions.

PG&E will evaluate Offers in a manner consistent with the company's and the corporation's environmental and environmental justice policies.

V. RFO SCHEDULE AND APPROVAL PROCESS

A. Below is the expected RFO schedule, followed by a discussion of each step:

Table V.1: PG&E RFO Schedule

October 5, 2004	1.	PG&E distributed a Draft RFO; Participants were invited to register online to receive notices regarding the RFO.
October 15, 2004	2.	Participants' Pre-Offer Conference.
November 2, 2004	3.	PG&E issued original RFO.
March 18, 2005	4.	PG&E issues updated RFO.
March 28, 2005	5.	Deadline for Participants to initiate electric and gas interconnection studies.
April 8, 2005	6.	Participants asked to submit Notices of Intent to Offer if not previously submitted.
April 27, 2005	7.	Initial Offers Due.
July, 2005	8.	PG&E selects shortlist and distributes supplemental information requests, draft Agreements and other RFO materials.
September, 2005	9.	Final Offers due.
Nov. / Dec. , 2005	10.	PG&E and winning Participants execute Agreements subject to Regulatory Approval.
December, 2005	11.	PG&E submits Agreements for Regulatory Approval.

The RFO schedule is subject to change at PG&E's sole discretion at any time. The RFO schedule may be affected by, among other things, discussions 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 change in the schedule or for failing to provide notice of any change. In particular, the process relating to the Humboldt Bay Power Plant may proceed on a different, expedited schedule after Initial Offers have been received.

B. Steps in the RFO:

1. PG&E Distributed Draft RFO / Online Registration. Participants may register at either of the RFO websites: http://www.pge.com/longtermpprfo or http://www.pge.com/ownershiprfo. Registering will establish the Participant on PG&E's notice list and insure that Participant receives timely announcements and updates. Online Registration is not required to qualify to Offer, but is strongly recommended.

2. Pre-Offer Conference. PG&E held a Pre-Offer Conference to discuss the draft 2004 PG&E Long-Term Facility Ownership and Long-Term Power Purchase RFOs.

3. PG&E issued Request for Offers for each of Power Purchase and Facility Ownership on November 2, 2004. The process for these RFOs was deferred in January, 2005.

4. PG&E re-issues Request for Offers.

5. Deadline to Initiate Electric and Gas Interconnection Studies. Participants must initiate, if needed, a System Impact Study ("SIS") and Facility Study ("FS") with the CAISO, as described in the CAISO Generating Unit Procedure set forth in Section IX; and submit to PG&E California Gas Transmission ("CGT") a request for a Preliminary Application for Gas Service as set forth in Section X if applicable. Participants with gas interconnections outside CGT must demonstrate comparable initiation with their local gas service provider. The Participant is responsible for the cost of each interconnection study or application. Failure of a Participant to provide the information necessary to complete its Application promptly may result in disqualification of the Participant's Offer.

   Deadline: Monday, March 28, 2005, 3:00 P.M. (PPT)

6. Notice of Intent to Offer. Participants are requested to complete and submit Appendix C by April 8, 2005 for each individual project, with basic project information. Participants are not requested to submit a duplicate if a notice was previously submitted for such project prior to the temporary suspension of the RFO process on January 7, 2005. Failure to submit a completed Appendix C by the scheduled date will not disqualify a Participant from participating in the RFO process.

7. Initial Offers Due. Participant's Initial Offer must be submitted by the deadline listed below and include without limitation the documents described in Sections VII.B, IX and X. Participant's submission of its Initial Offer constitutes its consent to and authorization of PG&E's electric and natural gas transmission functions providing to PG&E's merchant function any information concerning their evaluation of the Participant's interconnection and transmission system impacts which the Participant provides to them, or, which they provide to the Participant. Submittals must be tendered electronically and in hard copy. If there is disagreement between the electronic and hard copies, the hard copy will prevail. By responding to this RFO as described in Section VI.A, the Participant agrees to be bound by all of the terms, conditions and other provisions of this RFO and any changes or supplements to it that may be issued by PG&E.

   Deadline: Wednesday, April 27, 2005 , 3:00 p.m. (PPT)

8. PG&E Selects Shortlist. PG&E intends to select a shortlist of Participants for the submission of Final Offers. Participants who have been selected for the shortlist will be required to execute a Confidentiality Agreement in the form attached as Exhibit 1 to Appendix A, agreeing to keep confidential the terms discussed during the course of finalizing the final Agreements. Shortlisted Participants will be provided a copy of the definitive Agreements and supplemental RFO materials. PG&E reserves the right to add additional Participants to the shortlist following the initial selection.

9. Final Offers Due from Shortlisted Participants including responses to supplemental information requests. Participants must be willing to execute the Agreements submitted with their respective Final Offer.

10. PG&E and Winning Participants Execute Agreements. Each Agreement is subject to Regulatory Approval and any other conditions precedent as set forth in the particular Agreement

11. PG&E Submits Agreements for Regulatory Approval. A Participant executing an Agreement must cooperate with and actively support PG&E, if PG&E requests, in obtaining Regulatory Approval.

VI. BINDING NATURE OF OFFER

A. Agreement by Participant

By responding to this RFO, each Participant agrees to be bound by all terms, conditions and other provisions of this RFO and any changes or supplements to it that may be issued by PG&E. Each Participant will be required to have an authorized officer of Participant execute the "Long Term Request for Offer Agreement" attached hereto as Appendix A, which requires that the Participant agree to be bound by the terms of the RFO and to make specified representations and warranties to PG&E. Given the length of the Regulatory Approval process, each shortlisted Participant must agree to be bound by its Final Offer(s) for a period of eight (8) months from the date PG&E files the Agreement(s) with the winning Participant(s) with the CPUC. If the CPUC grants (subject to appeal) Regulatory Approval of the Agreement(s) within the eight-month period, each shortlisted Participant must agree to be bound by its Final Offer(s) for any additional period of time required for the CPUC order granting Regulatory Approval to become final and non-appealable.

B. Offer

Respondents may submit multiple offers. Each Offer must have a discrete size, location and delivery point.

The Participant is requested to provide a Delay Option to PG&E, as defined above in Section II.A and further detailed in Section XIII – Pricing, Terms and Conditions. PG&E may make the provision of the Delay Option a mandatory requirement for Final Offers.

C. Offer Deposit

Each Offer will require a separate Offer Deposit. When submitting each Offer, the Participant will be required to provide an initial deposit of cash or a Letter of Credit, (the "Offer Deposit"), as defined below for each Offer, in the amount of $5 per kW of the maximum monthly Capacity as set forth on Participant's completed Appendix F ("Generation Facility Information Form"). Participants may also provide up to four offer variations under a single Offer Deposit. All offers under a given Offer Deposit must be for a project which has the same size, location and delivery point. The variations under a single Offer Deposit are (i) one variation for Facility Ownership and (ii) three variations for Power Purchase which can only vary price and term. Provision of a Delay Option is not considered a separate variation for Offer Deposit calculation purposes.

The initial Offer Deposit is intended to secure the obligations of each Participant during the RFO's evaluation period and the period required to negotiate, execute and obtain regulatory approval of the Agreements(s). It is also intended to insure that each Initial Offer has been carefully considered. Any Initial Offer submitted without an accompanying Offer Deposit will be deemed to be a non-conforming Offer. Offer Deposits will be returned as set forth below in this Section VI.B.

At the date of submission for Regulatory Approval of selected Final Offers, an additional Offer Deposit of $5 per kW (for a total of $10 per kW of the maximum monthly Capacity) will be required from each selected Participant with respect to each selected Offer.

As noted above, the form of the Offer Deposit may be either (a) a cash deposit through a wire transfer; or (b) a Letter of Credit, as described below. **Participants should notify PG&E via email at longtermpprfo@pge.com prior to submitting their Offer Deposits to obtain details of delivery instructions, and routing and account number requirements.**

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) any transfer of the Offer Deposit to "Delivery Date Security" required under an executed Agreement. The applicable interest rate will be the rate per annum equal to the Monthly Federal Funds Rate (as reset on a monthly basis based on the latest month for which such rate is available) for each day cash is held by PG&E 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 360-day year and payable upon the first to occur of (i) the return of the cash deposit as provided below or (ii) any replacement of the cash deposit with a Letter of Credit as described below.

Letter of Credit - The Offer Deposit Letter of Credit and the Delivery Date Security Letter of Credit must be irrevocable, standby letters of credit. The Offer Deposit Letter of Credit must be in the form attached hereto as Appendix B. The Delivery Date Security Letter of Credit must be in form satisfactory to PG&E. Each Letter of Credit must be 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").

The Offer Deposit Letter of Credit must remain outstanding for the entire period in which the corresponding offer is pending. The Offer Deposit Letter of Credit submitted with each Initial Offer must have an expiry date of no earlier than December 31, 2005. If a Participant's Initial Offer is shortlisted, the expiry date of the Offer Deposit Letter of Credit for that Offer must, within 15 days after notice to the Participant of the shortlisting, be amended to be no earlier than March 31, 2006. PG&E may require further extensions of the required expiry date of any Offer Deposit Letter of Credit to the extent it deems necessary in its sole discretion to ensure that the Offer Deposit Letter of Credit remains in effect until Regulatory Approval of the corresponding Agreement has been obtained. If any Offer Deposit Letter of Credit has an expiry date earlier than that required by this paragraph, it must specify that PG&E may draw on such Offer Deposit Letter of Credit if, by the date that is thirty (30) days prior to the stated expiry date, PG&E has not received substitute security in the amount of the Offer Deposit Letter of Credit, such security to be in the form of a cash deposit as described above or another Offer Deposit Letter of Credit satisfying the requirements of this paragraph. Costs of the Offer Deposit Letter of Credit shall be borne by Participant. The Offer Deposit Letter of Credit should be sent by overnight delivery to:

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

Upon selection of the shortlist for this RFO, the Offer Deposit for rejected Initial Offers with respect to projects which are not shortlisted in the RFO process will be returned within 10 business days. PG&E will continue to hold the Offer Deposit for shortlisted Offers. The Offer Deposit of those shortlisted Offers will be returned under the following conditions:

1. PG&E's rejection of the Offer subsequent to shortlist selection when no variation of the Offer (secured by the same Offer Deposit) is shortlisted for the same project;
2. In the course of negotiation, the parties cannot agree on the terms of the Offer and Agreement, and PG&E rejects the Offer and Agreement as submitted by Participant when no variation of the Offer (secured by the same Offer Deposit) is shortlisted for the same project;
3. Upon execution and approval of the Agreement and Participant's submission of the letter of credit required under the Agreement ("Performance Assurance").
4. To the extent Regulatory Approval of the Offer has not been obtained before it is no longer required to be binding under Section VI.A. of this RFO and the Participant does not agree to be bound for a longer period of time.

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

1. Participant's withdrawal of the Offer other than as a result of its no longer being binding as required by Section VI.A. of this RFO;
2. Any material misrepresentation of pricing or other information knowingly submitted by Participant.

In the event that Participant forfeits the Offer Deposit, PG&E will be entitled to draw upon the Offer Deposit in its entirety as payment for direct and indirect damages incurred in connection with the Participant's withdrawal of Offer. PG&E shall also be able to draw on any Letter of Credit or retain any cash deposit provided as an Offer Deposit, as Performance Assurance under an Agreement, in the event that Participant fails to provide the Letter of Credit required under such Agreement.

PG&E may also draw on the Letter of Credit in the event (i) the Participant is obligated to, but has not, provided a replacement Letter of Credit from a qualifying issuer, or a cash deposit as set forth above, before the date that is thirty (30) days prior to the stated expiry date of the Letter of Credit, or (ii) the credit rating of the issuer falls below A2 from Moody's and A from S&P and a replacement Letter of Credit from a qualifying issuer, or a cash deposit as set forth above, is not provided to PG&E within seven (7) days. Amounts drawn in such circumstance will be held as cash deposits and be subject to draw or forfeiture as provided in the RFO.

PG&E will not reimburse Participants for their expenses under any circumstances, regardless of whether the RFO reaches a successful conclusion or is terminated early at the sole discretion of PG&E.

VII. PROTOCOL FOR PARTICIPANT OFFERS

A. Overview

Participants should submit offers to the RFO based on this March 18, 2005 RFO, not previously issued RFOs. All Initial Offers must be received in *both* hard copy and electronic form by **Wednesday, April 27, 2005 at 3:00 p.m. (PPT)**. If there is disagreement between the electronic and hard copies, the hard copy will prevail.

Hard copy documents: Participants must submit two (2) bound and one (1) unbound copy via hand-delivery or overnight delivery to:

Long Term RFO – Power Purchase
Electric Resource Procurement
245 Market Street, Room 1280A, Mail Code N12G
San Francisco, CA 94105

Electronic Documents: The electronic documents must be in a Microsoft Word and/or Excel file, as applicable, with any proposed changes to the Term Sheet (Appendix D) in a Microsoft Word file marked to show all changes. Electronic Documents must be in the form of a compact disk (CD) accompanying the hard copy documents.

Telephonic, telegraphic, e-mail or facsimile transmission of an Offer is not acceptable

B. Required Information

The following documents, which are located in the Appendices, must be included in any Initial Offer in the order given below:

1. **Completed Offer Cover Sheet (Appendix K)** providing key details of the Participant's Offer.

2. **Signed Long Term Request for Offer Agreement (Appendix A)** attesting to Participant's agreement to be bound by the conditions of the RFO.

3. **A Letter of Credit in the form of Appendix B** from an issuer meeting the criteria set forth in Section VI.C **or a cash deposit,** either in accordance with the requirements of Section VI.C

4. A **Power Purchase Agreement Term Sheet (Appendix D1)** in the form of a Microsoft Word document that is marked to show any proposed changes to the Term Sheet **OR** a statement confirming that *all* of the terms in Appendix D are acceptable. These requested modifications will be considered part of the Participant's Initial Offer; that is, PG&E will assume that the Participant is willing to negotiate and execute an Agreement based on these terms. Any material changes proposed by the Participant to the Term Sheet, and any subsequent

refusal to be bound by its proposed changes, will be given consideration in the overall Offer evaluation process. Non-price terms and conditions for the Delay Option should be provided in a separately marked copy of the Term Sheet, Appendix D.

5. **A completed Offer Data Form (Appendix E).**

6. **A completed Generation Facility Information Form (Appendix F).**

7. **A completed Credit and Finance Information Form (Appendix G).**

8. **A completed Electronic Transmission Data Information Form (Appendix H).** Include a copy of any current SIS/FS for the proposed project, if available.

9. **A completed Gas Interconnection Information Form (Appendix I).**

10. **Functional Specifications Form (Appendix J).** For a Power Purchase Offer for the HBPP Replacement, Offers with a gas-fired generation facility must meet the Functional Specifications described in Appendix J. Offers other than gas fired technologies should provide a letter stating their ability to meet these requirements and provide a markup of Appendix J stating those characteristics they cannot meet and provide the standards they can satisfy.

VIII. COMMUNICATIONS

PG&E has established a website at http://www.pge.com/longtermpprfo, where Participants may register and where all RFO documents, information, announcements and Q&As are posted and available to Participants.

To promote accuracy and consistency of the information provided to all Participants, PG&E discourages Participants from speaking directly with PG&E employees about this RFO. PG&E strongly prefers that all communications take the form of an email directed to longtermpprfo@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 email or other inquiry without liability or responsibility.

PG&E may elect to respond to inquiries or comments by individual Participants concerning purely procedural or administrative matters, but may also decline to do so in its sole discretion without liability or responsibility.

IX. ELECTRIC TRANSMISSION INTERCONNECTION

Interconnection of a project to the electric system grid and the ability of the project to deliver the resource to serve load reliably will be integral components of PG&E's evaluation of Offers. This section describes the interconnection requirements that the Participants are required to meet. Participant requirements are:

1. The resource must meet all applicable planning and operation standards as described in Section A. "Standards of Care".

2. PG&E's transmission system must be able reliably to deliver the output of the resource to serve load. This ability and the associated costs are determined from the CAISO Generating Unit Interconnection Procedure. For any project that does not have both a current System Impact Study (SIS) and a current Facility Study (FS), as described in the CAISO Generating Unit Interconnection Procedure, the Participants must apply for interconnection as described in Section C. "System Impacts" no later than March 28, 2005.

3. For those projects that have a current SIS and FS (current CAISO queue), each Offer must include both a complete SIS and FS to be considered for selection; no Offer involving a project that has a current SIS/FS will be complete until PG&E has received this information. Any potential Participant that does not want to provide this information to PG&E should not submit an Offer in this RFO.

4. For those projects that do not yet have a current SIS/FS, each Participant must either accept the transmission proxy costs that result from their choice of substation, as provided below, or provide to PG&E the results of preliminary or final studies as those results become available. This information will be used by PG&E solely in ranking and evaluating Offers and will be treated as confidential information by PG&E.

5. Each Participant is solely responsible for any direct assignment costs and transmission charges, as described in Section B. "Direct Assignment Facilities and Transmission Charges".

6. Completion of Appendix H.

Appendix H provides the web links to the documents referred to in this Section.

A. Standards of Care

All projects will be required to meet the following standards of care.

1. <u>ISO Standards</u>. Facilities must be designed and constructed such that all generation, scheduling and transmission services shall be performed in compliance with all applicable operating policies, criteria, rules, guidelines and tariffs of the CAISO and Prudent Electrical

Practices. The project, at its own expense, shall fulfill all contractual, metering and interconnection requirements as set forth in Participating Transmission Owner's applicable tariffs, the CAISO tariff and implementing CAISO standards and requirements, including but not limited to executing a CAISO Interconnection, Participating Generator and Meter Service agreements and PTO Generator Special Facilities Agreements ("GSFA"), so as to be able to deliver energy to the CAISO controlled grid and bear all costs relating to all metering equipment installed to accommodate the Unit(s). The project will exercise best efforts to comport and comply with any conditions, modifications, amendments or additions to the applicable CAISO tariffs and protocols.

2. Reliability Standard. The project must be designed and constructed to comply with all North American Reliability Council, Western Electricity Coordinating Council ("WECC"), and CAISO reliability requirements. If the project is interconnected directly to the PG&E system, it must meet PG&E's requirements regarding interconnection of the Unit(s), including PG&E's Interconnection Handbook ("PIH"); or, if the project is interconnected to the system of another transmission owner, it must also meet the applicable requirements regarding interconnection of the Unit(s) with such transmission owner's system.

3. Protective Apparatus. The project must include all relays, meters, power circuit breakers, synchronizers and other control and protective apparatus that PG&E, in its sole judgment, determines are reasonably necessary for proper and safe operation of the Unit(s) in parallel with the PG&E or CAISO system.

B. Direct Assignment Facilities and Transmission Charges

Direct Assignment facilities are those facilities needed to interconnect the generation facility to the first point of interconnection with the PG&E transmission system. 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. Direct Assignment transmission charges include any transmission charges the project must pay to a Transmission Owner other than PG&E. The Participant is solely responsible for Direct Assignment and Transmission Charges.

C. System Impacts

System Impacts relate to the capability of the transmission system to deliver the full output of the project from the first point of interconnection with the PG&E transmission system to serve the load reliably. If there is insufficient capability, network upgrades would be needed. Network upgrades include transmission lines, transformer banks, special protection systems, substation breakers, capacitors, and other equipment needed to transfer the generation output to the consumer. Pursuant to FERC Order 2003, as modified by FERC in March of 2004, Participants will be required to fund the full cost of all facilities necessary to interconnect to PG&E's system, including network upgrades. A Participant is entitled to a cash equivalent refund of the network upgrades it funds, with interest paid over a five-year period. All Participants in this RFO must apply for interconnection for each project through the CAISO Generation Unit Interconnection Procedure no later than March 28, 2005, including the SIS/FS.

1. Projects With Completed and Current SIS/FS. For projects that have already obtained cost estimates from completed and current SIS/FS through the CAISO Generating Unit Interconnection Procedure, the Participant shall submit copies of the completed studies and the SIS/FS cost estimate for the needed network upgrades with the Offer.

2. Projects Without Completed SIS/FS. For projects that do not yet have completed SIS/FS, pending the availability of the completed studies, PG&E will use the preliminary results of the SIS/FS, and if the preliminary results are not available, PG&E will use transmission proxy costs for interim Offer evaluation. A link to the proxy costs may be found on the following PG&E web site: www.pge.com/longtermpprfo, under the section titled "Transmission Related Information and References", listed as "Electric Transmission Proxy Costs". In either case, copies of the completed studies must be received by PG&E when they are available.

Each Participant without a completed SIS/FS must select from the substations listed on the web site cited above the substation which is the most appropriate point of interconnection for its Unit(s) in its Offer. The transmission costs are proxies for transmission network upgrades that may be needed to transmit the full output of the project to serve load reliably. The transmission costs were determined based on the method that was filed in compliance with CPUC Decision 04-06-013.

The PG&E web site referenced above provides the transmission proxy costs for 230 kV substations during peak and off-peak periods. For each substation, PG&E has identified several levels of possible additional transmission capacity and the related costs. 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 ISO interconnection queue based on their completed SIS/FS studies. Thus, Level 1 would have no network upgrade costs except those associated with reactive power support. The next 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 needed to accommodate up to about 1,000 MW new generation in each substation.

The transmission proxy costs will be used solely for the purpose of ranking and evaluating Offers. The actual transmission network upgrade costs for a specific project, determined by the SIS/FS, may differ from the transmission proxy costs and PG&E is not responsible or liable for the deviation between estimated and actual costs.

X. GAS SUPPLY AND INTERCONNECTION

If gas is the fuel source, Offers for a Power Purchase Agreement should reflect a Fuel Conversion Agreement arrangement (tolling) where PG&E would procure and deliver the gas commodity to the plant.

Each Offer using natural gas must include a completed form of Appendix I. This information is required regardless of the source of the gas transportation service.

<u>If Interconnected to CGT:</u>

To obtain the information needed to complete Appendix I for a power plant that is located in PG&E's service territory and is served from the PG&E gas transmission system, each Participant must submit to CGT a request for a Preliminary Application for Gas Service by no later than March 28, 2005. The gas interconnection process is described at http://www.pge.com/suppliers_purchasing/new_generator/gas_interconnections/ .

For projects that have already obtained a response for a Preliminary Application for Gas Service within the past 12 months from a previous PG&E application, the Participant shall submit copies of the completed studies and a completed Appendix I with the Offer.

The PG&E Power Plant Connection Process usually consists of 4 steps:

1. Preliminary Request for Information Review,
2. Preliminary Application for Gas Service,
3. Formal Application for Gas Service, and
4. Construction.

However, for this RFO, Participants are asked to use the following expedited process:

1. Submit to PG&E's CGT a formal written request to initiate the Preliminary Application for Gas Service. The normal response time for a Preliminary Application for Gas Service is approximately 12 weeks. Because of the necessity of an expedited response, we suggest the following requests be made in the cover letter:
   a. Notify CGT that you are participating in this RFO.
   b. Request CGT to forgo the Preliminary Informational Review and immediately initiate a Preliminary Application for Gas Service.
   c. Request CGT to provide results of the System Impact Study (SIS) as soon as the study is complete, with a copy to Power Contracts & Electric Resource Development.
   d. Request that, upon completion of the SIS, CGT should proceed with an expedited Preliminary Facilities Study. Request that the study be completed by April 18, 2005. Also state that, because of the timing of this RFO, the request for information should

be treated by CGT on an expedited schedule, and that the Participant will accept order-of-magnitude cost estimates based upon available engineering resources.

2. Provide CGT with a completed Interconnection Information Sheet. This document is included with this RFO, and can also be found at: http://www.pge.com/suppliers_purchasing/new_generator/gas_interconnections/.

3. Provide CGT with two completed and executed originals of PG&E's "Agreement to Perform Tariff Schedule Related Work" (see Exhibit 1 to Appendix I).

4. Provide a site map of the proposed power plant with a proposed meter set location.

5. Include hourly/daily/seasonal projected load curves when the power plant is in-service; (maximum loads are in the interconnection information sheet).

6. Provide the estimated annual gas usage of the proposed Facility; and

7. Enclose a cash advance of $10,000 to initiate engineering.

The date of receipt by CGT of the completed application will establish the Participant's place in the engineering queue. In order to meet the expedited bidding schedule, CGT will not perform a full analysis at this time. PG&E will request that if the Participant is selected for the shortlist, the Participant shall request CGT to provide a detailed Preliminary Application for Gas Service. Additional funding may be required at that time. The Formal Application for Gas Service will not be required until the Final Offers have been selected.

The Participant will be required to pay for the interconnection of the project to the PG&E gas system, subject to the conditions as outlined in PG&E's Gas Rules 15 and 16 (http://www.pge.com/tariffs/GR.SHTML#GR), unless addressed in PG&E'S response to the Preliminary Application for Gas Service.

All cash advances provided by the Participant will be credited against the engineering job. If work does not proceed, the balance of the cash advance will be returned to Participant. Should the costs exceed the project advance, PG&E will stop work and notify Participant accordingly. For this cash advance, PG&E will perform the following:

1. A cost and schedule to build PG&E's recommended Standard Facilities and Special Facilities Designs with an estimated accuracy of +/- 50%;

2. A map showing PG&E's preferred transmission service tap, pipeline route and meter set location; and

3. The expected minimum delivery pressure available at the meter set for PG&E's preferred route.

An additional cash advance may be required to complete the Preliminary Study should the Participant make the short list.

The Application including the initial cash advance made out to PG&E, should be delivered to:

Pacific Gas and Electric Company
Attn: Rod Boschee
Mail Code: B16A
77 Beale Street
San Francisco, CA 94105

If Not Interconnected to CGT:

A completed Appendix I will be required by PG&E from the Participant. The Participant will be responsible for obtaining all required information from the gas service provider, and will include all related documents and studies with the Offer.

XI. GENERATING FACILITY DESCRIPTION

Power Purchase

Participants are required to describe in detail the generation facility that will be providing the specified products. The Participant should demonstrate the ability of the generation facility to be available by the Initial Delivery Date (as defined in the PPA Term Sheet (Appendix D)) and throughout the project life to provide capacity and energy and/or ancillary services when called upon. This reliability will be considered in the evaluation of the Offer.

The detailed project description should be provided in the Generation Facility Information Form, (Appendix F).

In the case of a HBPP replacement, the facility must also meet certain operating performance criteria set forth in Section II and Appendix J.

XII. FINANCING AND CREDIT

In its evaluation of an Offer, PG&E will consider the Participant's capability to perform all of its financial and other obligations under the PPA, including, without limitation, the Participant's ability to provide Performance Assurance that the resource would be available and operate as required under the executed contract. This assurance is to support performance during plant operations and the ability of the Participant to construct the generation facility by the Initial Delivery Date. This assurance includes the ability of the Participant to fund the construction of the generation facility and cause it to be constructed by the Initial Delivery Date as set forth in the Term Sheet (Appendix D). Participants are required to complete the Credit and Finance Information Form set forth in Appendix G.

The Participant will be required to post collateral to support its ability to construct the generation facility by the expected delivery date and depending on its credit standing, may need to post collateral acceptable to PG&E to support performance of other obligations under the contract. The terms and conditions to provide collateral are set forth in the Term Sheet in Appendix D. As set forth in Section IX, participants will be required to provide funding for any Network Upgrade costs.

To manage credit risk associated with the products being contracted through this RFO after the Initial Delivery Date, PG&E will require a weekly collateral posting based on a computation of the week-to-week change in market value for the product(s). The change in market value will be computed for either a two-year or a five-year time frame. The specific time frame is dependent on the length of time it is expected to take to replace the technology underlying the product contracted through this RFO. Depending on the shift in market value, PG&E or the seller will be required to post collateral beyond their respective collateral threshold amounts as described in the Term Sheet in Appendix D.

The Participant will also be subject to an Independent Amount component as described in the Term Sheet in Appendix D. Depending on a party's credit standing, there may be a requirement to post some or the entire independent amount on the initial delivery date. The independent amount would be based on PG&E's assessment on the potential short-term market value movement of the contract.

XIII. PRICING, TERMS AND CONDITIONS

Participants are required to complete the Offer Data Form set forth in Appendix E. The Offer Data Form should be completed in conjunction with a review of the Term Sheet provided in Appendix D. Each Participant should also provide any proposed modifications to the Term Sheet. Modifications to the Term Sheet will be considered in the evaluation of each Offer.

Each Participant will be expected to review the Term Sheet and provide a marked copy of any proposed modifications with its Initial Offer, as set forth in Section VII.B. Shortlisted Participants will be provided with a form of Power Purchase Agreement and as part of their respective Final Offers must indicate that they will execute the Power Purchase Agreement or submit a mark-up of the Power Purchase Agreement which they are prepared to execute.

The provisions of the Term Sheet and Power Purchase Agreement may require modification for Offers to replace HBPP to reflect the unique location of that plant and the related reliability issues.

A Participant offering a Delay Option (as described in Section II.A) should specify the terms upon which it would offer a Delay Option, specifying the period during which it would allow the option to be exercised, and the associated terms and conditions (varying by exercise date, if applicable). The pricing set forth in Appendix E for each Power Purchase Offer variation or the pricing for a Facility Ownership Offer should not change due to the Delay Option. Pricing information for the Delay Option should be separately specified in Appendix E, identifying any additional cost of the Delay Option in the form of a lump sum payment(s) prior to the Guaranteed Commercial Availability Date of the facility. Non-price terms and conditions for the Delay Option that are not specified in Appendix E should be provided in a separately marked copy of the Term Sheet, Appendix D. PG&E may make the provision of the Delay Option a mandatory requirement for Final Offers. The detailed structure of the Delay Option will be finalized with shortlisted Participants prior to Final Offers.

Projects should meet the minimum criteria set forth for each Product set forth in Section II.

XIV. CONFIDENTIALITY

Except as provided below, all information and documents provided to PG&E by a Participant in connection with this RFO shall be considered confidential information, and PG&E and the Participant shall be prohibited from disclosing such information and documents to any and all third parties except as provided below.

It is expressly contemplated that materials submitted by a Participant in connection with this RFO will be provided to the CPUC, its staff, the Independent Evaluator, and PG&E's Procurement Review Group ("PRG"). PG&E will seek confidential treatment pursuant to Public Utilities Code section 583 and General Order 66-C of the CPUC, with respect to any Participant-supplied non-public RFO 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 the Participant's confidential information. PG&E cannot, however, ensure that the CPUC will afford confidential treatment to a 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 the Participant to the CPUC, its staff, the Independent Evaluator, the PRG, and to any other entity in order to comply with any applicable law, regulation, or any exchange, control area or ISO 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 the Participant and without liability or any responsibility of PG&E to the Participant.

As provided in Appendix A, the Long Term Request for Offer Agreement, once a Participant is selected for the Shortlist, the Participant must execute a Confidentiality Agreement in the form attached to Appendix A and return such Confidentiality Agreement within three (3) business days of notification of their selection in order to continue to participate in the RFO.

XV. SARBANES/OXLEY DISCLOSURE

The following is applicable to Power Purchases Agreements only:

New Security and Exchange Commission rules for reporting power purchase agreements may require PG&E to collect and possibly consolidate financial information for the facility whose output is being purchased under long-term contractual arrangements. Some general guidelines for determining whether consolidation must occur include:

i) Determination of allocation of risk and benefits;

ii) Proportion of total project output being purchased by PG&E;

iii) Proportion of expected project life being committed to PG&E; and

iv) Pricing provisions of contract, that is, does the contract contain fixed long-term prices or does pricing vary over the term of the agreement based on market conditions or other factors.

For any PPA that meets the applicability criteria, PG&E is obligated to obtain information from successful Participants to determine whether or not consolidation is required. If PG&E determines that consolidation is required, PG&E shall require the following during every calendar quarter for the term of a PPA:

i) Complete financial statements and notes to financial statements;

ii) Financial schedules underlying the financial statements, all within 15 days of the end of each quarter and

iii) Access to records and personnel, so that PG&E's independent auditor can conduct financial audits (in accordance with generally accepted auditing standards) and internal control audits (in accordance with Section 404 of the Sarbanes-Oxley Act of 2002).

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.

XVI. NOTIFICATION TO SELECTED PARTICIPANTS

Assuming that the tentative RFO schedule set forth in Section V above is not modified, PG&E expects to be able to provide e-mail notification to Participants whose Initial Offers have been shortlisted by approximately July, 2005, and invite the shortlisted Participants to conduct discussions and negotiations with PG&E regarding each Participant's Offer. PG&E anticipates notifying those Participants not shortlisted shortly thereafter. PG&E also reserves the right to contact selected Participants during the evaluation process to clarify any Offers.

XVII. EXECUTION OF AGREEMENT

By submitting an Initial Offer, Participant agrees, if its Initial Offer is selected, to negotiate and execute a definitive Agreement consistent with the Term Sheet submitted with the Participant's Initial Offer and containing such other terms and conditions as may be mutually acceptable to PG&E and the Participant. By submitting a Final Offer, participant agrees, if its Final Offer is selected, to enter into a definitive Agreement consistent with the mark-up of the Agreement submitted by it with its Final Offer. PG&E's evaluation of a Participant's Initial Offer or Final Offer, and PG&E's shortlisting of a Participant, will not constitute any agreement by PG&E to any modification made by the Participant to the Term Sheet or PG&E's definitive Agreement form submitted to Participant.

XVIII. REGULATORY APPROVAL

The effectiveness of any Agreement as to PG&E is expressly conditioned on PG&E's receipt of Regulatory Approval. "Regulatory Approval" means a final and non-appealable order or orders of each regulatory or other governmental body designated by PG&E, including without limitation the CPUC, without conditions or modifications unacceptable to PG&E, which, in the case of Regulatory Approval by a governmental body other than the CPUC grants the approvals requested in the application therefore, and in the case of Regulatory Approval by the CPUC, does the following:

1. Approves the Agreement in its entirety, including payments to be made by PG&E and timely cost recovery at the commencement of the facility's dedication to utility service, subject only to CPUC review with respect to the reasonableness of PG&E's administration of the Agreement, and finds PG&E's entry into and performance under the Agreement to be reasonable.

2. Authorizes PG&E to recover payments under the Agreement in utility revenue subject only to CPUC review with respect to the reasonableness of PG&E's administration of the Agreement.

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

Except as expressly set forth in this RFO, by submitting an Offer, the 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, the Federal Energy Regulatory Commission ("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 RFO, the RFO and/or any Appendices to the RFO ("Waived Claims"). The assertion of any Waived Claims by Participant at the CPUC, FERC, State Court, Federal Court, or otherwise shall, to the extent that Participant's Offer has not already been disqualified, shall provide PG&E the right, and may result in PG&E electing, to reject such Offer or terminate the RFO.

By submitting an Offer, the Participant further agrees that the sole forum in which Participant may assert any challenge with respect to the conduct or results of the RFO is a protest to PG&E's filing seeking approval by the CPUC of one or more Agreements entered into as a result of the RFO. The Participant further agrees that the sole means of challenging the conduct or results of the RFO is a protest to PG&E's filing before the CPUC seeking approval of one or more Agreements entered into as a result of the RFO. The Participant further agrees that the sole basis for any such protest shall be a challenge to the conduct or results of the RFO on the ground that PG&E failed in a material respect to conduct the RFO in accordance with this RFO, and the exclusive remedy available to the Participant in the case of such a protest shall be an order of the CPUC that PG&E again conduct any portion of the RFO that the CPUC determines was not previously conducted in accordance with the RFO. The 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 the RFO and any related regulatory proceedings related to the RFO will continue as if the protest had not been filed, unless the CPUC has issued an order suspending the RFO or PG&E has elected to terminate the RFO.

The 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 the Participant or as a result of a Participant's protest to an Advice Letter Filing resulting from the RFO.

Except as expressly provided in this RFO, 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.

XX. TERMINATION OF THE RFO - RELATED MATTERS

PG&E reserves the right at any time, in its sole discretion, to terminate the RFO 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 RFO 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 ratepayer 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 RFO for any reason, PG&E will not reimburse the Participant for any expenses incurred in connection with the RFO regardless of whether such Participant's Offer is selected, not selected, rejected or disqualified. Return of a Participant's Offer Deposit in the event of termination will be governed by the provisions of Section VI.C.

Unless earlier terminated, the RFO will terminate automatically upon the execution of one or more Agreements by selected Participants as described herein. In the event that no Agreements are executed, then the RFO will terminate automatically on March 31, 2006.

XXI. PARTICIPANT'S REPRESENTATIONS AND WARRANTIES

Each Participant submitting an Offer shall execute and provide the Long Term Request for Offer Agreement (Appendix A) attesting to the Participant's agreement to be bound by the conditions of the RFO in submitting its Offer and making the representations and warranties set forth therein.

BREACH BY ANY PARTICIPANT OF THE REPRESENTATIONS AND WARRANTIES IN APPENDIX A OF THE RFO APPENDICES IS, IN ADDITION TO ANY OTHER REMEDIES THAT MAY BE AVAILABLE TO PG&E UNDER APPLICABLE LAW, GROUNDS FOR IMMEDIATE DISQUALIFICATION OF SUCH PARTICIPANT FROM PARTICIPATION IN THE RFO AND, DEPENDING ON THE NATURE OR SEVERITY OF THE BREACH, MAY ALSO BE GROUNDS FOR TERMINATING THE RFO IN ITS ENTIRETY.