

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



March 19, 2009

Advice Letter 3318-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

**Subject: Contract for Procurement of Renewable Energy Resources
Resulting from PG&E's Power Purchase Agreement with
High Plains Ranch II, LLC**

Dear Mr. Cherry:

Advice Letter 3318-E is effective February 20, 2009 per Resolution E-4229.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



Brian K. Cherry
Vice President
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
Internal: 223.4977
Fax: 415.973.7226
Internet: BKC7@pge.com

August 14, 2008

Advice 3318-E

(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

**Subject: Contract for Procurement of Renewable Energy Resources
Resulting from PG&E's Power Purchase Agreement with High
Plains Ranch II, LLC**

I. PURPOSE AND OVERVIEW

Pacific Gas and Electric Company ("PG&E") seeks California Public Utilities Commission ("Commission" or "CPUC") approval of a power purchase agreement ("PPA") that PG&E has executed with High Plains Ranch II, LLC ("High Plains Ranch"), a subsidiary of SunPower Corporation ("SunPower"). PG&E submits the PPA for CPUC review and approval to establish PG&E's ability to recover the cost of power purchase payments through its Energy Resource Recovery Account ("ERRA").

The Commission's approval of the PPA will authorize PG&E to purchase RPS-eligible energy from a **210** megawatt ("MW") solar photovoltaic ("PV") power plant ("Project") located in Carrizo Plain, San Luis Obispo County, California, for a term of 25 years with an additional 3 year phase-in period. When completed in 2012, the Project is expected to deliver on average 550 gigawatt hours ("GWh") per year over the term of the PPA, which will contribute significantly toward PG&E's 20 percent portfolio goal and its RPS goals in the years beyond 2010.

The PPA resulted from PG&E's 2007 RPS Solicitation. Consistent with the protocol used for review of RPS contracts resulting from the 2007 RPS Solicitation, PG&E has included Confidential Appendices A through H, which address the reasonableness of the PPA. As is discussed below under the section entitled "Request for Confidential Treatment," PG&E is seeking confidential treatment of the information contained in these appendices.

PG&E requests that the Commission issue a resolution no later than at the Commission's first meeting in January, 2009, containing the findings required by the definition of CPUC Approval adopted by Decision ("D.") 07-11-025 and D.08-04-009 and incorporated in the PPA so that the PPA will remain in effect.¹

II. DETAILED DESCRIPTION OF THE PROJECT

The PPA resulted from PG&E's 2007 RPS Solicitation. PG&E filed its first 2007 RPS contract via Advice Letter 3280-E on June 12, 2008. With this PPA and the power purchase agreement submitted on August 14 in Advice Letter 3313-E, PG&E will have thus far contracted for expected deliveries of 2,346 GWh as a result of its 2007 Solicitation.

The Project will be a new **210** MW solar PV facility in Carrizo Plain, San Luis Obispo County, California. The Project will be phased in over 3 years from January 1, 2010 to December 31, 2012 when it is expected to reach its full capacity. Deliveries of up to **21** MW from the first phase of the Project are anticipated by December 31, 2010, deliveries of up to **84** MW from the second phase of the Project are anticipated by December 31, 2011 and deliveries at the full contract capacity of **210** MW by December 31, 2012. PG&E will receive and pay for deliveries during the phase-in periods. Following the phase-in period, average deliveries are expected to be 550 GWh per year over the contract term. The contract term extends 25 years following the phase-in period for a total term of 28 years.

The following table summarizes the substantive features of the PPA:

¹ As provided by D.07-11-025 and D.08-04-009, the Commission must approve the PPA and payments to be made thereunder, and find that the procurement will count toward PG&E's RPS procurement obligations.

Generating Facility	Type	Term Years	MW Capacity	Annual Deliveries	Commercial Operation Date	Project Location
High Plains Ranch II, LLC (California Valley Solar Ranch)	Solar PV	25 years, with an additional 3 year phase-in period	210 MW	550 GWh average annual deliveries after December 31, 2012.	Phasing in between January 1, 2010 and December 31, 2012. Guaranteed Commercial Operation Date for 250 MW is December 31, 2012.	Carrizo Plain, San Luis Obispo County, California

A copy of the PPA is provided in Confidential Appendix G and a contract analysis is provided in Confidential Appendix D.

III. PRG PARTICIPATION AND FEEDBACK

PG&E discussed the proposed transaction with its Procurement Review Group (“PRG”) on September 21, 2007, November 30, 2007, January 9, 2008, March 14, 2008, April 11, 2008 and July 25, 2008. None of the PRG members objected to PG&E’s execution of the PPA.

IV. THE HIGH PLAINS RANCH PPA IS CONSISTENT WITH THE COMMISSION’S RPS-RELATED DECISIONS

A. Consistency with PG&E’s Adopted RPS and Long-Term Procurement Plans

1. Fit with Identified Renewable Resource Needs

PG&E’s 2007 renewable procurement plan (“Plan”) was approved in D.07-02-011 on February 15, 2007. 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 setting forth the need for renewable generation of various operational characteristics.²

² Pub. Util. Code § 399.14(a)(3).

The goal of PG&E's approved Plan was to procure approximately one to two percent of its retail sales volume, or between 750 GWh and 1,500 GWh per year, with delivery terms of 10, 15 or 20 years.

With expected RPS-eligible energy deliveries of approximately 550 GWh per year for a term of 25 years beginning in 2012, plus additional deliveries between 2010 and 2012 during the phase-in period, the PPA meets the criteria for renewables procurement contained in the Plan.

2. **Consistency with RPS Solicitation Protocol**

The report of the Independent Evaluator, contained in public Appendix I to this Advice Letter, provides a narrative description of how PG&E conducted its 2007 Solicitation.

PG&E generally followed the RPS Solicitation schedule set forth in its Solicitation Protocol, but the schedule for concluding negotiations was extended. The resulting 2007 Solicitation schedule is shown below:

Date	Event
March 12, 2007	PG&E issued Solicitation
March 23, 2007	Participants filed Notice of Intent to bid
April 3, 2007	Bidders Conference
May 11, 2007	Bidders Workshop
May 31, 2007	Deadline for Participants to submit offers
June 21, 2007	PG&E presented preliminary Shortlist to the PRG
June 29, 2007	PG&E distributed revised and finalized Shortlist to the PRG
July 30, 2007	PG&E reported Shortlist to Commission
September 21, 2007 November 30, 2007 January 9, 2008 March 14, 2008 April 11, 2008 July 25, 2008	PG&E updated the PRG on the status of negotiations with shortlisted bidders, including High Plains Ranch
August 14, 2008	PG&E submits High Plains Ranch PPA for Commission approval

Using its CPUC-approved Solicitation Protocol and forms of power purchase agreements, PG&E commenced its solicitation on March 12, 2007. PG&E accepted bids until May 31, 2007, consistent with the published schedule. PG&E evaluated and scored the bids 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 ("TOD") 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 described in the Solicitation Protocol.

PG&E ranked the bids, placed them on PG&E's Shortlist and presented them to PG&E's PRG on June 29, 2007. PG&E notified short-listed bidders and commenced negotiations with short-listed bidders once they submitted the required bid deposit. PG&E presented the interim results of negotiations to the PRG on several occasions between September 2007 and July 2008.

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

PG&E's 2006 long-term procurement plan ("LTPP") stated that PG&E would aggressively pursue procurement of RPS-eligible renewable resources. In

approving PG&E's 2006 LTPP, the Commission noted that development of renewable energy is "of great importance to the Governor, the State of California, and the Commission."³ The PPA is consistent with PG&E's 2006 LTPP and with Commission policy regarding renewable energy expressed in the decision approving PG&E's 2006 LTPP.

B. Consistency of Bid Evaluation Process with Least-Cost Best Fit Decision

The RPS statute requires the "least cost, best fit" ("LCBF") eligible renewable resources to be procured.⁴ The Commission's LCBF decision directs the utilities to use certain criteria in their bid ranking.⁵ 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.

Based on these factors, the PPA is competitive with other offers received and under negotiation in the 2007 RPS Solicitation. The Project represents a good LCBF renewables procurement opportunity.

1. Market Valuation

In a "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 resource, irrespective of PG&E's portfolio. This analysis includes evaluation of the bid price and indirect costs, such as transmission and integration costs. PG&E's analysis of the market value of the PPA is addressed in Confidential Appendix D.

2. Portfolio Fit

³ D.07-12-052 at 73.

⁴ Pub. Util. Code § 399.14(a)(2)(B).

⁵ D.04-07-029.

Portfolio fit considers how well an offer's features match PG&E's portfolio needs. The Project will produce most of its energy during PG&E's Super-Peak Period, when resources are most needed, and it has a relatively high degree of predictability for an "as available" resource. The PPA is a good fit for PG&E's portfolio needs.

3. Consistency with the Transmission Ranking Cost Decision

Under the RPS program, the potential cost of accepting energy deliveries from a particular project must be considered when determining a project's value. PG&E considered the relevant transmission adder under its 2007 Transmission Ranking Cost Report in its evaluation of the Project.

Potential congestion may occur from accepting deliveries of power from the Project under the California Independent System Operator's ("CAISO") Market Redesign and Technology Upgrade ("MRTU"). PG&E considered these potential costs in its evaluation of the Project. This congestion risk can be managed through acquisition of congestion revenue rights ("CRRs"). PG&E's transmission evaluation is further discussed in Confidential Appendix D.

4. Consistent Application of TODs

TOD factors are applied to a non-time differentiated purchase price in order to weight payments according to the value of electricity delivered during various periods. PG&E applied the TOD factors published in its 2007 Solicitation Protocol to the PPA.

5. Qualitative Factors

PG&E considered qualitative factors as required by D.04-07-029 and D.07-02-011 when evaluating the PPA.

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, D.07-02-011 as modified by D.07-05-057, and D.07-11-025. These terms and conditions were compiled and published by D.08-04-009. The non-modifiable terms in the PPA conform exactly to the non-modifiable terms set forth in Attachment A of D.07-11-025 and Appendix A of D.08-04-009.

Modifications have been made to terms designated as modifiable in D.07-11-025 and D.08-04-009 based upon mutual agreement reached during negotiations. Confidential Appendix H identifies the changes made to these modifiable standard terms and conditions from their form in the 2007 Solicitation Protocol issued on March 12, 2007.

Each provision in the PPA is essential to the negotiated agreement between the parties and the Commission should therefore not modify any of the provisions. The Commission should consider the agreement as a whole, in terms of its ultimate effect on utility customers. PG&E submits that the PPA protects the interests of its customers while achieving the Commission's goal of increasing procurement from eligible renewable resources.

D. Consistency with Minimum Quantity Decision

In D.07-05-028, the Commission determined that in order to count energy deliveries from short-term contracts with existing facilities toward RPS goals, RPS-obligated load-serving entities must contract for deliveries equal to at least 0.25 percent of their prior year's retail sales through long-term contracts or through short-term contracts with new facilities.

The PPA is a long-term contract with a new facility and thus counts toward PG&E's procurement obligation for 2008 under D.07-05-028. With the exception of one contract, all of the RPS contracts that PG&E has executed in 2008 are long-term and/or with new facilities.

V. MPR

The actual price of the PPA is confidential, market sensitive information. The price under the PPA is above the applicable 2007 MPR.

VI. PROJECT VIABILITY

There is a reasonable likelihood that the Project will be financed and completed as required by the PPA and will be available to deliver energy by the guaranteed commercial operation date. PG&E evaluated the company profiles and credit-related information provided by High Plains Ranch as part of its bid. Based on those materials, PG&E determined that High Plains Ranch possesses the necessary financing, development, and operational skills to develop the Project and meet the obligations of the PPA. Consistent with PG&E's 2007 RPS Solicitation protocol, PG&E will require performance assurance from High Plains Ranch in order to

secure High Plains Ranch's development and performance obligations under the PPA.

SunPower has applied its high efficiency photovoltaic panels and patented tracking systems to numerous operating, utility scale developments throughout the world. These include plants in Bavaria (10 MW), Portugal (11 MW), Spain (11 MW and 43 MW), and the United States (15 MW, Nellis AFB, Nevada).

The likelihood that the Project will generate renewable power as described in the PPA is further evaluated in Confidential Appendix E, "Project Viability."

VII. CONTINGENCIES AND PROJECT MILESTONES

The PPA identifies a construction start date and a commercial operation date as guaranteed project milestones. Other contingencies and milestones are addressed in Confidential Appendix D.

VIII. TERMS AND CONDITIONS OF DELIVERY

Before and after implementation of the CAISO's MRTU, the point of delivery will be at a new substation connected to the Midway-Morro Bay transmission line.

IX. REGULATORY PROCESS

A. Requested Effective Date

PG&E requests that the Commission issue a resolution approving this advice filing no later than the Commission's first meeting in January, 2009.

B. Earmarking

PG&E intends to earmark future deliveries from this contract to count towards potential procurement deficits in 2010 and/or 2011 that are greater than 25% of each year's IPT. PG&E reserves the right to update its earmarking strategy for this contract to meet its actual RPS procurement needs.

C. RPS-Eligibility Certification

The PPA includes the non-modifiable representation and warranty that during the delivery period, the Project will constitute an eligible renewable energy resource

certified by the California Energy Commission (“CEC”). The Project has been pre-certified by the CEC as an eligible renewable energy resource.

D. Request for Confidential Treatment

In support of this Advice Letter, PG&E has provided the following confidential information, including the PPA and other information that more specifically describes the rights and obligations of the parties. This information is being submitted in the manner directed by D.08-04-023 and the August 22, 2006 Administrative Law Judge’s Ruling Clarifying Interim Procedures for Complying with D.06-06-066 to demonstrate the confidentiality of the material and to invoke the protection of confidential utility information provided by the terms of the IOU Matrix, Appendix 1 of D.06-06-066 and Appendix C of D.08-04-023, or General Order 66-C. A separate Declaration Seeking Confidential Treatment is being filed concurrently with this Advice Letter.

Confidential Attachments:

Appendix A – Overview of 2004 – 2007 Solicitation Bids

Appendix B – 2007 Bid Evaluations

Appendix C – Independent Evaluator Report

Appendix D – Contract Terms and Conditions Explained

Appendix E – Project Viability

Appendix F – Project’s Contribution Toward RPS Goals

Appendix G – Power Purchase Agreement

Appendix H – Standard Terms and Conditions Comparison – Modifiables

Non-Confidential Attachment:

Appendix I – Independent Evaluator Report, Public Version

E. Compliance with the Greenhouse Gas Emission Performance Standard

In D.07-01-039, the Commission adopted an Emissions Performance Standard (“EPS”) that applies to contracts for a term of five or more years for baseload generation with an annualized plant capacity factor of at least 60 percent. Because the annualized plant capacity factor of the Project will be less than 60 percent, the Project is not subject to the EPS. PG&E has provided notice of the Project’s exemption from the interim EPS requirements by serving this Advice Letter on the service list in the RPS rulemaking, R.06-05-027.

X. REQUEST FOR COMMISSION APPROVAL

The continued effectiveness of the PPA is conditioned on the occurrence of “CPUC Approval,” as that term is defined in the PPA. 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 the Commission’s first meeting in January, 2009.

1. Approves the PPA in its entirety, including payments to be made by PG&E pursuant to the PPA, subject to the Commission’s review of PG&E’s administration of the PPA.
2. Finds that any procurement pursuant to the PPA 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.) (“RPS”), Decision (“D.”) 03-06-071 and D.06-10-050, or other applicable law.
3. Finds that all procurement and administrative costs, as provided by Public Utilities Code section 399.14(g), associated with the PPA shall be recovered in rates.
4. Adopts the following finding of fact and conclusion of law in support of CPUC Approval:
 - a. The PPA is consistent with PG&E’s approved 2007 RPS procurement plan.
 - b. The terms of the PPA, including the price of delivered energy, are reasonable.

5. Adopts the following finding of fact and conclusion of law in support of cost recovery for the PPA:
 - a. The utility's cost of procurement under the PPA shall be recovered through PG&E's Energy Resource Recovery Account.
 - b. Any stranded costs that may arise from the PPA are subject to the provisions of D.04-12-048 that authorize recovery of stranded renewables procurement costs over the life of the contract. The implementation of the D.04-12-048 stranded cost recovery mechanism is being addressed in Rulemaking ("R.") 06-02-013.

6. Adopts the following findings with respect to resource compliance with the Emissions Performance Standard ("EPS") adopted in R.06-04-009:
 - a. The PPA is not a covered procurement subject to the EPS because the generating facility has a forecast annualized capacity factor of less than 60% and therefore is not baseload generation under paragraphs 1(a)(ii) and 3(2)(a) of the Adopted Interim EPS Rules.

Protests:

Anyone wishing to protest this filing may do so by sending a letter by **September 3, 2008**, 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: jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Honesto Gatshalian, 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 the Commission issue a resolution approving this advice filing no later than the Commission's first meeting in January, 2009.

Notice:

In accordance with General Order 96-B, Section IV, 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.06-02-012, R.06-02-013 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.06-02-013
Service List for R.06-02-012

Paul Douglas - Energy Division

Attachments

Limited Access to Confidential Material:

The portions of this Advice Letter marked Confidential Protected Material are submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C. This material is protected from public disclosure because it consists of, among other items, the contract itself, price information, and analysis of the proposed RPS contract, which are protected pursuant to D.06-06-066. A separate Declaration Seeking Confidential Treatment regarding the confidential information is filed concurrently herewith.

Confidential Attachments:

Appendix A – Overview of 2004 – 2007 Solicitation Bids

Appendix B – 2007 Bid Evaluations

Appendix C – Independent Evaluator Report

Appendix D – Contract Terms and Conditions Explained

Appendix E – Project Viability

Appendix F – Project’s Contribution Toward RPS Goals

Appendix G – Power Purchase Agreement

Appendix H – Standard Terms and Conditions Comparison – Modifiables

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 (ID U39 M)**

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) #: **3318-E**

Tier: **[3]**

Subject of AL: Contract for Procurement of Renewable Energy Resources Resulting from PG&E's Power Purchase Agreement with High Plains Ranch II, LLC

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: No

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

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: Yes. See the attached matrix that identifies all of the confidential information.

Confidential information will be made available to those who have executed a nondisclosure agreement: All members of PG&E's Procurement Review Group who have signed nondisclosure agreements will receive the confidential information.

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: Rich Miram, (415)-973-1170

Resolution Required? Yes No

Requested effective date: **First CPUC Meeting in January 2009**

No. of tariff sheets: N/A

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: N/A

Service affected and changes proposed: N/A

Protests, dispositions, 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

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

jn@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

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 RICH MIRAM
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3318-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Rich Miram, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee at PG&E since 1973. My current title is Principal within PG&E's Energy Procurement organization. In this position, my responsibilities include 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 numerous counterparties and have also gained knowledge of the operations of electricity sellers in general. Through this experience, I have become familiar with the type of information that would affect the negotiating positions of electricity sellers with respect to price and other terms, as well as with the type of information that such sellers consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with Decision ("D.") 08-04-023 and 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, B, C, D, E, F, G, and H to Advice Letter 3318-E," submitted on August 14, 2008. By this Advice Letter, PG&E is seeking this Commission's approval of a PPA that PG&E has executed with High Plains Ranch II, LLC.

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 of D.06-06-066 and Appendix C of D.08-04-023 (the "IOU Matrix"), or constitutes information

that should be protected under Public Utilities Code § 583 and General Order 66-C. 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 in the attached matrix that is pertinent to this filing.

I declare under penalty of perjury, under the laws of the State of California, that to the best of my knowledge, the foregoing is true and correct. Executed on August 14, 2008 at San Francisco, California.

A handwritten signature in black ink, appearing to read "Rich Miram", written over a horizontal line.

Rich Miram

		PACIFIC GAS AND ELECTRIC COMPANY Advice Letter 3318-E August 14, 2008		IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-068 AND DECISION 06-04-023		PG&E's Justification for Confidential Treatment		Length of Time	
Redaction Reference	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-068 and Appendix C to D.06-04-023 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosures (Y/N)				
1 Document: Advice Letter 3318-E	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2004, 2005, 2006, and 2007 solicitations. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006 and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential for three years after winning bidders selected		
2 Appendix A	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2007 solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006, and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential for three years after winning bidders selected		
3 Appendix B	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2007 solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006, and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential for three years after winning bidders selected		
4 Appendix C	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2007 solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006, and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential for three years after winning bidders selected		

	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
4 Appendix D	Y	Item VIII B) Specific quantitative analysis involved in scoring and evaluation of participating bids. Item VII C) Renewable Resource Contracts under RPS program - Contracts without SEPs. Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This Appendix contains information regarding the terms of the PPA, bid evaluations from the 2007 solicitation, and analyses and evaluations of the project. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparty has an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA. I am informed and believe that General Order 68-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	For information covered under Item VIII B), remain confidential for three years after winning bidders selected For information covered under Item VII C) and Item VII (un-numbered category following VII G), remain confidential for three years
5 Appendix E	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This Appendix contains information concerning analyses and evaluations of project viability. If made public, this information could harm the counterparty and adversely affect project viability.	Remain confidential for three years
6 Appendix F	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VI B) Utility Bundled Net Open Position for Energy (MWh).	Y	Y	Y	This Appendix contains information that, if disclosed, would provide valuable market sensitive information to competitors and allow them to see PG&E's remaining RPS net open energy position. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years.	Remain confidential for three years
7 Appendix G	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs.	Y	Y	Y	This Appendix contains the PPA. Disclosure of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years. Release of this information would be damaging to negotiations. Furthermore, the counterparty has an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 68-C includes in its category of records not open to public inspection "information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	Remain confidential for three years

<p>Redaction Reference</p> <p>B Appendix H</p>	<p>1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (Y/N)</p> <p>Y</p>	<p>2) Which category or categories in the Matrix the data correspond to:</p> <p>Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs.</p>	<p>3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)</p> <p>Y</p>	<p>4) That the information is not already public (Y/N)</p> <p>Y</p>	<p>5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)</p> <p>Y</p>	<p>PG&E's Justification for Confidential Treatment</p> <p>This Appendix contain certain terms of the PPA. Disclosure of certain terms of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years. Release of this information would be damaging to negotiations. Furthermore, the counterparty has an expectation that the terms of the PPA will remain confidential pursuant to the confidentiality provisions of the PPA. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers.</p>	<p>Length of Time</p> <p>Remain confidential for three years</p>
--	---	--	---	---	---	--	--

***Pacific Gas and Electric Company
2007 Renewable Resource Solicitation***

***Third Advice Letter Report of the
Independent Evaluator
On the Bid Evaluation and Shortlist Selection Process***

August, 2008

***Prepared by
Merrimack Energy Group, Inc.***



Table of Contents

Executive Summary	1
I. Introduction: Role of the Independent Evaluator.....	4
II. Adequacy of Outreach to Potential Bidders.....	14
III. Fairness and Appropriateness of RPS Bid Evaluation and Selection Methodology and Design.....	15
IV. Administration of the Bid Evaluation Process.....	22
V. Fairness of the Contract Negotiation Process.....	27
VI. Recommendation for Contract Approval.....	29
VII. Conclusions and Recommendations.....	30

Confidential Appendix A

Executive Summary

On March 12, 2007, Pacific Gas and Electric Company (PG&E) issued the Renewable Portfolio Standard 2007 Solicitation Protocol (Solicitation Protocol or Solicitation) for the procurement of electric energy and associated products from renewable energy resources under long-term contracts to help the company meet its obligations under the California Renewable Portfolio Standard (RPS). In the 2007 Solicitation, PG&E sought to procure approximately 1-2% of its retail sales volume or between approximately 750,000 to 1,500,000 MWh per year. Pursuant to the Solicitation Protocol, PG&E received dozens of offers from renewable energy developers, evaluated the offers, and determined which of those offers to include on a short list for potential negotiations and contracting.

Pursuant to regulatory requirements of the California Public Utilities Commission (CPUC), PG&E retained Merrimack Energy Group, Inc. (Merrimack Energy) as the Independent Evaluator (IE) for the 2007 RPS Solicitation. Following the receipt and evaluation of bids and selection of the shortlist, Merrimack Energy submitted its Report of the Independent Evaluator on the Bid Evaluation and ShortList Selection Process dated July 30, 2007 (IE Shortlist Report) as part of the Shortlist Report submitted by PG&E on the same date. On May 16, 2008, PG&E executed the first group of power purchase agreements (PPAs) associated with the 2007 Solicitation – two 20-year PPAs for the purchase of renewable energy from two 53.4 MW Solar Thermal Hybrid (with biomass) projects with San Joaquin Solar.¹

On July 1, 2008 PG&E executed a Power Purchase Agreement (PPA) with Topaz Solar Farms LLC, a subsidiary of OptiSolar Inc. This PPA is for the purchase of an average of 1,096 gigawatt hours (GWh) per year from a planned new 550 MW solar photovoltaic facility in Carrizo Plain, San Luis Obispo County, California. The Topaz Solar Farms contract was the second agreement to be executed from bids submitted in response to the 2007 Solicitation and third PPA overall. It is being submitted today by PG&E for Commission approval in a separate filing and is the subject of a separate IE Advice Letter Report submitted with PG&E's Advice Letter filing for this project.

On July 23, 2008, PG&E executed a PPA with High Plains Ranch II, LLC (High Plains Ranch), a subsidiary of SunPower LLC, for output from a proposed 250 MW solar photovoltaic (PV) power plant which, like the Topaz Solar Farms project, is planned to be built in Carrizo Plain, San Luis Obispo County, California (the Project). The Project will be phased in over a three-year period, with the PPA extending for 25 years following the phase-in period. When completed (planned for 2012), the Project is expected to deliver on average 550 GWh per year, which would contribute to meeting PG&E's

¹ The names of the projects have been changed during the contract negotiation process. The proposal was originally submitted by Bethel Energy as part of the 2006 RPS solicitation. The project was rolled over to the 2007 solicitation. The name of the project was originally changed to Eviva California Solar and ultimately to San Joaquin Solar 1 LLC and San Joaquin Solar 2 LLC. In addition, the project was split into two PPAs from the original project size of 99 MW. The current project size is approximately 106 MW, with each PPA for 53.4 MW.

obligations under California's Renewable Portfolio Standards (RPS). This report, including the Confidential Appendix, will address the High Plains Ranch contract,² and is being filed as part of PG&E's Advice Letter filing seeking approval of this PPA.

The purpose of this report is for the IE to address the following with respect to the High Plains Ranch PPA: (a) whether this contract merits approval by the CPUC; (b) whether PG&E fairly and equitably conducted negotiations leading up to execution of this contract; and (c) to update and summarize the matters addressed in the IE Shortlist Report as to (i) the role of the IE in the process; (ii) the fairness and appropriateness of PG&E's bid evaluation and selection methodology and process; (iii) the reasonableness of the bid evaluation and selection process; and (iv) the adequacy of outreach to potential bidders and the robustness of the solicitation.

As we address in this report, we have spent considerable time and effort in reviewing PG&E's bid evaluation methodology and overseeing its evaluation of offers and shortlist selection, development of a negotiation strategy with the shortlisted bidders, and negotiations with regard to individual projects. Generally, we found that the shortlisting decisions were reasonable based on the requirements and evaluation criteria set forth in the Solicitation Protocol. PG&E erred on the side of inclusiveness in its shortlisting selections. There were no offers left off the shortlist that we felt should have been included. After the shortlisting process, PG&E developed a negotiation strategy to prioritize negotiations based on discussions with the bidders and in consultation with the Procurement Review Group (PRG) and the IE, which we found reasonable.

PG&E's outreach activities, which included contacting over 700 prospective bidders, holding workshops and conferences for bidders, and disseminating substantial information about the solicitation on its website, were effective, as evidenced by the robust response to the solicitation in terms of number of bids and types of resources proposed.

With respect to the High Plains Ranch PPA, we are of the view that the contract merits Commission approval based on the relative pricing of the offer, the expected viability of the project, and the balanced provisions in the PPA.

In our July 2007 IE Shortlist Report, we recommended that in the next RPS Solicitation that PG&E consider changes to the Solicitation Protocol to improve the procurement process in the following areas:

- Use of evaluation criteria weights instead of partial ordering
- Modification of the debt equivalence evaluation in light of recent changes in Standard & Poor's evaluation methodology
- Clarification of credit requirements and evaluation criteria
- A more robust project viability analysis that would take into consideration transmission viability and the impact of Supplemental Energy Payments

² Much of this report replicates the First and Second Advice Letter reports submitted by Merrimack Energy, but includes the addition of the High Plains Ranch project where warranted.

- Elimination of Portfolio Fit as an evaluation criterion and potential modification of the RPS Goals evaluation criterion
- Make criteria for evaluation of utility ownership options explicit and comparable with those for PPA offers

For its 2008 Renewable Resource RFO, PG&E incorporated a number of changes to the solicitation and evaluation methodology in response to the IE's recommendations with respect to partial ordering, credit requirements and portfolio fit.³

While there is always room for improvement, our assessment is that PG&E administered the evaluation and shortlist selection process for the 2007 RPS Solicitation fairly and reasonably and the PPA for the High Plains Ranch Project merits approval, all as more fully explained in this report.

³ See 2008 Renewable Energy Procurement Plan and Draft Solicitation Protocol of Pacific Gas and Electric Company (U 39 E), <http://www.pge.com/includes/docs/pdfs/b2b/wholesaleelectricssolicitation/2008procurementplanpublic.pdf> at 2. 13-14 (Aug. 1, 2007). Our recommendations on debt equivalence became moot when the Commission determined to discontinue consideration of debt equivalence "bid adders" in future solicitations due to concerns about comparable treatment of PPAs compared to utility-owned projects. Opinion Adopting Pacific Gas and Electric Company's, Southern California Edison Company's, and San Diego Gas & Electric Company's Long-Term Procurement Plans, Decision 07-12-052 (Dec. 20, 2007), http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/76979.pdf, at 161-166.

I. Introduction: Role of the Independent Evaluator

On March 12, 2007, Pacific Gas and Electric Company (PG&E) issued the Renewable Portfolio Standard (RPS) 2007 Solicitation Protocol for the procurement of electric energy and generation attributes from eligible renewable energy resources (ERR) under long-term contracts to help the company meet the requirements of having 20 percent of its sales supplied by renewable resources by 2010 under the California Renewable Portfolio Standard. In the 2007 Solicitation, PG&E is seeking to procure approximately 1-2% of its retail sales volume or between approximately 750,000 to 1,500,000 MWh per year. PG&E received a substantial number of offers in response to the solicitation.

PG&E evaluated the Offers received and then created a list of Offers that based on the Solicitation's evaluation criteria merited further discussion and negotiation (the "Shortlist" of Offers or "Shortlisted" Offers). If an Offer is not included on the Shortlist, it means it is not entitled to further consideration by PG&E for this RPS Solicitation.

Pursuant to regulatory requirements of the California Public Utilities Commission, PG&E retained Merrimack Energy Group, Inc. (Merrimack Energy) as the Independent Evaluator (IE) for this solicitation.

A. Regulatory Requirements For the Independent Evaluator

The requirements for participation by an Independent Evaluator (IE) in RPS solicitations are outlined in decisions 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) of the California Public Utilities Commission (Commission or CPUC).

In Decision 04-12-048 (December 16, 2004), the CPUC required the use of an IE by investor-owned utilities (IOUs) in resource solicitations where there are affiliate, IOU-built or turnkey bidders. The CPUC generally endorsed the guidelines issued by the Federal Energy Regulatory Commission (FERC) for independent evaluation where an affiliate of the purchaser is a bidder in a competitive solicitation, but stated that the role of the IE would not be to make binding decisions on behalf of the utilities or administer the entire process.⁴

In Decision 06-05-039 (May 25, 2006), the Commission required each IOU to employ an Independent Evaluator regarding all RFOs issued pursuant to the RPS, regardless of whether there are any utility-owned or affiliate-owned projects under consideration. In addition, the Commission directed the IE for each RFO to provide separate reports (a

⁴ Decision 04-12-048 at 129-37. The FERC guidelines are set forth in Ameren Energy Generating Company, 108 FERC ¶ 61,081 (June 29, 2004).

preliminary report with the shortlist and final reports with IOU advice letters to approve contracts) on the entire bid, solicitation, evaluation and selection process, with the reports submitted to the utility, PRG and Commission and made available to the public (subject to confidential treatment of protected information).

B. Issues Addressed in this Report

On July 30, 2007, Merrimack Energy issued its Report of the Independent Evaluator on the Bid Evaluation and Shortlist Selection Process (Shortlisting Report) which provided an assessment of PG&E's RPS Solicitation from shortly before the receipt of offers on May 31, 2007 through the selection of the short list of bidders. In addition to providing an overview of our initial Shortlisting Report as it pertains to the Commission's 2007 Templates, this report will address activities undertaken since the issuance of the Shortlisting Report, notably those activities associated with refinement of the shortlist through negotiations with selected projects.

This Second Advice Letter Report of the IE provides an assessment of PG&E's RPS solicitation process from prior to receipt of bids through the contract negotiation process along with confidential Appendix A. The Report is supplemented with discussions about the Topaz Solar Farms LLC Project (Topaz), the subject of this Second Advice Letter Report. It is organized based on a template provided by the Commission's Energy Division. This report addresses Merrimack Energy's assessment and conclusions regarding the following six questions identified in the Commission's 2007 Template:

1. Did PG&E do adequate outreach to potential bidders, and did its outreach activities result in an adequately robust solicitation to promote competition?
2. Was PG&E's methodology for the RPS offer evaluation and selection designed fairly?
3. Was PG&E's RPS offer evaluation and shortlist selection process fairly administered?
4. Did PG&E make reasonable and consistent choices regarding which offers were rejected and which were shortlisted?
5. Were project-specific negotiations fair?
6. Do the submitted contracts warrant CPUC approval?

The Shortlist Report filed on July 30, 2007 addressed the first four questions. In this report, we provide a summary and update of our prior report. Then we address the last two questions, which involve the process from selection of the shortlist through contract negotiations. The organization of this Report will follow the six questions identified above and as such will be restructured slightly from our July 30, 2007 Shortlist Report.

Prior to addressing these six questions, we describe the role we have played in this competitive bidding process.

C. Description of Key IE Roles

In compliance with the above requirements, PG&E retained Merrimack Energy to serve as Independent Evaluator for PG&E's 2007 RPS Solicitation Protocol in late May 2007, shortly before to receipt of offers. Merrimack Energy was retained to provide an independent evaluation of the appropriateness of PG&E's bid evaluation methodology and selection process for its shortlist of offers and to provide PG&E, PG&E's Procurement Review Group (PRG), and the Energy Division with periodic presentations, findings and other reports as requested. The objective of the role of the IE is to ensure that the solicitation process is undertaken in a fair, consistent, unbiased and objective manner and that the best resources are selected and acquired consistent with the solicitation requirements.

With regard to the role of the IE, we view one of our primary tasks to "challenge" the results of the utility's evaluation process. Our objective is to ensure that the utility evaluation team can prove that the results of their evaluation are accurate, reasonable and consistent. This role generally involves a detailed review and assessment of the evaluation process and the results of the quantitative and qualitative (non-price) analysis. While we generally prefer to begin our role as IE prior to issuance of the solicitation to have input upfront into the bid evaluation criteria, methodology and process or at least several weeks prior to the receipt of bids, that was not the case here. Hence, the description of our activities reflects the period from just prior to receipt of bids to selection of the final short-list, and then through the contract negotiation process.

D. Description of IE Oversight Activities

The IE initiated a number of activities in performing its oversight role in connection with PG&E's evaluation criteria, evaluation methodology, evaluation and selection process, and the contract negotiation process. Many of these oversight activities are described in detail on pages 4-11 of our Shortlisting Report (July 30, 2007) and are summarized below. In addition, the IE performed a variety of oversight activities associated with contract negotiations that are described below.

1. Bid Evaluation and Selection of the Shortlist

At the beginning of our involvement in the process, the IE reviewed the 2007 Solicitation Protocol documents and form contracts, background information (relevant CPUC Orders, Guidebooks of the California Energy Commission, the shortlist report from the 2006 PG&E Renewables RFO and relevant legislation) and attended by telephone the Bidders Workshop held by PG&E on May 11, 2007. The IE then reviewed a confidential internal

document provided by PG&E that contained a detailed protocol (the Detailed Protocol or Internal Protocol) designed to implement the publicly issued 2007 Solicitation Protocol dated March 12, 2007. Prior to the receipt of bids, the IE interviewed the key PG&E personnel responsible for developing and implementing the quantitative (i.e. price) and qualitative (i.e. non-price) evaluation and obtained the model and methodology for conducting the quantitative evaluation as well as backup and explanatory information. The information was reviewed: (a) to determine whether the Internal Protocol was consistent with the Solicitation Protocol; and (b) whether the Internal Protocol was otherwise appropriate and objective. The IE also met with the PG&E RFO project team to review and discuss the following issues:

- RFO process for receipt and evaluation of bids
- The quantitative evaluation methodology, including the following factors:
 - Forward price curve development
 - Use of time-of-delivery (TOD) factors in price evaluation
 - Debt equivalence impact methodology
- Qualitative or non-price evaluation methodology
 - Portfolio Fit
 - Credit
- Selection process—partial ordering

The IE also participated in the receipt and opening of offers on May 31, 2007. The IE observed PG&E’s bid receipt and opening process and reviewed the documentation developed by PG&E for compiling pertinent information on each of the offers received. We also completed our own database of the offers, which included pertinent information about each offer to not only ensure that all offers were adequately accounted for by both PG&E and Merrimack, but to also provide a complete list of offers upon which to begin our independent assessment. In conclusion, the bid receipt, opening, initial review and distribution process was very well organized and managed. The effective management of this process contributed significantly to the relatively quick evaluation and selection of the proposals received. In addition, PG&E was very responsive to information requested by the IE and provided all data and information sought.

Based on our review of the 2007 Solicitation Protocol and the Detailed Protocol as well as discussions with members of the evaluation teams, the IE developed a “Watch List” of issues (see Exhibit 1 below) as a means of identifying potential issues and factors that could influence the bid ranking and selection process and would warrant monitoring on an ongoing basis.

**Exhibit 1
Independent Evaluator Watch List of Issues**

Issue	Discussion
Partial Ordering Process	The partial ordering process used by PG&E serves as a key aspect of the ranking and selection of shortlisted bidders. Some of the issues we focused

	<p>on included:</p> <ul style="list-style-type: none"> • Implementation of the methodology • The application of both objective and subjective criteria in the partial ordering process and timing of the development of the criteria • Process for determining superior, indeterminate, and inferior bids
Price Evaluation Methodology (i.e. Market Valuation)	<p>There are a number of issues generally associated with any quantitative or price evaluation methodology. For PG&E's methodology, these include:</p> <ul style="list-style-type: none"> • Evaluation of bids with different terms and starting dates • Transparency of the methodology • Review and reasonableness assessment of the key assumptions such as the forward prices and the methodology for developing forward prices • Inclusion and reasonableness of all key cost items such as debt equivalence and transmission costs • Assessment of bids for phased projects
Credit and Security	<p>The issues we have identified with regard to credit and security include:</p> <ul style="list-style-type: none"> • The extent to which security is a requirement or an evaluation criteria • The extent to which the credit evaluation was consistent with the RPS Protocol • The extent to which bidders were reasonably apprised of the credit evaluation criteria.
Project Viability Analysis	<p>Project viability assessment is key in evaluating the likelihood that renewable resource projects will be successfully developed, financed and constructed. There are a number of factors that affect project viability, including siting considerations, permitting status, and availability of equipment. As a result, the IE was particularly interested in monitoring whether the evaluation process would be consistent, appropriate and fair with regard to assessing projects from a viability standpoint and how this would affect shortlisting decisions and contract negotiations.</p>
Transmission Issues	<p>The IE was particularly interested in how transmission costs (and any substitutes for transmission) would be assessed to ensure that the methodology fairly and consistently assigned transmission costs (and the cost of any substitute arrangements) with no undue bias toward any type of project or projects from different geographical locations.</p>
Timeframe for the Evaluation	<p>PG&E established a very aggressive schedule to arrive at an initial and final shortlist. The goal was to select an initial shortlist and present the shortlist to the PRG approximately 3-4 weeks after receipt of bids. The IE was concerned that the expedited timeframe could lead to a limited deficiency</p>

	assessment and suboptimal project viability evaluation.
Comparability – PPA vs Bids Offering Utility Ownership Rights	One IE task was to review and assess bid options with utility ownership rights against conventional PPA bids to ensure there was no undue bias associated with a particular contract structure (although, in practice, this was not an issue in this RFO since only a few bids offered utility ownership rights and these bids were problematic for reasons independent of comparability with PPAs—project viability and/or price).
Selection of the Shortlist	There were a number of potential issues associated with the process for selection of the shortlist identified by the IE. These include: <ul style="list-style-type: none"> • The appropriate size/amount of the shortlist given the expected failure rate of proposals and the competition with other utility procurements. • Fairness and consistency of the selection process. • Impact of transmission cost and availability on the selection process.
Consideration of Supplemental Energy Payments/Costs in Excess of Market Price Referent (MPR) in the Project Selection and Contract Negotiation Process	Limits on supplemental energy payments (SEPs), or after the passage of Senate Bill 1036 above-MPR costs in excess of PG&E's cost cap ⁵ could potentially serve as a constraint. <ul style="list-style-type: none"> • What are PG&E's unutilized above-MPR cost caps for all projects and out-of-state projects? • Which projects have above-MPR costs? • How does or should above-MPR costs influence the selection of the shortlist, if at all?

After the receipt and opening of bids, the next step in the process was a review of the proposals to ensure the bidders provided complete and consistent information. Bidders who did not provide all the necessary information or provided information that was unclear were notified by the Company via deficiency letters or requests for clarification. The IE received a summary from the Company of the information deficiencies and ambiguities for each bidder and also had the opportunity to review the deficiency letters planned for email delivery to the bidders. PG&E also provided all bidder responses to Merrimack Energy upon receipt from the bidders, which allowed us to monitor all email traffic between the Company and bidders.

The IE also reviewed PG&E's Market Valuation methodology and conducted an independent evaluation of the levelized cost of the majority of proposals. In addition, we reviewed the summary results of the proposals completed by PG&E and compared the ranking of the bid prices. We also ranked each bid based on established pricing ranges determined by the IE. Finally, we compared our results to PG&E's results from the

⁵ On October 14, 2007, Governor Schwarzenegger signed into law SB 1036, which eliminates the need for allocation of SEPs from the California Energy Commission for above-MPR costs under RPS PPAs. Instead, each utility has a cost cap for long-term RPS PPAs based on the total amount of SEPs that it would have collected (approximately \$382 million for PG&E). The import of SB 1036 is that utilities are not required to procure renewables to meet RPS goals to the extent costs exceed the cost cap.

partial ordering process. As will be discussed, the IE's ranking of proposals was generally consistent with PG&E's ranking.

In the first ranking of the market valuation, each project is assumed to deliver its energy to a liquid hub in California or to the California border. To the extent that projects are located outside the California Independent System Operator (CAISO), projects are assigned wheeling costs in order to value the project at the forward curve for the applicable trading hub. The total delivered costs are then used to determine a total market value (negative or positive), which is used in the first ranking process (after consideration of debt equivalence).

Using the results of the first ranking based on the Partial Ordering Protocol, available transmission capacity (if any), i.e., transmission capacity that will be available without the need for system upgrades, will be assigned to the top ranked bids at an applicable cluster or location. Projects will then be assigned a transmission cost adder, if applicable, or, if lower, the cost of alternative commercial arrangements for delivering the energy.⁶ The IE reviewed the transmission analysis and requested backup information, which was provided.

With regard to the qualitative or non-price evaluation, the IE's plan was to conduct a parallel evaluation for a reasonable percentage of the bids and to compare the evaluation to PG&E's evaluation. In reviewing the Detailed Protocol, the IE attempted to assess whether the evaluation criteria were sufficiently clear enough to permit a parallel review that would be based on the same detailed criteria employed by the PG&E evaluators. As part of this review, where it was useful and appropriate to make the criteria more quantifiable, the IE suggested changes. Through discussions with PG&E, the detailed evaluation criteria were modified and/or clarified in various respects that were mutually agreeable.

The IE reviewed PG&E's Detailed Protocol for the evaluation of bids proposing ownership by PG&E—either a purchase and sale agreement for a developed project, a power purchase agreement with a buyout, or a site purchase agreement—for consistency with the Solicitation Protocol as well as fairness in comparison to the evaluation of bids seeking agreements for power purchases by PG&E.

Following a meeting attended by the IE to review the status and evaluation of each proposal, the IE participated in the partial ordering process to determine superior, indeterminate, and inferior proposals as the basis for selection of the initial shortlist. To categorize bids into the above categories, PG&E's Project Lead defined the parameters for bid ranking (e.g., an offer (1) had a market value better than \$X/MWh, (2) had to score a 3 or better in all categories, (3) could not have a score of 1 or less in more than two categories, etc.).⁷ The parameters were revised and the proposals ranked into superior, indeterminate, and inferior categories. The process continued for several hours until a reasonably equal distribution of proposals into the three categories resulted and no

⁶ This analysis is described in more detail in Section II.B of the July 30, 2007 Short List Report.

⁷ This example is illustrative only

proposals were dominated by an inferior proposal. The result of the partial ordering process was the ranking of offers by category as the basis for selection of the initial shortlist.

After undertaking the partial ordering process, PG&E's evaluation team compiled an initial shortlist and presented the results to the Steering Committee on June 19, 2007. The IE was present at this meeting. The Project Lead summarized the evaluation and assessment of each offer. The Project Lead expressed reluctance to shortlist multiple proposals from the same bidder. Members of the Steering Committee raised a few questions about the initial shortlist. A key issue addressed related to the inclusion on the shortlist of a few proposals that may not have been ranked as high as other proposals but were ranked highly for viability and were offered by financially sound and viable entities with previous experience in project development. The result of this suggestion was a potential expansion of the shortlist to include a broader range of offers. Shortly thereafter, a meeting was held with the PRG in which PG&E presented the results of its evaluation and the IE provided its assessment.

The next step in the process involved the assignment of transmission upgrade costs or the costs of alternative commercial arrangements based on the initial ranking of shortlisted offers associated with the location of projects or their delivery points in or to transmission clusters/locations within the CAISO-controlled grid. For this assessment, the lower of transmission upgrade costs or the cost of alternative commercial arrangements were added to each shortlisted offer. The IE reviewed the results of the assessment and held follow-up discussions with the transmission analysts.

Once the market valuation was revised to take into consideration transmission upgrade costs or the costs of alternative commercial arrangements, the partial ordering process was re-run to generate a revised, second ranking of offers. The IE and PG&E's Project Lead had several discussions during this time to review the status of offers; the IE was also provided with revised spreadsheets with the evaluation results and rankings. The results of the second ranking were not substantially different from the first, with one bid removed from the shortlist and few additional offers added. After receiving some additional input from the PRG and the IE, PG&E made final decisions regarding the shortlist.

Bidders selected for the shortlist were notified in writing by PG&E and requested to post an offer deposit of \$3.00 per kW of project contract capacity within five business days after receipt of the notice. Bidders not selected for the shortlist were also notified of their status.

2. IE Involvement After Shortlist Notification Including Contract Negotiations

Shortly after selection of the initial short list, PG&E contacted bidders on the short list to initiate the contract negotiation process. The IE's role in this phase of the process is to:

- Monitor the negotiation process to ensure it is fair, equitable, unbiased and consistent
- Make periodic presentations to the PRG on the negotiation process
- Advise the CPUC in Advice Letter filings whether the proposed contracts warrant approval
- Identify principles used to evaluate negotiations
- Assess whether similar information/options were made available to other bidders

As a means of monitoring the contract negotiations process, Merrimack Energy monitored initial discussions with bidders, reviewed all email traffic between the Company and bidders, participated in many negotiation sessions, reviewed red-lined contracts and issues lists/summaries prepared by PG&E, and participated in regular meetings with the PG&E project team to continually review the status of negotiations.

While the large majority of shortlisted bidders provided the offer deposit required to remain on the short list, several declined to post the offer deposit and were no longer considered for further negotiations. Any issues regarding bid deposits were vetted with the IE. In all cases, the bidders effectively withdrew themselves from short list consideration and no bids were eliminated at the discretion of PG&E.

In light of a large number of shortlisted bidders, Merrimack Energy recommended that PG&E develop a negotiation strategy, develop an issues list with respect to negotiations with each of the counterparties, and develop a set of negotiation priorities. PG&E agreed to undertake these activities, although it took some time to implement these suggestions. One of the outcomes of these discussions was a decision by PG&E, which was endorsed by the IE, to establish a Primary and Secondary list of bidders for short list categorization based on the bidders cost, Net Market Value, and project status from a viability perspective.⁸

Initially, PG&E contacted bidders on the short list and met in person or by telephone to identify issues pertaining to the proposals and issues that had been raised in bidder exceptions to the standard power purchase agreement. The IE monitored and listened in on most of the initial negotiation sessions. Based on the offers received and the preliminary discussions following shortlisting, a primary and secondary group of offers were put together and presented to the Procurement Review Group (PRG), early in the negotiation process. During the negotiation phase, the IE provided input on a variety of issues ranging from those pertaining to above-MPR costs (formerly, Supplemental Energy Payments), risk allocation issues resulting from exceptions, technical and viability issues, credit issues, and RPS qualification issues.

In September 2007, the IE was informed by PG&E that the PG&E Lead on this RFO had accepted a position from one of the bidders. The IE discussed the matter directly with the PG&E Lead to gain a perspective on his role with the bidder. He stated that he had agreed

⁸ For example, offers that did not have site control were likely to be included in the Secondary list even if their economics were relatively favorable.

both with PG&E and his new employer that (a) he would keep confidential and not disclose to his new employer any confidential information that he had access to as an employee of PG&E associated with this RFO and (b) he would recuse himself from participation in the RFO on behalf of his new employer. After considering the matter, the IE promptly suggested to a senior person at PG&E that PG&E strongly consider notifying other bidders of these events and the response of PG&E for dealing with this issue. We also suggested that the matter should be discussed at the next PRG meeting, which was planned for the following week. The matter was raised by the IE, and the PRG concurred with our suggestions. Within the next week, bidders were informed that the Project Lead had left the company and had taken a position with one of the bidders and that he had agreed to keep all matters pertaining to the RFO confidential and that he would not work for his new employer with regard to the RFO. To the best of our knowledge, no bidders raised any concerns about the resolution of this issue. We are confident that this incident has had no impact on any substantive decision made by PG&E with regard to this RFO and is highly unlikely to have any impact on any future decisions.

The IE was active in this stage of the RFO process in a number of ways. Regular meetings were held with PG&E by phone to discuss the status of negotiations, negotiation strategy, and issues associated with each proposal. These conference calls were held weekly or every other week and later on an as-needed basis. The IE was also provided access to information provided from PG&E to bidders and from the bidders to PG&E. The IE was provided the opportunity to monitor negotiation sessions between PG&E and the bidder by telephone. We monitored most of the initial negotiation sessions when many key issues were being addressed, and were updated through discussions with PG&E transactors and RFO project staff for negotiation sessions that we did not attend telephonically.

The IE also participated in all PRG meetings and made presentations about the process at a few of these meetings.

The IE also requested that PG&E prepare an issues list for each contract, which identified positions of the parties with regard to each issue for negotiations. The IE has found this process to be of particular value since it allows the IE to track the negotiation process over time and determine how such issues have been resolved through the negotiation process. Furthermore, this process also provides the Company and IE the opportunity to be made aware of remaining outstanding issues. PG&E transactors prepared issues lists for the majority of the contracts being negotiated, including all of the projects involved in active negotiations.

The IE raised issues with PG&E about specific proposals based on our review of the proposals, participation in the negotiations, and based on our industry knowledge. These issues pertained to questions we had about project viability, RPS qualification with respect to a project proposal, the value of contracting with the source relative to its contribution to the cap on above-MPR amounts for PG&E, risk allocation issues, and other matters. We also discussed specific issues that arose with a few projects during the

negotiation process as to the appropriate treatment of the bids relative to inclusion in the 2007 RFO or other processes.

In conclusion, the IE was in general agreement with the objectives and direction of the negotiation process undertaken by PG&E. In our view, the Company conducted a fair, unbiased, and consistent process. PG&E was careful to provide the same information about the negotiation process to all bidders and clearly identified the requirements for bidders to qualify for the primary and secondary short list categories. In addition, several bidders were clearly informed that they needed to “sharpen their pencils” to reach a certain price range to remain a viable shortlisted project and were informed of their choices to either remain on the shortlist or to elect to withdraw.

In addition, during the negotiation process PG&E effectively recognized that market and industry forces were presenting challenges for counterparties to maintain their proposals and schedules in the face of uncertainties and demonstrated a willingness to negotiate more flexible contract provisions without adding undue risk and cost to ratepayers.⁹ Furthermore, the flexibility afforded by PG&E was consistently and fairly provided to all bidders who sought such flexibility and could demonstrate a clear need for such relief. This served to move projects forward in the contract negotiation process toward execution of several contracts, although the “customization” involved did take a significant amount of time.

II. Was the Outreach Adequate and the Solicitation Robust?

Outreach activities are important to the success of a competitive solicitation process. PG&E’s outreach efforts targeted a large number of potential bidders and led to a very robust response in terms of number of bidders and quality of the proposals received. PG&E prepared a list of approximately 700 potential bidders with over 900 contacts (some companies had multiple contract names listed) that serves as the database for bidder contact and outreach. PG&E sent emails to all potential bidders on the list informing them of the solicitation process and the issuance of the Solicitation Protocol.

PG&E also distributed a press release to several renewable industry associations announcing the solicitation process and directing potential bidders to the Company’s website address for the solicitation. In addition, it is our understanding that PG&E employees frequently mentioned the issuance of the Solicitation Protocol during speeches or presentations at industry conferences.

PG&E also established a section of the Company website for distribution of information to prospective bidders. The website contained all the pertinent solicitation documents and a list of questions and answers related to the solicitation. The IE found the website easy to access and easy to download information.

⁹ For example, issues associated with uncertainty over the extension of the federal Production Tax Credit and Investment Tax Credit, as well as a variety of other issues emerged during the contract negotiation process.

In addition, PG&E also held a Bidders Conference for prospective bidders on April 3, 2007 and a technical session for prospective bidders to describe the requirements for completing the bid pricing forms and other forms on May 11, 2007. The IE participated in the technical session and found this session to be particularly valuable and informative for bidders. The IE has used this approach in other competitive bidding processes.

The overall result of this outreach activity was a very robust response from bidders. Proposals were received from a diverse set of bidders involving a wide variety of technologies, including wind, solar, geothermal, biomass, qualifying municipal solid waste, and ocean. Information regarding the proposals, MW and MWh bid, types of resources bid, and the type of contract offered was contained in the confidential appendix to our Shortlisting Report.

Moreover, most bidders provided complete and thorough information in their proposals which served to minimize clarification requirements or the need to seek additional information necessary for putting all bidders on an equal footing.

The regularity of RPS solicitations is conducive to robust market participation since bidders are afforded repeated opportunities to develop their projects and obtain PPAs. For example, if a bidder fails to secure a contract in a near term solicitation, the bidder knows there will definitely be other future solicitations. This should encourage bidders to continually develop their projects.

In conclusion, the outstanding response of the market to PG&E's solicitation is evidence that the outreach activities of PG&E were effective and bidders felt they had an adequate opportunity to receive a contract from the process.

III. Fairness and Appropriateness of RPS Bid Evaluation and Selection Methodology and Design

A. Framework and Principles for Evaluating PG&E's Methodology

This section of the report addresses the principles and framework underlying Merrimack Energy's review of PG&E's methodology for RPS bid evaluation and selection. Key areas of inquiry by the IE and the underlying principles used by the IE to evaluate the methodology include the following:

- Was the procurement target large enough to ensure that the utility has a reasonable chance of meeting its 20% target (taking into account contract failures)?
- Were the solicitation targets, principles and objectives clearly defined?

- Were the bid evaluation and selection process and criteria reasonably transparent such that bidders would have a reasonable indication as to how they would be evaluated and selected?
- Did the evaluation methodology reasonably identify how quantitative and qualitative measures would be considered and applied?
- Was the quantitative evaluation methodology reasonably consistent with industry standards and did it adequately account for all reasonable costs identified in the Solicitation Protocol?
- Did the evaluation methodology adequately treat all eligible resources and technologies in a technology neutral manner?
- Does the price evaluation system allow for consistent evaluation of bids of different sizes, in-service dates, and length of contract?
- Did the bid evaluation criteria and evaluation process contain any undue or unreasonable bias that might influence project selection results?
- Was the RFP clear and concise to ensure that the information required by PG&E to conduct its evaluation was provided by project sponsors?

B. Description of PG&E's Least Cost Best Fit Evaluation Methodology

This section of the report provides an overall description of PG&E's Least Cost Best Fit (LCBF) evaluation methodology and criteria. PG&E developed detailed internal protocols that describe each component of the evaluation protocols.¹⁰ There are five key evaluation criteria:

- Market valuation (i.e., price)
- Portfolio fit
- Credit
- Project viability
- RPS goals

Market valuation is designed to assess how an offer's costs compare to its benefits from a market perspective. Market value is defined as Benefits minus Costs. Benefits include the value of energy, capacity (resource adequacy), and ancillary services associated with each bid. Costs included the fixed and variable components associated with each proposal as well as transmission and integration cost adders (including costs associated with network upgrades), and debt equivalency. Market value is expressed in terms of present

¹⁰ This document is consistent in nature with similar documents prepared by other utilities we have worked with that provided detailed information with regard to the evaluation criteria and protocols.

value per MWh, all in 2007 dollars and 2007 MWh using PG&E's 7.6 percent discount rate, PG&E's weighted average cost of capital.¹¹

For forward contracts (predominant form of bids), energy benefits are determined based on the quantity of energy delivery for each hour times the forward energy price for that hour. For as-available products, the quantity of energy delivery for each hour is determined by the hourly generation profile of the offer. Annual energy benefit is discounted to units of present value per MWh (in both 2007 dollars and 2007 MWh) and summed across years.

The capacity benefit for each year of availability is determined as the quantity of qualifying capacity times the capacity value (in nominal dollars per kW-year). Annual capacity benefit is then discounted to units of present value per MWh (2007 dollars and 2007 MWh), and summed across years. For as-available products, pursuant to D.05-10-042 (section 7.7), the quantity of qualifying capacity is determined by the annual average of the hourly (noon to 6 pm only) generation profile of the offer. For offers whose location would contribute to PG&E's satisfaction of its Local Capacity Requirement as specified by CAISO and adopted by the CPUC, the capacity value attributable to the offer is to be increased to account for the locational value of the capacity.

Ancillary services benefits are assumed to be zero for offers classified as forwards.

The cost side of the equation is determined by PG&E's payments for each offer based on the bidder's price proposal, plus debt equivalence and transmission and integration cost adders. PG&E's payments for each offer are determined by the offer's pricing multiplied by the appropriate Time of Delivery (TOD) factors, as specified in the RPS Solicitation Protocol. Cost is measured in units of present value per MWh (2007 dollars and 2007 MWh). In the case of offers for a Purchase and Sale Agreement (PSA), PG&E's payments for each offer are replaced by the associated PG&E revenue requirements, fixed and variable operations and maintenance costs, and ownership costs.

Portfolio Fit in the Solicitation Protocol is described as the "fit" between a project's generation profile and PG&E's portfolio needs on an hourly, seasonal, and annual basis. Where PG&E is short generation relative to its load, an offer will provide more value than where PG&E is long generation relative to its load. Dispatchable projects are favored due to their flexibility relative to other projects.

In practice, PG&E used time of delivery and relative firmness as a proxy for "fit" relative to PG&E's portfolio needs. After discussion with the IE, the detailed evaluation criteria were modified to provide a quantified approach on time of delivery and to weigh equally the result of the time of delivery and relative firmness evaluations. Projects that provide more energy during peak periods relative to off-peak periods would score better than other projects based on the time of delivery criterion.

¹¹ In practice, PG&E's market valuation calculated present values as of January 1, 2008. The use of 2008 \$ and 2008 MWh using PG&E's discount rate does not affect the integrity or accuracy of the results.

Credit is also considered in the evaluation process, based on the Bidder's financial strength as well as the form and amount of acceptable security offered by the Bidder. The Detailed Protocol provides for scoring of credit on a sliding scale based on the extent to which the bidder provided the requested Delivery Term Security. While the Solicitation Protocol suggests that PG&E would consider the financial strength of a bidder and credit concentration, if applicable, the scoring inputs into the bid evaluations associated with shortlisting only considered the amount of Delivery Term Security offered relative to the amount of security sought in the RFO. Scoring was on a sliding scale basis.

Project viability is a fourth factor in the evaluation process. In evaluating a project's viability, PG&E considers (a) a project's state of development and likelihood of obtaining required permits and (b) technological feasibility and commercialization risk, resource risk, and participant experience. In the Detailed Protocol, scores for these two subcategories were to be weighted equally.

RPS goals and supplier diversity are the remaining evaluation factors. The Solicitation Protocol provides that PG&E would evaluate (a) the extent to which an Offer supports CPUC and Legislative RPS program benefits and goals, including water quality impacts, creation of new employment activities, and amelioration of air quality problems, and the Governor's biomass energy goals and (b) the extent to which an Offer supports PG&E's supplier diversity goals.¹²

For purposes of ranking bids and selecting a short-list based on the evaluation criteria, PG&E used a mathematical concept known as partial ordering to quantitatively determine which offers were better or inferior to others. The partial ordering concept combines quantitative factors (i.e. market valuation in \$/MWh) and qualitative or non-price factors (the qualitative factors identified above with scores of 1 to 5) to produce a categorization of the bids for purposes of determining a shortlist. The qualitative factors were evaluated by team members with expertise in the specific category. Offers were ranked from 1 to 5 with higher scores a positive indicator for the specific offer. In this process, qualitative or non-price criteria were equally weighted. PG&E used the partial ordering methodology to develop an initial shortlist based on the ranking of bids as superior, indeterminate, or inferior. Superior offers were strongly considered for inclusion on the shortlist and all were included. Indeterminate offers were further reviewed to determine which offers should be shortlisted.

PG&E's stated objective was to err on the side of selecting a robust shortlist as a hedge against bidders' failure to post the required bid deposit, their determination to focus negotiations with another utility, failure of contract negotiations and/or project failure.

Once bids were evaluated based on all the evaluation criteria in the first ranking, the full cost of delivering power to PG&E's customers, including the cost of network upgrades within the CAISO-controlled grid, were considered in a second ranking that factors in Transmission Adders.

¹² See RPS Protocol at 22-23, 38.

C. Strengths and Weaknesses of PG&E's Least Cost Best Fit Methodology

This section of the report provides an assessment of the strengths and weaknesses of PG&E's LCBF methodology.

Merrimack Energy has assisted utilities and public utility commissions in a number of states with regard to the development of methodologies to evaluate proposals and in the evaluation and selection of conventional and renewable resources. Our experience has indicated that utilities use a variety of methodologies and models to evaluate resources. We will draw upon this experience¹³ to address the following areas of PG&E's methodology in particular:

- Market Valuation Methodology
- Quantitative and Qualitative Factors
- Partial Ordering
- Forward Curve Methodology

First, the Market Valuation Methodology utilized by PG&E is methodologically consistent with other methodologies we have seen in other states and Canadian provinces. In particular, the assessment of the benefits associated with a renewable resource in comparison to the costs is a common concept for evaluating renewable resource proposals, particularly those from as-available or intermittent resources. The inclusion of additional costs such as transmission costs and debt equivalence is also consistent among such methodologies. Furthermore, the use of hourly profiles for assessing costs and benefits is typical of utility methodologies in the Pacific Northwest, where pricing at various market points is reasonably transparent. Some utilities we have worked with also include the cost of banking and shaping services in the bid evaluation process itself.¹⁴

It is also common for utilities and power buyers in other states and Canadian Provinces to include qualitative or non-price factors in the evaluation and selection process. Such factors as project viability and credit are important qualitative factors. The inclusion of factors such as consistency with RPS goals will likely depend on whether the solicitation is guided by the requirement to meet RPS targets or is part of the utility's overall resource planning process. Also, portfolio fit as a resource evaluation criterion appears to be unique when compared to other methodologies.

¹³ Merrimack Energy has served as Independent Evaluator or Independent Consultant in over 20 competitive solicitation processes. For renewable resources, Merrimack has worked in the states of Washington, Oregon, Texas, and Massachusetts and the provinces of Quebec and British Columbia.

¹⁴ Banking and shaping refers to contractual arrangements whereby energy produced from a seller's power plant is delivered to the buyer at different time periods and frequently with a different profile or shape than the actual production profile of the plant. For example, an equivalent amount of energy from an intermittent wind energy plant produced in one week could be banked and sold to the buyer in a subsequent week at a separate point of delivery in the shape of flat 7x24 hourly deliveries. It is our understanding that PG&E reflects the costs and benefits of such arrangements in the contract negotiation process where appropriate.

There are several important areas where PG&E's evaluation methodology differs from that used by other utilities. One area is the use of partial ordering for ranking of bids. This is the first solicitation where we have seen such a methodology applied in the evaluation and ranking process. While partial ordering is an intellectually sound methodology and provides a fairly rigorous and consistent methodology for ranking bids, we feel it has several shortcomings (addressed below).

A second area where PG&E's process differs from others is in the level of security required of bidders. We have found that other utilities generally require lower levels of security during the operating period and are more focused on development period security, given the importance of ensuring that projects are viable and can be effectively developed, financed and constructed as planned.

Finally, the methodology to determine the forward curve for various delivery points¹⁵ is important given the significant impact the forward curve could have on determining the costs and benefits for each proposal and the overall market value. Based on discussions with representatives from PG&E's Risk Group, it is our understanding that PG&E's forward curve methodology includes a combination of mid-office assessment of the market based on broker quotes for the early years of the assessment and extrapolation beyond a specific point. In later years of the evaluation period, the projected price of natural gas has a major influence on the forward price. We have found this approach to be consistent with the methodologies used by other utilities and it is a preferable approach to relying strictly on third-party forecasts, since actual market quotes are reflected in the development of the forward curve.

Strengths of LCBF Methodology

The LCBF methodology has a number of inherent strengths due to testing and enhancements based on several solicitation processes. First, the market valuation methodology is flexible and is capable of effectively and consistently evaluating a range of resource technologies, project structures, different bid sizes and bid terms. The comparison of the benefits and costs of resource options on a consistent 2007 cost and MWh basis and the hourly resolution used provides for a consistent evaluation of bids, whether the bid terms and sizes vary. As we noted in the Watch List, in other solicitation processes the consistency of the evaluation methodology to effectively address bids of different structures, terms and bid sizes is usually an issue to address. We do not view the methodology as having a bias toward any technology or operating characteristic. We note that the use of Time of Delivery (TOD) factors and the ratios used are favorable from the standpoint of payments to/revenues received by solar generators. However, the value of these payments is appropriately considered in the market valuation, which takes into consideration differences in values based on time of delivery. In sum, PG&E's methodology conceptually takes into appropriate consideration the time of delivery and capacity values associated with solar generation relative to other renewable technologies and is in accord with applicable CPUC rulings.

¹⁵PG&E developed forward curves for five specific delivery points accessible to its system.

Second, the qualitative categories included in the evaluation process are generally reasonable and consistent with other solicitations. While we made several comments to PG&E regarding the application of these criteria, overall the criteria are reasonable. In addition, the evaluation methodology identified in the Protocol how qualitative and quantitative measures would be considered and applied.

Third, the Proposal Project Descriptions and Pricing Forms (Attachment D) appeared to be well understood by the bidders and required little adjustment. Furthermore, the market valuation modeling process was established to directly input this information which served to minimize the time for undertaking the evaluation.

Fourth, the key inputs and assumptions (i.e. forward curves, inflation forecast, capacity value, etc.) were locked down prior to receipt of the offers which serves to minimize any potential evaluation bias.

Fifth, the quantitative and qualitative evaluation methodology adequately treated all eligible resources and technologies in a technology neutral manner with no undue biases toward any technology or resource type.

Finally, the procurement target of 1% to 2% of load (750 to 1,500 GWh per year) was large enough to ensure that PG&E will have a reasonable chance of meeting its 20% RPS target. Moreover, these targets and the company's objectives were clearly defined.

Weaknesses of LCBF Methodology

While PG&E's market valuation methodology has a number of strengths, one of the weaknesses is that it is not easily auditable. Merrimack Energy was not able to directly review the model equations easily and to track through the relationships between the various files used in the evaluation.¹⁶ However, this weakness can be overcome if the IE has additional time to review and test the model in future solicitations.

Another weakness in the LCBF methodology is the equal weighting of the qualitative factors driven by the partial ordering process. Evaluation criteria, such as viability, should be broader and more flexibly applied in the evaluation of bids. As we will note later, the fact that the Steering Committee suggested that offers be included on the shortlist because of the financial strength and experience of the bidders and presumed viability of the projects even though the associated proposals did not rank highly may be an indicator that the objectives of PG&E for selecting various options for the shortlist were not accurately reflected in the evaluation methodology.

Third, the partial ordering methodology actually leads to the development of the key ranking criteria after the bids are received. In most solicitation processes, it is typical that the criteria are locked down before bid receipt. Since, the partial ordering process selects the criteria after evaluation of the bids, bidders are not apprised as to how different criteria will be weighted which would provide information as to how best to structure

¹⁶ The model was not Excel-based but was developed in Visual Basic for Applications.

their proposals to meet utility objectives. As previously noted, there are no identified weights assigned in the partial ordering process for selection of the short-list. However, each qualitative factor has a score of 1 to 5 and, overall, we felt the scoring and ranking for each criteria were reasonable. We note that PG&E has elected not to use the partial ordering methodology for the 2008 RPS Solicitation.

Fourth, we have found that the role of “portfolio fit” has value with regard to relative firmness of the delivery of the product (e.g. baseload has more value than must take as-available) but the time of delivery aspect of portfolio fit is already accounted for in the market valuation.

Fifth, PG&E’s evaluation methodology does not prescribe a specific course of action where a bidder proposes a project commercial online date that is earlier than the online date of a required transmission project or necessary transmission upgrades. In its evaluation, PG&E did not specifically address (a) the impact of potential delays on a project’s expected commercial on line date due to the need for transmission upgrades and/or new construction or (b) the likelihood that the transmission projects would be built at all, hence raising concerns about the bid project’s viability. Specifically, PG&E did not evaluate whether the project online date would be delayed in its market valuation. With regard to its project viability assessment, PG&E only considered the status of the system interconnection studies for a project. At the time of our shortlist report, PG&E indicated that in the negotiation phase of the RFO process it will seek further clarification regarding these matters and incorporate the results of its due diligence in its negotiation strategy. Further inquiry has subsequently been made, particularly with respect to negotiations where developers have sought additional relief from contractually guaranteed milestone dates.

IV. Did PG&E Fairly Administer the Evaluation Process?

A. Principles Used to Determine Fairness of Process

In evaluating PG&E’s performance in implementing its competitive bidding process, Merrimack Energy has applied a number of principles and factors, which incorporate those suggested by the Commission’s Energy Division as well as additional principles that Merrimack Energy has used in its oversight of other competitive bidding processes. These include:

- Were bidder questions answered fairly and consistently and the answers made available to all?
- Did the bid evaluation team maintain consistent scoring and evaluation among and across projects, including different types of projects?
- Were the requirements listed in the Solicitation Protocol applied in the same manner to all proposals?

- Was there evidence of any undue bias regarding the evaluation and selection of different type of technologies, project structures, bid sizes, or contract terms that cannot be reasonably explained?
- Were the bids given equal credibility in the economic evaluation?
- Did PG&E ask for “clarifications” that provided the bidder an advantage over others?
- Did all bidders have access to the same information?
- Were all cost factors (e.g. imputed debt, transmission costs) treated in an equitable and consistent manner?
- Did PG&E consistently apply the requirements, procedures and criteria of the evaluation process as identified in the RFP documents to different bids and types of projects?
- Was the evaluation and selection process based on complete information about each proposal and a thorough investigation by PG&E’s project team?

B. Description of IE Methodology Used to Evaluate Administration of PG&E’s LCBF Process

PG&E provided the IE access to the models used in the evaluation as well as the outputs used for selection of the shortlist. The IE conducted a review and assessment of both the quantitative and qualitative aspects of the proposal evaluation and selection. With respect to the quantitative analysis, the IE:

- Reviewed the pricing formulas and methodologies proposed by each bidder and developed a general ranking of proposals based on the pricing ranges proposed. The results of the rankings generated by the IE are included in the Confidential Appendix.
- Conducted a levelized cost analysis for a large portion of the bids received.
- Conducted a comparison of the rankings of selected bids by PG&E in comparison to the rankings determined by the IE
- Reviewed the output generated by PG&E and reviewed the results of the evaluation with PG&E’s quantitative analyst.
- Reviewed PG&E’s transmission cost evaluation, including spreadsheets and backup information.

- Tested the reasonableness of the results for several cost items including debt equivalence and transmission cost adders.

For qualitative factors, the IE independently scored most of the bids evaluated by PG&E (including the great majority of high ranking bids) and raised any issues we had with regard to PG&E's non-price evaluation prior to completion of the initial short-list. The IE had several differences with PG&E's rankings and had the opportunity to raise any concerns to PG&E qualitative team. Overall, we viewed the scoring and ranking by PG&E as being reasonable and consistent.

We conclude that PG&E reasonably followed the criteria outlined in the Detailed Protocols. In addition, the evaluation was consistent and equitable across different types of bids and reflected the totality of costs and benefits identified in the Protocol.¹⁷

In addition, based on our assessment of the evaluation process relative to the above criteria, it is our opinion that all bidders were treated fairly and consistently and all had access to the same amount and quality of information. PG&E maintained a website dedicated to the solicitation and posted all documents and Questions and Answers on the website. As previously noted, the Bidders Workshop held by PG&E provided detailed information to all bidders with regard to the evaluation methodology and the requirements for bidders to provide the information requested. We also observed no difference in the treatment of bidders regarding clarification questions for bidders, correspondence and communications with bidders, and follow-up contacts.

During the evaluation, PG&E developed separate evaluation teams for quantitative and qualitative factors, ensuring that bias did not inherently exist in the evaluation process. Furthermore, PG&E generally implemented the evaluation criteria and methodologies as outlined in the Solicitation Protocol.

C. Did the IOU Fairly Identify Nonconforming Bids and Reasonably Quantify the Cost or Value of Those Deviations?

PG&E viewed as nonconforming bids that failed to offer any Project Development Security or any Delivery Term Security. Bidders that offered to provide Project Development Security and some amount of Delivery Term Security were considered to have conforming bids (if the bids were conforming in other respects). Credit scores were awarded on a sliding scale based on the percentage of the requested Delivery Term Security that the Bidder proposed to provide.

On the whole, our assessment is that PG&E reasonably identified non-conforming bids and took actions to take into consideration the impact of the non-conformities in its bid evaluation or to give bidders the opportunity to rectify the non-conformities.

¹⁷ However, the credit evaluation as outlined in the Detailed Protocol was not consistent with that summarized in the Solicitation Protocol, a matter addressed in Section II.C.vii of this report.

D. Were the Parameters and Inputs to the Evaluation Criteria Reasonably Determined? What Controls Were in Place?

The parameters and inputs for the quantitative evaluation were largely developed internally and were locked down prior to submission of the bids. For example, the forward prices, underlying volatilities and inflation forecasts were developed by the Risk Group within PG&E. All the forward curves were locked down as of May 4 and would therefore not be influenced by any offer. Other inputs such as TOD factors, transmission adders, etc. were identified in the Solicitation Protocol and were consistently applied in the evaluation. Furthermore, the quantitative methodology was consistently applied to all bidders, with the overall methodology (except for the inputs) changing only slightly from the previous solicitation.

From the qualitative perspective, all qualitative factors and the scoring and ranking criteria were clearly outlined in the Detailed Protocol. Slight revisions were made after receipt of offers to account for comments made by the IE.

The methodology utilized for calculating the PG&E transmission adder is reasonable and PG&E provided examples of utilizing both TRCR adders and alternative commercial arrangements. PG&E reasonably assigned off-system wheeling costs and the cost of large inter-regional transmission upgrades in the bid evaluation process. Wheeling costs to bring off-system power to the CAISO grid were based on the published tariffs of the pertinent transmission providers. Overall, we found the assignment of costs reasonable and in accord with the Solicitation Protocol.

E. For Work That Was Outsourced, What Information Was Communicated to the Third Party and What Controls Did PG&E Exercise Over the Quality of the Work?

PG&E obtained technical advice on an Offer for the purchase of a site from a reputable engineering consulting firm with expertise in renewable energy technologies. PG&E sought the consulting firm's professional judgment regarding the suitability of a potential geothermal site from a resource standpoint. (PG&E also discussed with the consultant the technological feasibility of a fuel cell proposal.) PG&E's personnel were ultimately responsible for the resource risk and technological feasibility aspects of the project viability evaluation. They reviewed the consultant's assessment regarding the suitability of the geothermal site and found the consultant's analysis to be reasonable, and we concurred.

F. Did the Utility Follow Its Transmission Analysis Procedures and Reasonably Include Appropriate Transmission Information

PG&E followed its transmission analysis methodology and procedures in bid evaluation, with a few exceptions that were either corrected or were not material to the evaluation.¹⁸

¹⁸ For additional information, see the IE Shortlist Report at 33-34.

G. Beyond Any Quantitative Analysis, Describe Any Areas in Which PG&E Exercised Judgment in Creating Its Short List?

There were several areas where PG&E exercised judgment in creating the shortlist. These areas include:

1. PG&E applied a preference for not including multiple bids from the same bidder on the shortlist if a bidder offered several different proposals.
2. The Company exercised judgment that a few offers were not viable, at least at this time (e.g., one offer that was dependent on the successful completion of a PG&E project).
3. PG&E included two proposals that were bid into and were shortlisted in the 2006 solicitation and agreed to be rolled over into the 2007 solicitation.
4. One bidder offered a very large amount of capacity but the bidder's Offers were not deemed viable by PG&E. Similar Offers from the same bidder were characterized as not viable in the 2006 solicitation as well after PG&E completed its due diligence review after shortlisting the Offers.
5. PG&E exercised judgment in developing the parameters for the partial ordering process, as previously discussed.
6. The Steering Committee exercised judgment in encouraging the Project Lead to include several lower ranked offers because they were deemed to be more viable and backed by strong market participants.

While the IE had some questions about the reasonableness of adding some of the projects deemed relatively more viable to the shortlist, other offers were not eliminated from the shortlist as a result. The result was a larger and more robust shortlist. In our Shortlist Report, we indicated that PG&E would need to exercise judgment in the contract negotiation process to prioritize negotiations based on a variety of factors, including pricing, a matter we address in subsequent sections of this Report. With regard to PG&E's exercise of judgment on the other matters summarized above, our view is that the exercise of judgment was reasonable.

H. Was PG&E's Evaluation of the Bids and Short Listing Decisions Fair and Reasonable?

Our assessment is that PG&E's evaluation of the bids and its decisions on short listing were fair, reasonable and consistent in approach. PG&E exhibited considerable care and diligence in the evaluation process. The great majority of its decisions regarding short listing were dictated by both the economic and non-economic evaluation based on the evaluation criteria. As described above, several additional projects were added to the short list that had lower market valuations than the other short listed projects but were

evaluated highly for project viability. In this regard, PG&E also gave due weight to suggestions from the PRG and the IE.¹⁹ While we might not have agreed with every individual judgment, PG&E sought to err on the side of inclusiveness, which we found to be reasonable at this stage of the RFO process.

V. Fairness of Contract Negotiations Process

The contract negotiation phase of the assignment has been ongoing since the August/September 2007 timeframe. During that period, Merrimack Energy has monitored PG&E's negotiation process by listening in to a number of negotiation sessions with bidders, following the email traffic between PG&E and the bidders, reviewing various drafts of the contract and participating in regularly scheduled conference calls with PG&E to discuss project status.²⁰ Internally, the two consultants involved in the project on behalf of Merrimack Energy have each followed a select list of projects and discussed their specific proposals on a regular basis to ensure consistency.

We also encouraged the Company to develop a strategy for prioritizing the negotiation process given the large number of projects on the short list. In addition, we recommended that PG&E maintain an Issues Matrix that identifies the outstanding contracts issues, the positions of both the Company and Bidder, and the status of the issue. The Issues Matrix is a valuable tool to track the status of the resolution of issues during the negotiation process.

A. Principles Identified to Evaluate Negotiations

As an initial step in this stage of the process, Merrimack Energy identified guiding principles on which to evaluate the negotiation process. These principles should be generally consistent with the principles identified for evaluating the other aspects of the solicitation process. These include:

- Were all bidders treated fairly, consistently, and equitably during the negotiation process? That is, if one bidder was allowed to include a specific provision in its contract, were all similar bidders afforded the same opportunity?
- Was the negotiation process flexible enough to adjust to changing market conditions?

¹⁹ At our recommendation, only one phase of a large multi-phased project was shortlisted and a smaller, equivalently ranked project was incorporated in the shortlist. Another project was incorporated in the shortlist at the recommendation of a PRG member.

²⁰ Initially, Merrimack Energy participated in PG&E's Steering Committee calls every two weeks. In addition, in the early phases of the negotiation process there were a number of contract negotiation sessions that dealt with a large number of issues, which led us to participate in more calls in this stage of the negotiations to ensure we were familiar with the issues. Within the past several months, we have initiated weekly calls with PG&E RFO staff and transactors for the various proposals.

- Did the negotiation process generally maintain the same or similar risk provisions as contained in the original contract in the RFO?
- Did all bidders have access to the same or similar information?
- Were the transactors consistent in their negotiations with different bidders. In sum, was the process well organized such that all transactors were on the same page regarding acceptable provisions in other contract negotiations?

B. Fairness of the Project Specific Negotiation Process

Overall, Merrimack Energy believes that PG&E conducted a fair, equitable and consistent negotiation process. The negotiation process was affected by changes and uncertainties in the industry that influenced the length of negotiations and specific contract provisions requested by bidders.²¹ However, in our view PG&E treated all bidders consistently with regard to the implications of these uncertainties. In addition, the negotiation process was transparent. PG&E clearly informed bidders of their status and suggested that some bidders would have to reduce their price to become competitive.

The overall objective of PG&E was to hold to as many of the provisions of the proforma contracts as reasonably possible. In cases where a bidder negotiated modifications to specific provisions the Company would generally allow other bidders the opportunity to entertain similar provisions in their contract only if the bidder identified the same or similar issue and demonstrated it required such a modification to remain viable. However, PG&E would not specifically identify to bidders during negotiations that it had agreed to a certain provision with another bidder. It was therefore the responsibility of the bidder to identify such contract requirements before PG&E would consider such modifications. In this way, PG&E attempted to maintain the risk allocation included in the proforma contracts unless bidders specifically identified a strong reason for revising contract provisions.

In addition, PG&E exhibited flexibility in the negotiation process designed to balance the interests and requirements of the bidders with the requirement to meet RPS objectives. In particular, PG&E clearly recognized the market uncertainties and worked with bidders to add value to the project without shifting undue risk to the consumer. In cases where PG&E exhibited flexibility to bidders in one area of the negotiation process, the Company attempted to extract concessions from bidders in another area to ensure the totality of contract revisions still led to a balanced contract structure. These specific

²¹ In our view, the length of the negotiation process was influenced primarily by the significant changes and uncertainties occurring in the energy industry, such as generalized increases in construction costs and the inability of Congress to extend the production tax credit and investment tax credit beyond 2008, as well as the size of the shortlist and therefore the number of projects subject to negotiation. On a secondary level, the turnover of PG&E transactors may have contributed somewhat to the time required to complete negotiations as new transactors had to get up to speed on contract negotiations and other transactors had to assume additional duties.

trade-offs will be discussed in the Confidential Appendix to the Advice Letters which describes specific aspects of each contract.

PG&E was sensitive to providing the same information to all bidders, particularly during the early stages of negotiations. The Company provided bidders a description of the negotiation process, the regulatory process for contract approval, the expected timing for completing and filing contracts,²² the key contract provisions, and the general position of the bidder on the short list (i.e. Primary or Secondary). In some cases, depending on the bidders' price, PG&E informed bidders that they would have to lower their price to be competitive. It is also our view that no bidder or technology was favored during this process. All bidders were generally treated the same during this process.

With regard to the role and responsibilities of the transactors, it is our view that all transactors were on the same page and conducted the negotiations consistently with company policy. For example, it was typical that all transactors were involved in weekly discussions between the IE and the Company. This ensured that all transactors were well aware of the issues and the questions of concern to the IEs. The only issue we had was the fairly significant turnover of transactors during this process, which required some additional time for the new transactors to get up to speed with the negotiation process.

While a number of issues emerged during the process, some of the key issues that were dealt with during the negotiation process that affected several projects included:

- Uncertainty over extension of the federal Production Tax Credit and Investment Tax Credit and associated contract rights.
- Extension of contractual guaranteed milestones, under specified circumstances.
- Phasing-in of some larger projects.
- Cost and availability of banking and shaping services for out-of-state projects.
- The timing and impacts associated with interconnection and transmission upgrade requirements.
- Credit/security requirements, particularly the level of operating security required

We believe that PG&E has acted reasonably in addressing these and other issues.

VI. Recommendation For Contract Approval

The contract subject to approval in this second Advice Letter represents the fourth contract resulting from the 2007 RPS solicitation.²³ A brief summary of the High Plains Ranch_PPA follows.

²² PG&E originally informed bidders that its objective was to complete the contracts by the end of 2007 and submit the contracts to the Commission at that time.

²³ The first two contracts are the PPAs for the San Joaquin Solar 1 LLC and San Joaquin Solar 2 LLC projects, which were executed in May 2008. Each contract is for a 20-year term for energy from a total of approximately 106 MW in installed capacity (53.4 MW for each contract) and annual expected generation of 700 GWh for both projects. The contracts are for solar/biofuel hybrid power from two projects located

A. Contract Summary

High Plains Ranch II LLC - SunPower

The PPA for the High Plains Ranch project was executed on July 23, 2008. The contract is for a 25-year term once full phase-in is complete. Deliveries of energy from up to 25 MW from the first phase of the Project are anticipated to begin by December 31, 2010. In the second phase, an aggregate capacity of 100 MW is expected by December 31, 2011. The third and final phase for 250 MW in aggregate is expected by December 21, 2012. The average annual deliveries from the project after full phase-in are estimated to be 550,000 MWh per year from the planned 250 MW solar photovoltaic facility in Carrizo Plains, San Luis Obispo County, California. While the price under the PPA is confidential, the price is above the applicable price of the 2007 MPR.

B. Fairness of the Negotiations Regarding the High Plains Ranch Project

The contract negotiation process followed with SunPower (i.e., the bidder) was fair and equitable and consistent with the principles identified for negotiations in the previous section of this report. PG&E afforded the bidder some flexibility in the contract structure to address bidder risk issues but was able to effectively negotiate other provisions which served to maintain a reasonable balance in contract risk allocation. Furthermore, the flexibility provisions negotiated with the bidder were consistent with the Company's contract negotiation strategy overall.

C. Does the High Plains Ranch PPA Warrant Commission Approval?

An in-depth description of the contracts and specific issues associated with the contract negotiation process is provided in the Confidential Appendix A to this Report. Merrimack Energy concludes that the proposed PPA would contribute significantly toward PG&E's meeting its RPS obligations and that the PPA represents a reasonable product of the competitive bidding and negotiation process. We therefore recommend that the contract merits CPUC approval. We believe the contract provides a reasonably competitive price and proven solar technology from a company with a strong track record in this industry segment. The project sponsor has modified its proposal since the initial bid to make it more attractive to PG&E and has significant control over the direct costs for the project since the sponsor will also manufacture the main components for the project. While the proposed project is substantially larger than any that SunPower has previously built which may impose stress on SunPower's capability to perform, the contractual phasing provisions and other contractual terms and conditions mitigate this risk.

near Coalinga, California, with scheduled on-line dates of June 30, 2011. The third contract is with Topaz Solar Farms LLC, a subsidiary of OptiSolar Inc., for the purchase of an average of 1,096 gigawatt hours (GWh) per year from a planned new 550 MW solar photovoltaic facility in Carrizo Plain, San Luis Obispo County, California

VII. Conclusions and Recommendations

For the reasons stated herein, Merrimack Energy concludes that the shortlisting decisions by PG&E in the 2007 RPS RFO were reasonable and based on the requirements and evaluation criteria set forth in the Solicitation Protocol. The selection of the shortlist was very inclusive and erred on the side of including more offers in what was a very ample shortlist relative to the procurement target. In the Shortlist Report, Merrimack Energy recommended a number of changes to the RPS procurement process, several of which were adopted by PG&E in the 2008 RPS RFO. Despite recommending certain changes, our assessment is that the PG&E evaluation methodology was appropriate and that it was administered fairly and reasonably.

Consistent with suggestions we had made in and after the Shortlist Report, PG&E developed a negotiation prioritization strategy with shortlisted bidders that created an active group of negotiations based on price and viability factors. The Primary and Secondary tier groups were not static throughout the negotiation process, with some projects moving between groups based on their price or development status. Due to changes suggested by SunPower following being shortlisted by PG&E, the High Plains Ranch project became a focus of the negotiation process based on price and viability.

The PPA submitted for the High Plains Ranch Project that PG&E has submitted for Commission approval with its third Advice Letter was negotiated fairly and reasonably. The Company exhibited a reasonable level of flexibility in the negotiation process but with a proper balance regarding risk allocation consistent with the Company's overall negotiation strategy. The Company also conducted reasonable due diligence regarding the ability of the project sponsor to manufacture the necessary equipment and to be able to interconnect the Project to the transmission grid through the CAISO interconnection process in time to meet the proposed in service dates. Merrimack Energy believes the PPA merits Commission approval.

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

Aglet	Department of the Army	Northern California Power Association
Agnews Developmental Center	Dept of General Services	Occidental Energy Marketing, Inc.
Alcantar & Kahl	Division of Business Advisory Services	OnGrid Solar
Ancillary Services Coalition	Douglas & Liddell	PITCO
Anderson & Poole	Douglass & Liddell	PPL EnergyPlus, LLC
Arizona Public Service Company	Downey & Brand	Pinnacle CNG Company
BART	Duke Energy	Praxair
BP Energy Company	Duncan, Virgil E.	R. W. Beck & Associates
Barkovich & Yap, Inc.	Dutcher, John	RCS, Inc.
Bartle Wells Associates	Ellison Schneider & Harris LLP	RMC Lonestar
Blue Ridge Gas	Energy Management Services, LLC	Recon Research
Braun & Associates	FPL Energy Project Management, Inc.	SCD Energy Solutions
C & H Sugar Co.	Foster Farms	SCE
CA Bldg Industry Association	Foster, Wheeler, Martinez	SESCO
CAISO	Franciscan Mobilehome	SMUD
CLECA Law Office	G. A. Krause & Assoc.	SPURR
CSC Energy Services	GLJ Publications	Santa Fe Jets
California Cotton Ginners & Growers Assn	Goodin, MacBride, Squeri, Schlotz & Ritchie	Seattle City Light
California Energy Commission	Green Power Institute	Sempra Utilities
California League of Food Processors	Hanna & Morton	Sequoia Union HS Dist
California Public Utilities Commission	Heeg, Peggy A.	Sierra Pacific Power Company
California Water Company	Hitachi	Silicon Valley Power
Calpine	Hogan Manufacturing, Inc.	Smurfit Stone Container Corp
Cameron McKenna	Imperial Irrigation District	Southern California Edison Company
Cardinal Cogen	Innercite	St. Paul Assoc.
Casner, Steve	International Power Technology	Sunshine Design
Cerox	Intestate Gas Services, Inc.	Sutherland, Asbill & Brennan
Chamberlain, Eric	J. R. Wood, Inc.	TFS Energy
Chevron Company	JTM, Inc.	Tabors Caramanis & Associates
Chris, King	Los Angeles Dept of Water & Power	Tecogen, Inc.
City of Glendale	Luce, Forward, Hamilton & Scripps LLP	TransCanada
City of Palo Alto	MBMC, Inc.	Turlock Irrigation District
City of San Jose	MRW & Associates	U S Borax, Inc.
Clean Energy Fuels	Manatt Phelps Phillips	United Cogen
Coast Economic Consulting	Matthew V. Brady & Associates	Utility Cost Management
Commerce Energy	McKenzie & Associates	Utility Resource Network
Commercial Energy	Meek, Daniel W.	Utility Specialists
Constellation	Merced Irrigation District	Vandenberg Air Force
Constellation New Energy	Mirant	Verizon
Consumer Federation of California	Modesto Irrigation District	Wellhead Electric Company
Crossborder Energy	Morgan Stanley	Western Manufactured Housing Communities Association (WMA)
Davis Wright Tremaine LLP	Morrison & Foerster	White & Case
Day Carter Murphy	New United Motor Mfg., Inc.	eMeter Corporation
Defense Energy Support Center	Norris & Wong Associates	
Department of Water Resources	North Coast SolarResources	