

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 24, 2007

Advice Letters 3074-E

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

3074-E-A
3074-E-B

Subject: Contracts for Procurement of Renewable Energy Resources
Resulting from PG&E's 2006 Renewables Portfolio Standard
(RPS) Solicitation

Dear Mr. Cherry:

Advice Letters 3074-E , 3074-E-A, and 3074-E-B are effective December 20, 2007.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director
Energy Division



June 27, 2007

Advice 3074-E

Pacific Gas and Electric Company (U 39-E)

Public Utilities Commission of the State of California

**Subject: Contracts for Procurement of Renewable Energy Resources
Resulting from PG&E's 2006 Renewables Portfolio Standard
Solicitation**

I. PURPOSE AND OVERVIEW

Pacific Gas and Electric Company (PG&E) requests the California Public Utilities Commission (Commission or CPUC) to approve three power purchase agreements (PPAs) resulting from PG&E's 2006 Renewables Portfolio Standard (RPS) solicitation.¹ The Commission's approval will authorize PG&E's rate recovery of the cost of incremental renewable energy deliveries that count towards the 20 percent renewables procurement goal required by California's RPS statute.²

The estimated annual output of these projects is up to 31 percent of PG&E's 2006 annual RPS. On April 3, 2007, PG&E reported its 2006 RPS incremental procurement target (IPT) as 727 gigawatt-hours (GWh).³ With the approval of the three new PPAs, PG&E will have procured or contracted for deliveries of approximately 226 GWh towards its 2006 target, or slightly more than 31 percent of its 2006 IPT.

Each of the three projects was selected in accordance with the least-cost and best-fit criteria defined in D.04-07-029. Each PPA includes the standard representation and warranty that the project constitutes an eligible renewable energy resource certified by the California Energy Commission (CEC). The standard terms and conditions for RPS contracts adopted by D.07-02-011, as modified by D. 07-05-057, are incorporated in the PPAs, except for certain permissible non-substantive edits, such as conforming edits to reflect specific defined terms in the PPAs.

¹ PG&E's June 30, 2006 solicitation for renewable bids was authorized by Decision (D.) 06-05-039.

² California Pub. Util. Code § 399.11, et seq.

³ April 3, 2007, Compliance Filing of Pacific Gas and Electric Company.

The PPAs are being presented for CPUC review and approval as provided by D.06-05-039. Utilities have been encouraged to submit the PPAs for approval in tranches. Accordingly, this letter presents the first three PPAs from the 2006 Solicitation -- Western GeoPower, Inc. (Western GeoPower), Green Volts, Inc. (Green Volts), and CalRENEW-1, LLC (CalRenew). The PPAs and their corresponding confirmation letters are provided in Confidential Appendix G to this Advice Letter.

Deliveries from Western GeoPower are priced below the 2006 market price referent (MPR) and require no supplemental energy payments (SEPs) from the CEC. Deliveries from Green Volts and CalRenew are priced above the 2006 MPR and will require Public Goods Charge (PGC) funds, which are administered by the CEC as SEPs to move forward.

PG&E requests the Commission to issue a resolution no later than November 15, 2007, containing the findings required by the definition of "CPUC Approval" in Appendix A of D.04-06-014 and incorporated in the PPAs, so that PG&E's contracts for these renewable resources can remain in effect.⁴ The requested approval is described in more detail under the heading, "Request for Commission Approval," below.

This Advice Letter is supported by information, which, except for the "Independent Evaluator Report, Public Version", is confidential under either the terms of the IOU Matrix, Attachment 1, of D.06-06-066 or General Order 66-C. PG&E submits the confidential information in the manner directed by the Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066, issued August 22, 2006, to demonstrate the confidentiality of the material and to invoke the protection of confidential utility information provided by section 583 of the Public Utilities Code. A separate Declaration of Confidential Treatment is being filed concurrently for this purpose.

Confidential Attachments:

Appendix A – Overview of 2004 – 2006 Solicitation Bids

Appendix B – 2006 Bid Evaluations

Appendix C – Independent Evaluator Report

⁴ As provided by D.04-06-014, the Commission must approve the Agreement and payments to be made thereunder, and find that the procurement will count toward PG&E's RPS procurement obligations, as either incremental procurement or procurement for baseline replenishment, in order for an executed RPS PPA to become effective and completely binding on the parties.

Appendix D – Contract Terms and Conditions Explained; MPR/SEP Calculations:

- Appendix D-1 – Western GeoPower
- Appendix D-2 – Green Volts
- Appendix D-3 – CalRenew

Appendix E – Project Viability:

- Appendix E-1 – Western GeoPower
- Appendix E-2 – Green Volts
- Appendix E-3 – CalRenew

Appendix F – Projects’ Contribution Toward RPS Goals

Appendix G – Power Purchase Agreements

- Appendix G-1 – Western GeoPower
- Appendix G-2 – Green Volts
- Appendix G-3 – CalRenew

Appendix H – Standard Terms and Conditions Comparison

- Appendix H-1 – Western GeoPower
- Appendix H-2 – Green Volts
- Appendix H-3 – CalRenew
- Appendix H-4 – Non-Modifiable Standard Terms and Conditions

Non-Confidential Attachment:

Appendix I – Independent Evaluator Report, Public Version.

II. DESCRIPTION OF THE PROJECT

The following table summarizes the substantive features of the PPAs:

Generating Facility	Type	Term Years	MW Capacity	Annual Deliveries	Commercial Operating Date	Project Location
Western GeoPower	Geothermal	20	25.5 MW	212 GWh	April 1, 2010	Sonoma County, CA
Green Volts	High concentration photovoltaic	20	2 MW	5 GWh	September 1, 2008 for 1 st MW September 1, 2009 for 2 nd MW	Byron, CA
CalRenew	High concentration photovoltaic	20	5 MW	9 GWh	April 30, 2009	Mendota, CA

Copies of the PPAs are provided in Confidential Appendix G and individual contract analyses are provided in Confidential Appendices D and E.

III. CONTRACT ANALYSIS

A. Consistency with PG&E's Adopted RPS Plan.

California's RPS statute requires the Commission to review the results of a renewable energy resource solicitation submitted for approval by a utility.⁵ The standard for Commission acceptance or rejection of a proposed PPA is its consistency with the utility's approved renewable procurement plan.⁶

1. Consistency with PG&E's Adopted RPS Plan

PG&E's 2006 RPS plan was approved by D.06-05-039 on May 25, 2006. As required by statute, the plan includes an assessment of supply and demand to determine the optimal mix of renewable generation resources, consideration of compliance flexibility mechanisms established by the Commission, and a bid solicitation protocol setting forth the need for renewable generation of various operational characteristics.⁷

The goal of PG&E's 2006 RPS Solicitation Plan is to procure approximately 1 to 2 percent of PG&E's retail sales volume, or between 727 GWh and 1,454 GWh per year, with delivery terms of 10, 15, or 20 years. Participants could submit offers

⁵ Public Utilities Code § 399.14(c).

⁶ Public Utilities Code § 399.14(c).

⁷ Public Utilities Code § 399.14(a)(3).

for four specific products – as available, baseload, peaking, and dispatchable resources.

The PPAs under consideration fall within criteria identified in PG&E's 2006 RPS Solicitation Plan and are expected to contribute significantly toward achievement of PG&E's 2010 RPS target.

2. Consistency with RPS Solicitation Protocol

The 3 proposed PPAs were solicited, negotiated and executed through PG&E's adherence to its Solicitation Protocol, which is the primary component of the 2006 RPS Plan. The report of the Independent Evaluator (Public Appendix I) provides a narrative description of how PG&E conducted its 2006 Solicitation and concludes that PG&E followed its Solicitation Protocol. As a result, PG&E's selection of contracts with which to negotiate PPAs, or its "shortlist", was compiled in accordance with its RPS Plan. Contracts resulting from the 2006 shortlist process, such as the 3 proposed PPAs, are consistent with PG&E's 2006 RPS Plan.

While PG&E generally followed the RPS Solicitation schedule set forth in its Solicitation Protocol, the schedule for concluding negotiations was necessarily extended. The resultant 2006 Solicitation schedule is shown on the following page:

Date	Event
June 30, 2006	PG&E issued Solicitation
July 10, 2006	Participants file Notice of Intent to bid
July 20, 2006	Pre-Bid Conference held by PG&E
September 8, 2006	Deadline for Participants to submit Offers
September 25, 2006	PG&E presented initial list of offers to the PRG
October 26, 2006	PG&E presented preliminary Shortlist to the PRG
November 6, 2006	PG&E distributed revised and finalized Shortlist to the PRG
December 14, 2006	PG&E updated its PRG on the status of negotiations with shortlisted bidders
January 26, 2007	PG&E updated its PRG on the status of negotiations with shortlisted bidders
March 30, 2007	PG&E updated its PRG on the status of negotiations with shortlisted bidders
May 30, 2007	PG&E updated its PRG on the status of negotiations with shortlisted bidders
June 21, 2007	PG&E submits first tranche of PPAs for Commission approval

Using its CPUC-approved bid solicitation protocol and forms of power purchase agreements, PG&E commenced its solicitation on June 30, 2006. Bids were received until September 8, 2006, consistent with the published schedule. These bids were evaluated and scored in the manner prescribed in the Solicitation Protocol. In particular, evaluation of the offer price took into account PG&E's published Time of Delivery factors and imputed the potential cost of transmission adders. PG&E scored the offers pursuant to a methodology that attributed the proper weight to market valuation, portfolio fit, credit and other non-price factors of the Solicitation Protocol.

The bids were ranked according to the protocols, and were placed on PG&E's "Short List" and presented to PG&E's PRG on October 26, 2006. PG&E notified short-listed bidders and commenced negotiations with short-listed bidders once they submitted the required bid deposit. The interim results of negotiations were presented to the PRG on several occasions between December 14, 2006, and May 30, 2007.

3. Consistency with PG&E's Long-Term Procurement Plan

PG&E's 2004 long-term procurement plan assumed that new baseload and as-available resources would be needed. PG&E's 2006 RPS Plan also anticipated

the need for new baseload and as-available resources in order to meet its RPS goals. The renewable technologies to be used in the projects represented by these 3 PPAs are new baseload geothermal and as-available high concentration photovoltaic technologies; the power generated through these projects will contribute to meeting the RPS requirements as reflected in the adopted 2006 RPS Plan.

B. Consistency of bid evaluation process with Least-Cost Best Fit (LCBF) decision.

The RPS statute requires procurement of the “least cost, best fit” (LCBF) eligible renewable resources. The LCBF decision directs the utilities to use certain criteria in their bid ranking. It offers guidance regarding the process by which the utility ranks bids in order to select or “shortlist” the bids with which it will commence negotiations. The renewables bid evaluation process focuses on four primary areas:

1. Determination of market value of bid,
2. Calculation of transmission adders and integration costs,
3. Evaluation of portfolio fit, and
4. Consideration of non-price factors.

Much of the bid ranking criteria is incorporated in PG&E’s Solicitation Protocol and is discussed below. The Independent Evaluator’s Report concludes that PG&E properly used the LCBF methodology to shortlist the bids which evolved into the 3 subject PPAs.

1. Market Valuation

In its “mark-to-market analysis,” the present value of the bidder’s payment stream is compared with the present value of the product’s market value to determine the benefit (positive or negative) from the procurement of the bidder’s resource, irrespective of PG&E’s portfolio. PG&E evaluates the bid price and indirect costs, such as the costs to the utility transmission system caused by interconnection of the resource to the grid, or integration of the generation into the system-wide electrical supply.⁸

2. Portfolio Fit

Portfolio fit considers how well the features of an offer, including any variations that may be submitted, match PG&E’s portfolio needs. This analysis includes the

⁸ PG&E’s RPS Renewable Energy Procurement Plan, June 24, 2004, page (p.)6, lines (ll.) 4-18.

anticipated transaction costs involved in any energy remarketing (i.e., the bid-ask spread) if the contract would add to PG&E's net long position.

C. Consistency with Adopted Standard Terms and Conditions.

The Commission set forth standard terms and conditions to be incorporated into RPS agreements in D. 04-06-014 and D.07-02-011. Each PPA contains the standard terms and conditions for RPS contracts adopted by D.07-02-011, as modified by D. 07-05-057. During the course of negotiations, the parties found it necessary to modify some of the terms designated as being subject to modification upon request of the bidder in Appendix A of D.04-06-014. These modifications are explained in detail in Confidential Appendix D of this Advice Letter, "Contract Terms and Conditions Explained."

The 3 PPAs do not deviate from the non-modifiable terms and conditions adopted by D.04-06-014, except for non-substantive edits, which are permissible under D.07-02-011, as modified by D.07-05-05. Examples of these edits include conforming words to reflect specific defined terms in the PPAs. Each change has been identified and compared with the 2006 RPS Plan form of PPA submitted for Commission approval on December 22, 2005. This analysis and a detailed description of the changes are provided in Confidential Appendix H to this Advice Letter.

Each PPA represents a meeting of the minds between the respective developer and PG&E, and each term in each PPA was bargained for in consideration of every other term. Each provision should be understood by the Commission as essential to the negotiated agreement between the parties and should not be disturbed by regulatory review. The reasonableness of an agreement should be examined as a whole, in terms of its ultimate impact on utility customers. The only reason to disturb a particular term would be if the Commission found that it violated public policy. PG&E submits that the agreements protect the interests of its customers while achieving the Commission's goal of increasing procurement from eligible renewable resources.

D. Consistency with the Transmission Ranking Cost decision

Under the RPS program, the potential customer cost to accept energy deliveries from a particular project must be considered when determining a project's value for bid ranking purposes. PG&E's 2006 transmission ranking cost (TRC) report identified the remaining available transmission capacity and upgrade costs for PG&E substations at which renewable resources are expected to interconnect.

PG&E determined the TRC cluster at which each shortlisted project would interconnect to the transmission grid. Consistent with Commission decisions,

PG&E assigned a transmission adder to each bid for evaluation based on the potential transmission congestion, the associated proxy transmission network upgrades and the associated capital costs that may be need to accommodate delivery at this cluster.

E. Terms and conditions of delivery

Each project will provide its own scheduling coordinator. Prior to implementation of the California Independent System Operator's (CAISO) Market Redesign and Technology Update (MRTU), the point of delivery will be NP-15. Following implementation of MRTU, the projects' delivery points become their interconnection point with the CAISO grid.

F. Actual Price

The contract price of each PPA is confidential, market sensitive information that will not be publicly revealed. The levelized contract price for Western GeoPower is below the 2006 MPR and will not require PGC funding through SEPs. The contract prices for Green Volts and CalRenew are above the 2006 MPR and will require PGC funding. Confidential Appendix D presents a detailed analysis of the contract payments in relation to the MPR applicable to each of the PPAs.

G. Qualitative factors

As part of the short listing process, PG&E considered qualitative factors as required by D.04-07-029 and D.06-05-039.

H. Project Milestones

Each of the PPAs identifies the construction start date and the commercial operation date as guaranteed project milestones. For commercial reasons, PG&E cannot publicly disclose the construction start dates.

I. Project Viability

The likelihood that a PPA will lead to delivery of renewable power as described in the PPA is evaluated in Confidential Appendix E, "Project Viability". Because project-specific information needed to demonstrate viability, such as project status and financing are commercially sensitive business information, only the viability criteria are described in the public portion of this Advice Letter.

1. Financeability of resource.

There is a reasonable likelihood that each of the selected projects will be financed and completed as required by the PPAs and that each project will be available to deliver energy by its guaranteed commercial operation date.

2. Sponsor's creditworthiness and experience

The bidders were required to provide credit-related information as part of their bids. PG&E has reviewed this information and is satisfied that each of the counterparties to the PPAs possess the necessary credit and experience to perform as required by their respective PPA.

3. Project Status

The PPAs include guaranteed construction start dates and guaranteed commercial operation dates. The sellers' obligations to meet these milestones are supported by performance assurance securities.

IV. PRG Feedback

PG&E provided its PRG with reports on these transactions on several occasions. PG&E first presented the PRG with an initial list of offers on September 25, 2006. The PRG members were consulted on the shortlist on October 26, 2006, and on November 6, 2006. PG&E updated the PRG on the progress of the negotiations on December 14, 2006, January 26, 2007, March 30, 2007, and May 30, 2007. The PRG did not object to PG&E's recommendation to execute these PPAs and submit them for CPUC approval.

V. Supplemental Energy Payments

The three PPAs result from a competitive solicitation and were evaluated based on least cost and best fit principles. SEPs are not an issue for Western GeoPower. However, the Green Volts and CalRenew PPAs are priced above the applicable 2006 MPR. According to the standard contract term, the sellers will seek SEPs through separate applications with the CEC to obtain their final bid prices. If adequate SEPs are not granted within 120 days of advice letter submittal, the seller may exercise its no-fault right to rescind. However, Senate Bill (SB) 1036 would terminate the CEC's authority to award SEPs and authorize the CPUC to approve above-MPR costs up to a capped amount. If SB 1036 becomes effective within 120 days of this Advice Letter filing, then the CPUC should approve payments for the entire RPS price for Green Volts and CalRenew PPAs, up to the renewables cap in SB 1036, if applicable.

VI. Request for Commission Approval

The continued effectiveness of each PPA is conditioned on the occurrence of "CPUC Approval," as that term is defined in the PPAs. Time is of the essence in the Commission's consideration and approval of this advice letter.

Therefore, PG&E requests that the Commission issue a resolution no later than November 15, 2007, that:

1. Approves each PPA in its entirety, finds that PG&E's execution of each PPA is reasonable and in the public interest, and finds that PG&E's payments under each PPA are reasonable and are fully recoverable in rates over the life of the contract, subject to CPUC review of PG&E's administration of the PPA.
2. Finds that any procurement pursuant to these PPAs is procurement from an eligible renewable energy resource for purposes of determining PG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), D.03-06-071, or other applicable law;
3. Finds that any procurement pursuant to these PPAs constitutes incremental procurement by PG&E from an eligible renewable energy resource for purposes of determining PG&E's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, D.03-06-071 and D.06-10-050, or other applicable law;
4. Finds that there is a risk that deliveries will not occur as described by the PPAs due to factors that are beyond PG&E's control; that PG&E has made reasonable attempts to reduce the risk of non-performance associated with these PPAs without unduly increasing its costs of procurement under the PPAs; and that PG&E shall not be subject to penalties for RPS delivery shortfalls due to non-performance of a seller under any of the PPAs, consistent with previous decisions.
5. Finds that the payments made under these PPAs and any indirect cost of renewables procurement identified in Section 399.15(d) shall be fully recoverable in rates over the life of the contract.

6. Finds that any cost of bringing generation from the delivery point to PG&E's load center shall be fully recoverable in rates over the life of the contract.
7. Finds that any stranded costs that may arise from these contracts are subject to the provisions of D.04-12-048 that authorize stranded cost recovery over the life of the contract. Implementation of these provisions will be addressed in Rulemaking 06-02-013.

Protests

Anyone wishing to protest this filing may do so by sending a letter by July 17, 2007, which is **20** days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: mas@cpuc.ca.gov and inj@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Honesto Gatchalian, Energy Division, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission.

Pacific Gas and Electric Company
Attention: Brian Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-Mail: PGETariffs@pge.com

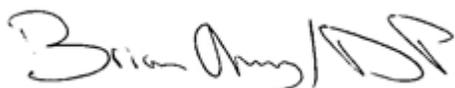
Effective Date:

PG&E requests that this advice filing become effective on **November 15, 2007**.

Notice:

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter excluding the confidential appendices is being sent electronically and via U.S. mail to parties shown on the attached list and the service lists for R.01-10-024 and R.06-05-027. Non-market participants who are members of PG&E's Procurement Review Group and have signed appropriate Non-Disclosure Certificates will also receive the advice letter and accompanying confidential attachments by overnight mail. Address changes should be directed to Rose De La Torre (415) 973-4716. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs>



Brian K. Cherry
Vice President - Regulatory Relations

cc: Service List for R.06-05-027
Service List for R.01-10-024
Paul Douglass - Energy Division

Attachments

Limited Access to Confidential Material:

The portions of this advice letter so marked Confidential Protected Material are in accordance with the May 20, 2003, Protective Order in R. 01-10-024 Regarding Confidentiality of Pacific Gas and Electric Company (PG&E) Power Procurement Information. As required by that Order, reviewing representatives of Market Participating Parties will not be granted access to Protected Material, but will instead be limited to reviewing redacted versions of documents that contain Protected Material.

Confidential Attachments:

Appendix A – Overview of 2004 – 2006 Solicitation Bids

Appendix B – 2006 Bid Evaluations

Appendix C – Independent Evaluator Report

Appendix D – Contract Summaries and MPR/SEP Calculations:

Appendix D-1 – Western GeoPower

Appendix D-2 – Green Volts

Appendix D-3 – CalRenew

Appendix E – Project Viability:

Appendix E-1 – Western GeoPower

Appendix E-2 – Green Volts

Appendix E-3 – CalRenew

Appendix F – Projects' Contribution Toward RPS Goals

Appendix G – Power Purchase Agreements

Appendix G-1 – Western GeoPower

Appendix G-2 – Green Volts

Appendix G-3 – CalRenew

Appendix H – Standard Terms and Conditions Comparison

Appendix H-1 – Western GeoPower

Appendix H-2 – Green Volts

Appendix H-3 – CalRenew

Appendix H-4 – Non-Modifiable Standard Terms and Conditions

Non-Confidential Attachment:

Appendix I - Independent Evaluator Report, public version.

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. Pacific Gas and Electric Company (ID39E)

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: David Poster

Phone #: (415) 973- 1082

E-mail: dxpu@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **3074-E**

Subject of AL: Contracts for Procurement of Renewable Energy Resources Resulting from PG&E's 2006 Renewables Portfolio Standard Solicitation

Keywords (choose from CPUC listing): RPS

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: N/A

Summarize differences between the AL and the prior withdrawn or rejected AL: _____

Resolution Required? Yes No

Requested effective date: **11-15-07**

No. of tariff sheets:

Estimated system annual revenue effect: (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Utility Info (including e-mail)

Attn: Brian K. Cherry

Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**DECLARATION OF JAMES D. SHANDALOV
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3074-E
(PACIFIC GAS AND ELECTRIC COMPANY ID U 39 E)**

I, James D. Shandalov, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee at PG&E since 2004. My current title is Principal in PG&E's Energy Supply Department. In this position, my responsibilities include managing RPS solicitations and negotiating power purchase agreements with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with such sellers and the negotiation of such transactions. I have also gained knowledge of the operations of such sellers in general and, based on my experience in dealing with facility owners and operators, I am familiar with the types of data and information about their operations that such owners and operators consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued August 22, 2006, I make this declaration seeking confidential treatment of, "Appendices A through H, to Advice 3074-E," submitted on June 27, 2007. By this Advice Letter PG&E is seeking this Commission's approval of the first three PPAs that PG&E has executed with developers of eligible renewable resources as a result of PG&E's 2006 RPS Solicitation.

3. Attached to this declaration is a matrix identifying the data and information for which PG&E is seeking confidential treatment. The matrix specifies that the material PG&E is seeking to protect constitutes the particular type of data and information listed in Appendix 1

(the "IOU Matrix") of Decision 06-06-066. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text that is pertinent to my testimony in the attached matrix.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on June 27, 2007, at San Francisco, California.


/s/

JAMES D. SHANDALOV

Appendix I

Independent Evaluator

RPS Solicitation Report

Public Version

Sedway Consulting, Inc.

INDEPENDENT EVALUATION REPORT
FOR PACIFIC GAS & ELECTRIC'S
2006 RENEWABLE RESOURCE
SOLICITATION

First Advice Letter Report

Submitted by:

*Alan S. Taylor
Sedway Consulting, Inc.
Boulder, Colorado*

June 25, 2007

Sedway Consulting, Inc.

Introduction and Background

On June 30, 2006, Pacific Gas & Electric Company (PG&E) issued a Solicitation Protocol for renewable energy supplies that could help the utility meet its Renewable Portfolio Standards (RPS) goal of having 20% of its sales supplied by renewable resources by 2010. The Solicitation Protocol sought approximately 700-1,400 GWh/year of renewable energy supplies or approximately 1%-2% of PG&E's expected retail sales volume.

Role of Independent Evaluator and Focus of Report

The California Public Utilities Commission (CPUC) has issued several decisions in the last several years that now require California's investor owned utilities to retain an Independent Evaluator (IE) in RPS solicitations.¹ In July, 2006, in compliance with these CPUC decisions, PG&E retained Sedway Consulting, Inc. (Sedway Consulting) as an IE to monitor PG&E's 2006 RPS solicitation, provide an independent evaluation of PG&E's process and the offers it may receive, and help the CPUC and PG&E's Procurement Review Group (PRG) participants by providing them with information and assessments to ensure that the solicitation was conducted fairly and that the best resources were acquired. Sedway Consulting issued its Independent Evaluation Shortlisting Report on December 21, 2006, providing an assessment of PG&E's RPS solicitation from the initial phase of the solicitation (i.e., the publicizing of the issuance of the Solicitation Protocol) through the development of a short list of offers/bidders with whom PG&E had commenced negotiations. Specifically, that report addressed Sedway Consulting's activities and conclusions regarding the following four areas/questions:

- **2006 RPS Solicitation Protocol issuance and outreach activities**
Did PG&E do adequate outreach to potential bidders, and did its outreach activities result in an adequately robust solicitation to promote competition?
- **Evaluation process design**
Was PG&E's methodology for RPS offer evaluation and selection designed fairly?
- **Evaluation process administration**
Was PG&E's RPS offer evaluation and shortlist selection process fairly administered?

¹ D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8).

- **Selection and rejection decisions in shortlisting of proposals**

Did PG&E make reasonable and consistent choices regarding which offers were rejected and which were shortlisted?

Sedway Consulting's IE shortlisting report has been amended and reissued as this First Advice Letter IE Report to describe all solicitation, evaluation, and negotiation activities from the start of the 2006 RPS solicitation through PG&E's June, 2007 filing of three executed power purchase agreements (PPAs) for CPUC approval. This report is labeled the First Advice Letter IE Report because it is anticipated that PG&E will be filing additional contracts from its 2006 RPS solicitation in the near future. Note that Sedway Consulting has decided to reissue a complete report each time. Thus, the initial shortlisting report and its discussions and conclusions have been retained in this First Advice Letter IE Report, and this report has been supplemented with appropriate discussions surrounding post-shortlisting activities and the three PPAs that have been filed with PG&E's first advice letter. The additional information in this report will address the following two areas/questions:

- **Negotiation process administration**

Were project-specific negotiations fair?

- **Submitted contract review**

Is there any reason that the submitted contracts should not receive CPUC approval?

Overview of Independent Evaluator Activities

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel PG&E's process with its own evaluation of the offers, as documented in this First Advice Letter IE Report. Sedway Consulting reviewed PG&E's Solicitation Protocol, outreach efforts, evaluation protocols, modeling methodologies, communications with bidders, and evaluation results. Members of the IE team attended PG&E's pre-bid conference, participated in the opening of offers (and retained Sedway Consulting's own copies of each offer for its own evaluation), participated in PG&E's Steering Committee meetings in which offer disqualification and shortlisting decisions were made, and attended all PRG meetings in which the RPS offers and evaluation results were discussed. Subsequent to the shortlisting of offers, Sedway Consulting monitored PG&E's communications with bidders – receiving copies of the back-and-forth email traffic, reviewing redlines of draft contracts, and listening in on many of the negotiation meetings and calls. Sedway Consulting continued to participate in PG&E's Steering Committee meetings where negotiation summaries were provided to management and decisions were made regarding proposal prioritization, negotiation positions, and procedural treatment of counterparties.

Overview of Conclusions

Sedway Consulting concluded that PG&E conducted a fair and effective evaluation of the offers that it received in response to its 2006 RPS RFO and made the correct selection decisions in its short list. All qualified offers were evaluated consistently, appropriately, and without bias. Sedway Consulting believes that PG&E has conducted negotiations fairly with all shortlisted bidders, treating all counterparties in a reasonably consistent fashion while recognizing and responding to understandable differences in individual bidders' circumstances. PG&E imposed appropriate controls and deadlines to ensure that those bidders who were motivated to execute contracts associated with strong well-developed proposals received the most attention. Those bidders who failed to meet deadlines, exhibit motivation, or provide necessary information to shore up less well-developed proposals were relegated to a lower priority negotiation status or dropped from the short list. Sedway Consulting concludes that PG&E made the appropriate selection and rejection decisions in developing its 2006 RPS short list, has negotiated fairly and in good faith with the shortlisted bidders, and has appropriately executed three 2006 RPS contracts (associated with the utility's first Advice Letter). In reviewing those three finalized contracts, Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of any of these PPAs.

This First Advice Letter IE Report has a confidential appendix that includes a description of each offer, an overview of the evaluation results, and confidential assessments of specific areas of the evaluation and negotiation processes. This material is being afforded confidential treatment for several reasons. First, it is important to protect participants from having their project pricing and operational information provided to their competitors. Second, PG&E's customers could be harmed if too much information was made publicly available, allowing some participants to focus on manipulating the negotiation process and/or gaming future solicitations rather than delivering the best renewable projects at the lowest possible prices. Third, negotiations are still underway with numerous 2006 RPS bidders. It is PG&E's hope that those negotiations can be concluded soon so that additional executed 2006 RPS PPAs can be submitted with subsequent Advice Letter filings later this summer.

PG&E's Outreach Activities

Sedway Consulting believes that PG&E pursued reasonable and adequate procedures for notifying potential interested parties. Specifically, PG&E dedicated a section of its company website to the solicitation, providing a means for interested parties to download the Solicitation Protocol and related materials, ask questions, and read posted responses. On June 29, 2006, PG&E issued a press release to publicize the imminent issuance of its Solicitation Protocol. Also, it notified approximately 700 contacts (compiled from previous power supply solicitations, regulatory service lists, etc.) of the solicitation issuance and invited them to participate.

Several weeks later, on July 20, 2006, PG&E held a pre-bid conference in its corporate auditorium. The conference provided interested parties an opportunity to learn more about the solicitation, hear presentations, and ask questions. Sedway Consulting attended the pre-bid conference.

In addition to PG&E's efforts, it is likely that California's RPS program is already well known in the renewable project development community. California's investor-owned utilities are in a well-publicized annual cycle of soliciting renewable projects; this serves to keep renewable resource developers continually interested and focused on opportunities for providing projects to meet California's needs. PG&E's solicitation website (<http://www.pge.com/rfo>) is a year-round site where interested parties may register at any time to receive notifications about PG&E's RPS and other solicitations.

Sedway Consulting concludes that PG&E did an adequate job of publicizing the 2006 RPS solicitation, as ultimately evidenced by the robust response that it received from the renewable development community.²

Design of PG&E's Evaluation and Selection Process

Prior to the opening of offers, Sedway Consulting reviewed drafts of PG&E's evaluation protocols and conducted interviews to ensure that it understood how PG&E's evaluation process would be performed. Sedway Consulting requested PG&E to provide as much information as possible prior to the receipt of offers. This, in essence, allowed Sedway Consulting to lock down and archive the evaluation's basic evaluation parameters. Such information included the evaluation protocols, inflation assumptions, cost of capital components, discount rate, transmission revenue requirement assumptions, call option results (for the evaluation of dispatchable resources), hourly market forward prices for four regions where projects were likely to be proposed, and locational marginal pricing multipliers for each time-of-delivery period for over two dozen subzones within the four larger regions. The last two sets of information formed the basis of the valuation modeling for non-dispatchable renewable resources (as available, baseload, or peaking) and were therefore particularly pertinent to the majority of offers that PG&E expected to (and ultimately did) receive.

Description of Evaluation Process

The initial stage of PG&E's process would entail screening all proposals for compliance with the Solicitation Protocol and general responsiveness to the RPS requirements. All proposals that passed the screening stage would be evaluated through one of two

² The number of proposals submitted and RPS energy proposed by technology will be made publicly available once the negotiations are concluded and final contracts have been submitted for CPUC approval, per section VIII(A) of the CPUC's Confidentiality Matrix in R.05-06-040.

processes depending on whether the proposed resource was dispatchable or not. Dispatchable resources were to be evaluated through a call option model. Non-dispatchable projects were evaluated relative to electricity market forward price curves. In either case, PG&E's evaluation process entailed a determination of each resource's \$/MWh net market value. The net market value represented a levelized \$/MWh value that was determined by subtracting a project's proposed energy payments and other costs (e.g., debt equivalence) from the expected market-related benefits (i.e., the energy and capacity revenues that might be received if the project's energy was sold into the market).

Prior to the opening of offers, Sedway Consulting incorporated all of the PG&E's locked-down evaluation information into its own proprietary Non-Dispatchable Response Surface Model (ND-RSM) and evaluated test cases through both the ND-RSM and PG&E's evaluation model. This allowed Sedway Consulting to study all of the components of PG&E's calculations and verify that all such components were being calculated correctly.

Two other quantifiable aspects (portfolio fit and a \$/MWh transmission adder) were to be calculated for each offer. The portfolio fit metric was a dimensionless value that was generated by a complex analysis of a project's expected generation profile and its potential correlation with PG&E's hourly net open positions. The transmission adder was determined by assessing the likely costs of system-level transmission upgrades (or alternative commercial arrangements, whichever was less) that might be required to maintain a reliable transmission system with the incorporation of the new renewable project. The costs of these upgrades were developed from PG&E's (or surrounding utilities') publicly-filed Transmission Ranking Cost Report (TRCR) and were divided by the project's generation in the same fashion as to yield a levelized \$/MWh value that could be subtracted directly from the net market value.³

The evaluation process was also designed to assess the strength or weakness of offers in four specific non-quantifiable categories:

- Credit and finance
- Project status
- Technology viability and participant experience
- Consistency with RPS goals.

In each of the non-quantifiable categories, all qualifying offers would be consistently reviewed by a specific team and scored on a scale of 1 to 5 (where 1 was poor and 5 reflected strength). The credit and finance category focused on a bidder's financial strength and its willingness/ability to post the required collateral by PG&E's power purchase agreement (PPA). The project status area involved an assessment of the bidder's current and proposed plans regarding site status, permitting, equipment

³ It was termed an "adder" in the sense that it was additive to an offer's costs; as an additional cost, it gets subtracted from an offer's pre-transmission market value to yield a final market value.

procurement, transmission studies, and design/construction. The third category focused on the bidder's experience in developing similar renewable projects, degree of verifiable available renewable resource, and the maturity of the proposed technology. The final scoring area addressed the degree to which an offer advanced the goals of the RPS program (e.g., price stability, resource diversity, supplier diversity, environmental quality, impact on water supplies, socio-economic impacts, etc.).

With respect to all of the above quantitative metrics and qualitative scores, a higher value was better than a lower value – except for the transmission adder (where a lower value was better).

Description of Selection Process

PG&E designed its selection process around a partial ordering concept that incorporated the quantitative and qualitative factors in developing a ranking. This partial ordering process is described in PG&E's Least Cost Best Fit (LCBF) filing.⁴ To summarize, this partial ordering process allowed PG&E to segregate all offers into a superior group (i.e., those whose metrics and scores were at least equal to other bids' values and better in at least one category), an inferior group (i.e., those whose metrics and scores were at best equal to other bids' values and worse in at least one category), and an indeterminate group where the metrics and scores were a mixture of better and worse values. PG&E indicated that it would use the partial ordering process to develop a ranking and select a sufficient number of offers for shortlisting that would allow it to meet its procurement target while recognizing a number of factors that might cause projects to drop off the short list. Such factors could include:

- a shortlisted bidder's failure to post the required bid deposit,
- the subsequent determination by PG&E (after additional due diligence) that a project would not be viable or would face insurmountable transmission complications,
- an inability to reach mutually-agreeable terms and conditions with PG&E for a PPA, and/or
- a failure of a bidder to reduce an offer price in the context of more competitively-priced offers.

Thus, the selection of offers would need to be sufficiently deep to allow for unforeseen project risks, future due diligence, and adequate counterparty diversity.

⁴ Report on Evaluation Criteria and Selection: 2006 Renewable Portfolio Standard Request for Offers (2006 RPS RFO), filed September 29, 2006 in response to CPUC Rulemaking 06-05-027.

Assessment of Fairness of Evaluation Process Design

Sedway Consulting concluded that PG&E's evaluation design was rigorous and fair. It was consistent with evaluation approaches that Sedway Consulting has seen applied in other utilities' solicitations. In evaluating the fairness of PG&E's process, Sedway Consulting employed the following principles:

1. Did the design inappropriately favor one technology over another?
2. Was the design inappropriately biased in favor of one type of bidder versus another?
3. Were the selection criteria flexible enough or structured in a way to facilitate PG&E acquiring enough renewable energy to meet its 20% RPS goal?
4. Were all components of a project's quantified metric calculated consistently so as to avoid introducing discontinuities that might distort the results and lead to incorrect project selection?

Sedway Consulting concluded that PG&E's evaluation process was designed to treat all technologies and types of bidders fairly, employing a consistent methodology that did not favor or disadvantage any technology or bidder – while obviously recognizing justifiable offer-specific differences (e.g., project location). In thinking about the strengths and weaknesses of PG&E's methodology, Sedway Consulting concluded that the process was quite rigorous but may be improved or simplified in some respects.

First, it is worth noting that it was PG&E's original intent (i.e., prior to the offers being opened) to use a market valuation adjustment calculation that would recognize the lower market value of nonfirm or uncertain generation patterns from intermittent resources relative to the value of firm deliveries from renewable resources that can provide scheduled baseload or peaking energy. Sedway Consulting concurred with this intent; however, Sedway Consulting's tests of PG&E's proposed methodology yielded some unexplainable results that indicated that the modeling theory or implementation needed further work. Thus, Sedway Consulting recommended that PG&E defer the implementation of this methodology to the 2007 RPS solicitation or such time as it could be fully explained, tested, and verified. PG&E agreed and removed this part of its modeling methodology from its 2006 RPS evaluation. It intends to continue refining this modeling methodology and may reintroduce an improved process in its 2007 RPS evaluation.

A second recommendation is that PG&E may want to consider eliminating its portfolio fit metric. Sedway Consulting reviewed the evaluation protocol document that described the portfolio fit calculation and duplicated the appropriate mathematics. However, the process seemed to be overly complicated, is difficult to explain, did not yield intuitive results, and ultimately provided values that did not significantly influence the selection process. In short, the portfolio fit calculation seems to entail a great deal of

computational effort without much payback. To a large extent, for non-dispatchable renewable projects, the “best fit” part of the least-cost best fit (LCBF) concept is quantified in the time-differentiated analysis of PG&E’s hourly forward prices and its net market value calculation. It is not clear what another metric contributes. “Best fit” is also captured in the transmission adder analysis and the consideration of where renewable resources may be located relative to existing available transmission capacity and/or new contemplated transmission lines or reinforcements. Sedway Consulting believes that PG&E’s process adequately addresses the “best fit” concept without the addition of the portfolio fit metric – and may even be strengthened if the evaluation team’s energies were refocused from performing less-important analytical work toward higher-value efforts.

Receipt and Evaluation of Offers

On September 8, 2006, PG&E received a significant number of offers in its RPS solicitation. One project was ultimately disqualified because its reliance on natural gas was too great a portion of its expected output to be considered for selection as an RPS resource. The details of this disqualification are provided in the Confidential Appendix A to this report. However, Sedway Consulting recommends that PG&E adopt a policy, either internally or in coordination with the CPUC and/or the California Energy Commission (CEC), to guide whether or to what extent gas/renewable hybrid projects will be considered in future RPS solicitations.

The results of PG&E’s evaluation of the qualified bids were initially presented to PG&E’s Steering Committee on October 19, 2006, revised and refined through email discussions, and presented to PG&E’s PRG participants on October 26, 2006. The PRG participants provided valuable advice and recommendations during the process, as described further in the Confidential Appendix A. The short list was finalized and all bidders were notified of their status (shortlisted or rejected) during the first week of November.

Description of Sedway Consulting’s Parallel Evaluation Process

Sedway Consulting conducted a parallel evaluation of the RPS offers, using its proprietary ND-RSM. The ND-RSM is a power supply evaluation tool that uses the following information for each offer:

- Capacity
- Commencement and expiration dates for power deliveries
- Energy pricing
- Expected Hourly Generation Profile.

The ND-RSM is a spreadsheet-based tool that was calibrated with PG&E’s market price and locational information at the start of the project (prior to the opening of offers) so that

Sedway Consulting could perform its own evaluation of all offers. The ND-RSM calculated each offer's monthly energy payments, debt equivalence costs, capacity value, and market revenues, and subtracted the first two from the latter two to yield a net revenue value. The ND-RSM developed a ranking of all offers based on the net levelized market value of each option, expressed in \$/MWh. This metric was calculated by taking the present value of the stream of net revenues and dividing it by the present value of the MWhs of expected generation associated with an offer. The results of the ND-RSM analysis are provided in the Confidential Appendix A to this report.

Sedway Consulting reviewed PG&E's transmission assessment for each of the offers, calculated the portfolio fit metric, and conducted a review of the offers across the four qualitative categories discussed above (i.e., credit and finance, project status, technology viability and participant experience, and consistency with RPS goals). Several members of Sedway Consulting's team reviewed the evaluation protocols for these qualitative areas and performed a cursory analysis of many of the offers in each of these qualitative areas. However, Sedway Consulting did not attempt to replicate the level of effort or detail that PG&E employed in deriving each offer's score in each category. In fact, Sedway Consulting's efforts focused predominantly on those offers that were in the middle of the economic ranking, where non-price factors could have the greatest influence in determining which marginal offers should be included or excluded from the short list. Ultimately, though, Sedway Consulting scrutinized all qualitative scores that played a role in eliminating any offers from further consideration.

Although Sedway Consulting confirmed that PG&E appropriately and fairly administered the evaluation process that it had designed, the IE team took a more simplified approach in developing short list recommendations and testing the outcome of PG&E's process. Sedway Consulting ranked the offers based on their economic value (net market value minus transmission adder) and began selecting from the top-ranked offers on down the list, subject to project viability or counterparty concentration concerns and potential technology diversity benefits. Thus, if an offer had significant risks and/or was proposed by a counterparty who had one or more higher-ranked projects that had already been selected, it may warrant jumping over the offer and not selecting it for the short list. Conversely, a small, new technology project might be considered for the short list to promote new development even if the offer's initial economics placed it in a low-ranked position, provided that the project size was small enough to render its total economic impact relatively insignificant. A sufficient number of offers were selected for the short list to cover PG&E's 1%-2% need and allow for the loss of some projects for reasons identified above in the process design discussion (e.g., ultimate non-viability, transmission complications, failure to post the bid deposit, etc.).

Short List Development

Given the significant uncertainties surrounding many of the offers, PG&E chose to employ a strategy of inclusiveness in developing its short list. As the negotiations proceed, which shortlisted bidders end up with final executed contracts will depend on

PG&E's further due diligence, additional information from the bidders, and the willingness of bidders to refine and lower their pricing. Sedway Consulting concurred with this strategy, recognizing that it may result in commencing negotiations with certain developers whose initially-proposed prices are rather high. However, it is difficult to conduct sufficient due diligence on a project without having face-to-face discussions with the developer. This strategy will help ensure that higher-priced viable projects are not rejected at the shortlisting stage in favor of lower-priced less certain projects. At the same time, it will maintain substantial competitive pressure on all shortlisted bidders. Those who cannot demonstrate development strength, reach reasonable terms and conditions with PG&E, and reduce their prices to get into a competitive range will be relegated to a lower priority in the negotiation process and are less likely to be chosen for ultimate contract execution.

In addition, it may be the case that new transmission facilities or reinforcements will be needed to enable delivery of a project's power supplies. A longer short list erred on the side of allowing sufficient time for transmission studies to be performed and to assess how the timing of transmission reinforcements may affect each project's commercial operation date. The principal focus of the transmission analysis that yielded the short list was on ascertaining likely transmission costs that might be attributable to each offer. In the negotiation stage, PG&E will need to supplement the transmission cost estimates with an appraisal of the likely scheduled completion of transmission projects to ensure that there is an alignment of commercial operation dates between generating resources and transmission upgrades.

Sedway Consulting concurred with PG&E's selection and rejection decisions. Those offers that were not included on the short list were rejected for good reasons (e.g., very low market value/high prices, low viability, insufficient focus on RPS goals, etc.), as described further in Confidential Appendix A.

Sedway Consulting concluded that PG&E administered its evaluation and selection process fairly. In its assessment, Sedway Consulting employed the same general principles as were described in the design fairness discussion; in addition, the fact that Sedway Consulting performed a fully separate, independent evaluation allowed it to develop its own ranking and confirm that PG&E was fairly and appropriately evaluating all offers and selecting the best offers for the short list.

Negotiation Process and Contract Execution

Sedway Consulting monitored PG&E's negotiation process by listening in on many of the negotiation meetings and calls between PG&E and the shortlisted bidders, reviewing redlined contracts passed back-and-forth between PG&E and each counterparty, and reviewing all email traffic between the utility and each counterparty. Sedway Consulting also continued to participate in PG&E's Steering Committee meetings and other update meetings where negotiation summaries were provided to management and decisions were

made regarding proposal prioritization, negotiation positions, and procedural treatment of counterparties. Sedway Consulting believes that PG&E has conducted a fair negotiation process. This assessment is based on an application of many of the principles described earlier in this report – namely, that no bidder or technology was inappropriately favored by PG&E in its negotiation process and all bidders were provided consistent information. In addition, PG&E applied consistent “pressure” on all bidders to meet appropriate deadlines, post bid deposits, and conform as closely as possible to PG&E’s pro forma contract positions. Details of the negotiation process are addressed in the Confidential Appendix to this report.

To date, PG&E’s negotiation process in its 2006 RPS solicitation has successfully yielded three executed contracts that have been submitted for CPUC approval:

1. **Western GeoPower, Inc.** – a 20-year PPA with deliveries of baseload geothermal energy expected to commence in early 2010 from a 25.5 MW facility near Cloverdale, California in the Geysers Geothermal Area of PG&E’s service territory. Annual deliveries are expected to be approximately 212 GWh.
2. **Green Volts, Inc.** – a 20-year PPA with deliveries of solar energy expected to commence in late 2008 from a high concentration photovoltaic (PV) facility near Byron, California in PG&E’s service territory with phased development up to 2 MW. Annual deliveries are expected to be approximately 5 GWh.
3. **CalRENEW-1, LLC** – a 20-year PPA with deliveries of solar energy expected to commence in early 2009 from a 5 MW high concentration PV facility near Fresno, California in PG&E’s service territory. Annual deliveries are expected to be approximately 9 GWh.

Sedway Consulting does not believe that there are any material issues or deficiencies that would warrant the CPUC’s rejection of any of these PPAs. Specific assessments of the PPAs and associated projects are included in the Confidential Appendix to this report.

Conclusion

Sedway Consulting believes that PG&E conducted a fair and effective evaluation of the RPS offers that it received in response to its June 30, 2006 Solicitation Protocol. The offer that was disqualified was set aside for appropriate reasons, and the remaining set of qualified offers were evaluated consistently, appropriately, and without bias.

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel PG&E’s process with its own evaluation of the offers. Sedway Consulting reviewed PG&E’s evaluation and modeling methodologies and results and did not find any bias for or against any offers in PG&E’s evaluation processes or selection decisions. However, Sedway Consulting recommends that PG&E give some

consideration to 1) eliminating its portfolio fit metric, and 2) establishing a disqualification policy regarding natural gas/renewable hybrid projects.

Sedway Consulting monitored the back-and-forth email traffic between PG&E and the RPS bidders and believes that PG&E treated all bidders consistently and fairly. Sedway Consulting concludes that PG&E made the appropriate selection and rejection decisions in developing its 2006 RPS short list.

Sedway Consulting monitored PG&E's negotiation process and concluded that all shortlisted bidders were treated fairly and consistently. An appropriate degree of leniency was shown by PG&E in encouraging all shortlisted bidders to advance the negotiation process toward executed PPAs. However, some bidders exhibited insufficient interest or commitment toward that goal or encountered project-specific complications that resulted in their removal from the short list. Sedway Consulting concurred with PG&E's prioritization of the negotiation activities and the utility's decisions surrounding the termination of negotiations with those counterparties who failed to meet the necessary deadlines, show sufficient commitment, or provide essential information.

The three PPAs that PG&E has submitted for CPUC approval with its first Advice Letter (Western GeoPower, Green Volts, and CalRENEW-1) were negotiated fairly and appropriately. Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of any of these PPAs.

**PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

ABAG Power Pool	Douglass & Liddell	PG&E National Energy Group
Accent Energy	Downey, Brand, Seymour & Rohwer	Pinnacle CNG Company
Aglet Consumer Alliance	Duke Energy	PITCO
Agnews Developmental Center	Duke Energy North America	Plurimi, Inc.
Ahmed, Ali	Duncan, Virgil E.	PPL EnergyPlus, LLC
Alcantar & Kahl	Dutcher, John	Praxair, Inc.
Ancillary Services Coalition	Dynegy Inc.	Price, Roy
Anderson Donovan & Poole P.C.	Ellison Schneider	Product Development Dept
Applied Power Technologies	Energy Law Group LLP	R. M. Hairston & Company
APS Energy Services Co Inc	Energy Management Services, LLC	R. W. Beck & Associates
Arter & Hadden LLP	Exelon Energy Ohio, Inc	Recon Research
Avista Corp	Exeter Associates	Regional Cogeneration Service
Barkovich & Yap, Inc.	Foster Farms	RMC Lonestar
BART	Foster, Wheeler, Martinez	Sacramento Municipal Utility District
Bartle Wells Associates	Franciscan Mobilehome	SCD Energy Solutions
Blue Ridge Gas	Future Resources Associates, Inc	Seattle City Light
Bohannon Development Co	G. A. Krause & Assoc	Sempra
BP Energy Company	Gas Transmission Northwest Corporation	Sempra Energy
Braun & Associates	GLJ Energy Publications	Sequoia Union HS Dist
C & H Sugar Co.	Goodin, MacBride, Squeri, Schlotz &	SESCO
CA Bldg Industry Association	Hanna & Morton	Sierra Pacific Power Company
CA Cotton Ginners & Growers Assoc.	Heeg, Peggy A.	Silicon Valley Power
CA League of Food Processors	Hitachi Global Storage Technologies	Smurfit Stone Container Corp
CA Water Service Group	Hogan Manufacturing, Inc	Southern California Edison
California Energy Commission	House, Lon	SPURR
California Farm Bureau Federation	Imperial Irrigation District	St. Paul Assoc
California Gas Acquisition Svcs	Integrated Utility Consulting Group	Sutherland, Asbill & Brennan
California ISO	International Power Technology	Tabors Caramanis & Associates
Calpine	Interstate Gas Services, Inc.	Tecogen, Inc
Calpine Corp	IUCG/Sunshine Design LLC	TFS Energy
Calpine Gilroy Cogen	J. R. Wood, Inc	Transcanada
Cambridge Energy Research Assoc	JTM, Inc	Turlock Irrigation District
Cameron McKenna	Luce, Forward, Hamilton & Scripps	U S Borax, Inc
Cardinal Cogen	Manatt, Phelps & Phillips	United Cogen Inc.
Cellnet Data Systems	Marcus, David	URM Groups
Chevron Texaco	Matthew V. Brady & Associates	Utility Resource Network
Chevron USA Production Co.	Maynor, Donald H.	Wellhead Electric Company
City of Glendale	MBMC, Inc.	White & Case
City of Healdsburg	McKenzie & Assoc	WMA
City of Palo Alto	McKenzie & Associates	
City of Redding	Meek, Daniel W.	
CLECA Law Office	Mirant California, LLC	
Commerce Energy	Modesto Irrigation Dist	
Constellation New Energy	Morrison & Foerster	
CPUC	Morse Richard Weisenmiller & Assoc.	
Cross Border Inc	Navigant Consulting	
Crossborder Inc	New United Motor Mfg, Inc	
CSC Energy Services	Norris & Wong Associates	
Davis, Wright, Tremaine LLP	North Coast Solar Resources	
Defense Fuel Support Center	Northern California Power Agency	
Department of the Army	Office of Energy Assessments	
Department of Water & Power City	OnGrid Solar	
DGS Natural Gas Services	Palo Alto Muni Utilities	