

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



February 5, 2009

**Advice Letter 3389-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: Natural Gas Storage Services Contract for PG&E  
Electric Fuels**

Dear Mr. Cherry:

Advice Letter 3389-E is effective January 30, 2009.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director  
Energy Division

December 30, 2008

**Advice 3389-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Natural Gas Storage Services Contract for PG&E Electric Fuels**

Pacific Gas and Electric Company (PG&E) hereby submits this advice letter to request the California Public Utilities Commission (Commission or CPUC) to approve an executed gas storage contract between PG&E and Wild Goose Storage, LLC (the "Executed Contract").<sup>1</sup> The Executed Contract has a tenor of three years and will provide reliability and operational benefits to the Electric Fuels Department's gas supply portfolio, which serves PG&E-owned and utility managed electric generation resources. This advice letter is submitted in compliance with the procedures set forth in Decision (D.) 07-12-052 (the "2006 Long Term Procurement Plan (LTPP) decision").

**Background**

PG&E's existing arrangements for natural gas storage services serving its Electric Fuels function are currently small and cannot meet the need resulting from future generating resources being added to the PG&E portfolio, including Gateway Generating Station in 2009 and Colusa Generating Station in 2010 (projected).

In support of an open and transparent competitive solicitation process, PG&E's Electric Fuels Department issued a Request for Offers (RFO) solicitation for natural gas storage services on November 19, 2008 to all northern California storage providers, both existing and proposed, for the following services, capabilities and terms:

| Function   | Term                                  | Firm Capacity     |
|------------|---------------------------------------|-------------------|
| Inventory  | April 1, 2010, through March 31, 2013 | 6,080,000 MMBtu   |
| Injection  | April 1, 2010, through March 31, 2013 | 100,000 MMBtu/day |
| Withdrawal | April 1, 2010, through March 31, 2013 | 100,000 MMBtu/day |

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<sup>1</sup> A copy of the Executed Contract has been provided to the Energy Division as "Confidential Attachment H" to this advice letter.

This RFO was conducted under guidelines established by the CPUC in the LTPP decision. The RFO solicitation was reviewed by the CPUC's Energy Division, PG&E's Procurement Review Group (PRG), and an Independent Evaluator (IE). On December 5, 2008, PG&E received a total of 13 conforming and non-conforming offers from five storage providers. PG&E requests approval of the Executed Contract through the normal advice letter process. Specifically, PG&E submits this advice letter as a Tier 2 filing and requests Energy Division approval 30 days from receipt of the submission (on January 30, 2009).

### **Regulatory Authority**

Decision 07-12-052 authorizes PG&E to enter into a contract for natural gas storage service with tenor up to five years upon consultation with its PRG. Prior to the Commission issuing the LTPP decision, D.02-10-062<sup>2</sup> and D.03-12-062<sup>3</sup> authorized PG&E to procure physical products like gas storage capacity for utility-owned generation and tolling agreements.

In D.07-12-052, the Commission adopted PG&E's 2006 LTPP with modifications, which covers the period from 2007 to 2016, and required PG&E to file a conformed copy of the 2006 LTPP (the "Conformed 2006 LTPP") within ninety days of issuance of the decision. The Conformed 2006 LTPP "supersedes all previously approved plans" and includes the 2006 LTPP filing originally made by PG&E, with modifications indicated in D.07-12-052, and all advice letter amendments made since the 2006 LTPP was filed.<sup>4</sup> On June 26, 2008, the Commission issued Resolution E-4177, approving the Conformed 2006 LTPP. PG&E's 2006 Conformed LTPP identifies gas storage as an approved product for PG&E to purchase and an RFO as an approved process for obtaining this product.<sup>5</sup>

PG&E has followed the LTPP guidelines for procurement transactions of this nature and tenor. PG&E has kept its PRG and the Energy Division apprised of every aspect of the RFO, including sharing the need for the services, the RFO concept, draft solicitation documents, evaluation criteria, and the evaluation summary. PG&E further engaged an IE to review the solicitation process and offers received. PRG members have raised no concerns regarding the Executed

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<sup>2</sup> D.02-10-062 set forth the regulatory framework under which California's investor-owned utilities ("IOUs") would resume full procurement responsibility on January 1, 2003.

<sup>3</sup> D.03-12-062 authorized IOUs to conduct procurement using negotiated bilateral agreements for transactions of up to three calendar months, or one quarter, forward; and that utilities will consult with their PRGs for transactions with delivery periods of greater than three calendar months, or one quarter. See D.03-12-062 at 37-38 (emphasis added) (clarified in D.04-12-048, Finding of Fact ("FOF") 73).

<sup>4</sup> D.07-12-052 at 193-194, Conclusions of Law ("COL") 1, OP 1-2.

<sup>5</sup> See 2006 Conformed LTPP, Sheet 13, Item #6 (identifying gas storage as an approved product) and Sheet No. 19, Item #1 (identifying RFO as an approved procurement method).

Contract or the November 19, 2008 solicitation and the IE concurs with PG&E's recommendation.

### **PRG Participation and Feedback**

On September 19, 2008 and November 17, 2008, PG&E provided the PRG with detailed, market sensitive information, which included the Electric Fuels Departments' need for gas storage services, the RFO solicitation proposed, and the evaluation and selection criteria of offers received.<sup>6</sup> On November 13, 2008, PG&E also provided the PRG with a draft of the solicitation documents to review. The final version of the solicitation documents is included as Attachment B to this advice letter. On November 20, 2008, PG&E responded to PRG requests for additional background information by providing historical and forecasted Electric Fuels gas burn statistics. This presentation has been provided to the Energy Division as "Confidential Attachment F" to this advice letter. Finally, on December 16, 2008, PG&E provided the PRG with a copy of the evaluation summary from the RFO, which has also been provided to the Energy Division as "Confidential Attachment G."

### **Independent Evaluator**

Ordering Paragraph 9 of D.07-12-052, as modified by D.08-11-008,<sup>7</sup> requires the IOUs to "continue using an Independent Evaluator (IE), subject to the modifications and revisions adopted in this decision to the process initiated in D.04-12-048. IEs are to be used for all long-term solicitations that involve affiliate transactions or utility-turnkey bids and for all competitive RFOs seeking products two years or more in duration regardless of the bidders."

PG&E retained Lewis Hashimoto of Arroyo Seco Consulting as the IE. Arroyo Seco's final report, which is included as Attachment A to this advice letter, concurs with PG&E's recommendation that the Commission should approve the Executed Contract.

The IE believes that the Executed Contract merits CPUC approval for several reasons, including:

- Wild Goose offered pricing terms that, based on PG&E's detailed economic evaluation, provide the highest benefit-cost ratio of any offer received.
- PG&E's economic evaluation is consistent with Arroyo's independent analysis. The latter indicates that as a stand-alone storage component

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<sup>6</sup> Ordering Paragraph ("OP") 15 of D.04-12-048 requires the IOUs to consult with the PRG for all transactions greater than three calendar months. See also D.07-12-052, COL 24.

<sup>7</sup> D.07-12-052, OP 9; D.08-11-008, OP 2.

operating with currently expected market conditions, Wild Goose's Offer would provide better net value to ratepayers than the other Offers received.

- Wild Goose's offer meets the entire requested volume of storage from one counterparty, avoiding the increased complexity of operations that would be needed to manage multiple storage contracts.
- The Wild Goose facility already exists and is directly connected to the PG&E gas transmission system; there are few or no risks of failure to achieve commercial operation by 2010 as there might be with proposed projects that have not yet been fully permitted, financed, and constructed.
- The Wild Goose offer meets the physical need that PG&E outlined with its PRG and requested in this solicitation.
- The Wild Goose offer conforms to PG&E's stated requirements for contract term, matching well its currently forecasted need for storage.

### **Compliance Items**

Accompanying this advice letter, PG&E encloses the following supporting documentation:

- Attachment A – Independent Evaluator Report;
- Attachment B – Solicitation Documents (Request for Offers to Provide Long Term Natural Gas Storage Services for PG&E's Electric Fuels Department); and,
- Confidential Attachments C through H (submitted to the Energy Division):
  - Attachment C – Appendix to the Independent Evaluator Report;
  - Attachment D – Presentation to the PRG on September 19, 2008 describing storage need, product solicited, and plans for RFO;
  - Attachment E – Presentation to the PRG on November 17, 2008 describing RFO evaluation criteria;
  - Attachment F – Presentation provided to the PRG on November 20, 2008 describing historical and forecasted gas burns;
  - Attachment G – Evaluation summary of each offer received in the RFO, provided via email to the PRG on December 16, 2008; and,
  - Attachment H – A copy of the Executed Contract for storage services.

**Protests**

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically any of which must be received no later than **January 20, 2009**, which is twenty-one (**21**) **days** from the date of this filing.<sup>8</sup> Protests should be mailed to:

CPUC Energy Division  
Tariff Files, Room 4005  
DMS Branch  
505 Van Ness Avenue  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: [jjn@cpuc.ca.gov](mailto:jjn@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, 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:

Brian K. Cherry  
Vice President, Regulatory Relations  
Pacific Gas and Electric Company  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177  
Facsimile: (415) 973-7226  
E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)

**Effective Date**

PG&E requests Commission approval of this advice letter effective **January 30, 2009**, which is 30 days following the date of this submission. PG&E submits this request as a Tier 2 advice letter.

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<sup>8</sup> PG&E requests to extend the protest period by one additional day because twenty days following the submission date of this advice letter is January 19, 2009, a state holiday in observance of Martin Luther King's birthday.

**Notice**

In accordance with General Order 96-B, Section IV, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list. Address changes should be directed to Rose de la Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

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

A handwritten signature in black ink, appearing to read "Bruce K. Anglin". The signature is written in a cursive, somewhat stylized font.

Vice President, Regulatory Relations

cc: PG&E's Procurement Review Group

Attachments A and B  
Related Confidential Attachments C through H

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY

### ENERGY UTILITY

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

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

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: David Poster

Phone #: (415) 973- 1082

E-mail: dxpu@pge.com

#### EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 3389-E

Tier: 2

Subject of AL: Gas Storage Services Contract for PG&E Electric Fuels

Keywords (choose from CPUC listing): Gas Storage

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution: D.07-12-052

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

Resolution Required?  Yes  No

Requested effective date: 01-30-09

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:

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

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

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

[mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov) and [jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov)

Utility Info (including e-mail)

Attn: Brian K. Cherry

Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)

**PACIFIC GAS AND ELECTRIC COMPANY  
DECLARATION OF MICHAEL S. KOWALEWSKI IN SUPPORT OF  
THE CONFIDENTIAL TREATMENT OF MARKET-SENSITIVE INFORMATION  
APPEARING IN ADVICE 3389-E, ATTACHMENTS C THROUGH H**

I, Michael S. Kowalewski, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 1992. My current title is Senior Gas Trader. In this position, my responsibilities include planning and procuring gas supply in support of PG&E's electric generation needs. In carrying out these responsibilities, I have acquired knowledge of gas supplies and markets.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued in Rulemaking 05-06-040 on August 22, 2006, I make this declaration seeking confidential treatment for certain data and information related to PG&E's Advice 3389-E, Attachments C through H, which has been submitted to the Energy Division on December 30, 2008.

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

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on December 30, 2008, at San Francisco, California.

/s/

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MICHAEL S. KOWALEWSKI

**PACIFIC GAS AND ELECTRIC COMPANY**  
**Document: ADVICE 3389-E, CONFIDENTIAL ATTACHMENTS C THROUGH H**  
**IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066**  
 Date: December 30, 2008

| Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (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                         |
|-----------|---|--|---|---|---|---|--|
| 1         | Attachment C  | Item VIII - Competitive Solicitation (Bidding) Information--Electric, Section A (Bid Information) and Section B (Specific quantitative analysis involved in scoring and evaluation of participating bids)                              | Y   | Y   | Y   | Information includes participating bids, counter-party names, prices and quantities offered, leveled and/or escalated bid prices, portfolio fit, etc.   | 3                                      |
| 2         | Attachment D  | Item VIII - Competitive Solicitation (Bidding) Information--Electric, Section B (Specific quantitative analysis involved in scoring and evaluation of participating bids) and Public Utilities Code 583 and General Order 66-C         | Y   | Y   | Y   | Confidential PRG presentation includes bid evaluation criteria, forecast gas burns and current, confidential contract information.  | 3                                      |
| 3         | Attachment E  | Item VIII - Competitive Solicitation (Bidding) Information--Electric, Section B (Specific quantitative analysis involved in scoring and evaluation of participating bids) and Public Utilities Code 583 and General Order 66-C         | Y   | Y   | Y   | Confidential PRG presentation shares bid evaluation criteria and includes specific quantitative analysis involved in scoring and evaluation of participating bids.  | 3                                      |
| 4         | Attachment F  | Item I - Natural Gas Information, Section A.3 (Utility gas demand forecasts - consumption) and Section B.2 (Utility recorded gas procurement and cost information)   | Y   | Y   | Y   | Confidential PRG presentation includes (1) forecasts of natural gas used in IOU generators and/or purchased by IOUs and delivered to other generators with contracts with IOUs to deliver power and (2) historical data covers actual quantity of procured natural gas. | 3 year (forecast), 1 year (historical) |
| 5         | Attachment G  | Item VIII - Competitive Solicitation (Bidding) Information--Electric, Section A (Bid Information) and Section B (Specific quantitative analysis involved in scoring and evaluation of participating bids)                              | Y   | Y   | Y   | Information includes participating bids, counter-party names, prices and quantities offered, leveled and/or escalated bid prices, portfolio fit, etc.   | 3                                      |
| 6         | Attachment H  | Item VII - Bilateral Contract Terms and Conditions - Electric, Section B (Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)) and Public Utilities Code sections 454.5(g) and 583 | Y   | Y   | Y   | Specific contract between the IOU and counterparty. Contract information includes the capacity, timing and pricing terms of the contract.   | 3                                      |

**Attachment A to Advice 3389-E**

**Independent Evaluator Report  
Prepared by Arroyo Seco Consulting**

ARROYO SECO CONSULTING

PACIFIC GAS AND  
ELECTRIC COMPANY  
2008 LONG-TERM  
NATURAL GAS  
STORAGE SERVICES  
SOLICITATION

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REPORT OF THE INDEPENDENT  
EVALUATOR ON THE OFFER EVALUATION  
AND SELECTION PROCESS

DECEMBER 28, 2008

# TABLE OF CONTENTS

|   |    |
|---|----|
| EXECUTIVE SUMMARY.....  | 3  |
| 1. ROLE OF THE INDEPENDENT EVALUATOR.....                                       | 4  |
| 2. ADEQUACY OF OUTREACH TO PARTICIPANTS AND ROBUSTNESS OF THE SOLICITATION..... | 8  |
| 3. FAIRNESS OF OFFER EVALUATION AND SELECTION METHODOLOGY.....                  | 11 |
| 4. MERIT FOR CPUC APPROVAL.....   | 17 |

# EXECUTIVE SUMMARY

This report provides a review of the process by which the Pacific Gas and Electric Company (PG&E) undertook a competitive solicitation to procure long-term natural gas storage services in 2008 for the purpose of supporting utility-owned and utility-managed electric generation. An independent evaluator, Arroyo Seco Consulting, conducted a range of oversight activities to review, test, and check PG&E's processes as the utility conducted outreach to northern California natural gas storage operators and developers, solicited offers, evaluated offers, and administered its methodology to select a winning participant with which to enter a contract.

The high-level finding of this independent review is that PG&E conducted a fair evaluation of offers received in its 2008 competitive solicitation for natural gas storage services, and used a fair and reasonable process to select a single winning counterparty. The methodology employed and the inputs to the methodology were appropriately designed and selected. All conforming and non-conforming Offers were evaluated consistently; and participants in the solicitation had equal access to information from the utility. The methodology for evaluation was administered fairly. To the extent issues arose during the evaluation and selection process, they were resolved without preferential treatment to a participant at the expense of others. Some minor specific recommendations for possible improvement in future gas storage solicitations were identified.

The report details the basis for these findings, including

- The role of the Independent Evaluator (IE)
- The adequacy of PG&E's outreach to participants and the robustness of the solicitation
- The fairness of PG&E's bid evaluation and selection process, and its strengths and weaknesses
- The fairness of project-specific negotiations
- Safeguards applied to the evaluation of utility-owned proposals
- Merit of the winning offer for approval by the California Public Utilities Commission (CPUC)

# 1. ROLE OF THE INDEPENDENT EVALUATOR

Pacific Gas and Electric Company issued a Request for Offer (RFO) on November 19, 2008, a solicitation for natural gas storage services in support of PG&E's Electric Fuels Department. The Electric Fuels Department procures and manages natural gas as fuel for utility-owned electric generation and for tolling agreements (in which the utility procures and manages fuel for, and takes delivery of power from generating facilities owned by others).

While there is no specific CPUC policy, mandate, or order that compels the use of an Independent Evaluator for oversight in competitive solicitations of natural gas storage services, PG&E chose to engage Arroyo Seco Consulting in this situation. It was clear that a possibility existed for another PG&E business unit to participate as a competitor in the solicitation, offering utility-owned storage assets to compete directly with independent storage providers, which could potentially create the appearance of a conflict of interest. PG&E chose to engage an IE in order to ensure that the evaluation and selection methodology used in the 2008 Storage Services RFO (SSRFO) and the implementation of that methodology would be free from unfair bias in favor of, or preferential treatment of, that utility-owned entity.

The CPUC has previously mandated a requirement for an independent, third-party evaluator to participate in competitive solicitations for utility power procurement, since 2004. The role of an IE in those solicitations is to serve as a safeguard in the process of evaluating investor-owned utility (IOU) built or IOU-affiliate projects competing against independent suppliers. The IE role provides a safeguard to protect consumers from anti-competitive conduct between IOUs and their affiliates or directly IOU-owned businesses.

This chapter elaborates on the procedural basis for an Independent Evaluator's (IE) participation in the 2008 SSRFO, describes the role of the IE, details oversight activities performed by the IE in this solicitation, and identifies the treatment of confidential information.

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## A. CPUC MANDATES FOR INDEPENDENT EVALUATOR PARTICIPATION

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The CPUC first mandated a requirement for an independent, third-party evaluator to participate in competitive solicitations for utility power procurement in its Decision 04-12-048 on December 16, 2004 (Findings of Fact 94-95, Ordering Paragraph 28). In that Decision, which addressed the approval of three utilities' long-term procurement plans, the CPUC required the use of such an IE when participants in a competitive procurement solicitation include affiliates of investor-owned utilities (IOUs), IOU-built projects, or IOU-turnkey projects. The Decision envisaged that establishing a role for an IE would serve as a

safeguard in the process of evaluating IOU-built or IOU-affiliate projects competing against Power Purchase Agreements (PPAs), a safeguard to protect consumers from any anti-competitive conduct between utilities and their corporate affiliates or from anti-competitive conduct by utilities developing their own generation. The 2008 SSRFO appears to be the first occasion in which an IE has been engaged by PG&E to serve as a safeguard in a competitive solicitation for natural gas storage services.

As part of its proceeding on the IOU's procurement policies, the CPUC issued Decision 07-12-052 approving the California IOUs' long-term procurement plans on December 20, 2007. In that order the Energy Division (ED) was directed to prepare templates for IEs to use when preparing reports following the review used on a utility RFO. Subsequently, Administrative Law Judge Carol Brown issued these templates prepared by the ED, including a short-form template appropriate for use for transactions that do not require submission of an application for CPUC approval, including transactions that are submitted to the CPUC for approval advice letter.<sup>1</sup> The short-form template calls for the IE report to address issues including

- What was the role of the IE throughout the solicitation?
- How did the IOU conduct outreach to potential bidders, was the solicitation adequately robust to promote competition?
- Was the IOU's process for offer evaluation and selection designed and administered fairly?
- What were the strengths and weaknesses of the evaluation and selection process?
- What safeguards and methodologies were employed when comparing the offers of utility-owned entities to those of independent entities?
- Were project-specific negotiations, if any, conducted fairly?
- Does the contract merit CPUC approval?

The structure of this report, setting out detailed findings for each of these key questions, is organized around the short-form template provided by the ED.

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## **B. IE OVERSIGHT ACTIVITIES**

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To fulfill the role of evaluating and providing oversight to PG&E's 2008 SSRFO procurement process, several tasks were undertaken, both prior to Offer Opening and subsequently.

Prior to Offer Opening, the IE performed several tasks to evaluate PG&E's methodology for evaluating Offers:

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<sup>1</sup> California Public Utilities Commission, "Administrative Law Judge's Ruling Issuing Templates for Independent Evaluator Reports and Contract Approval Requests," May 8, 2008

- Reviewed the SSRFO Solicitation Document in draft and final form and provided comments to the SSRFO Project Lead
- Reviewed the SSRFO Participants' Workshop presentation materials used in this pre-bid workshop on October 31, 2008, in draft and final form
- Participated in the SSRFO Participants' Workshop telephonically, and reviewed the website-posted question-and-answer transcript from that workshop and from subsequent communications between Participants and PG&E
- Reviewed PG&E's SSRFO contact list
- Interviewed members of PG&E's evaluation committee and middle office staff regarding the process, data inputs, background industry and utility information, quantitative models, and other considerations taken into account in evaluating Offers against non-quantitative criteria and in performing a market valuation of Offers
- Reviewed documentation for the valuation model
- Reviewed phone logs and instant messaging records of contacts between individual Participants and the PG&E evaluation team, to identify what information was communicated that might need to be shared with all Participants
- Reviewed in detail various data inputs for PG&E's market valuation methodology, including:
  - Natural gas market assumptions, which were "locked down" prior to Offer Opening
  - Discount rate and its underlying assumptions
- Participated in discussions with PG&E staff regarding the physical deliverability of natural gas to the PG&E Citygate
- Attended (telephonically) meetings of PG&E's Procurement Review Group (PRG), including a presentation on the plan for the SSRFO and the ensuing discussion about that plan among PRG members.

During the time period between Offer Opening and PG&E's selection of a winning Offer, Arroyo's activities included:

- Participating in opening the Offers. The IE was present during the opening of each Offer. The IE took a copy of each Offer package
- Reading the Offers in detail

- Participating in PG&E team discussions about how to handle non-conforming Offers
- Conducting a high-level, independent analysis of the comparative net value of the Offers, using simplified assumptions about how the storage services are used, as a point of comparison with the PG&E market valuation
- Reviewing the detailed inputs and outputs of the model used to evaluate the benefit/cost ratio for each Offer and variation
- Participating in discussions of PG&E’s evaluation committee for the RFO. This included discussion of what scores were assigned to each Offer for the various criteria other than benefit-cost ratio, and why. Participating in the discussions provided an opportunity to test the objectivity, fairness, and reasonableness of how the PG&E assessed Offers on these criteria
- Reviewing PG&E’s scoring of each Offer for the criteria other than benefit-cost ratio, testing for consistency and fairness in the treatment of projects.

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### C. TREATMENT OF CONFIDENTIAL INFORMATION

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An appendix attached to this report provides additional detailed information regarding PG&E’s 2008 SSRFO, information that is treated as confidential.

The CPUC’s Decision 06-06-066, issued on June 29, 2006, detailed specific guidelines for the treating IOU information as confidential vs. non-confidential, including competitive solicitations or RFOs. For example, the Decision provides for confidential treatment of “utility gas price forecasts” and “long-term fuel (gas) buying and hedging plans”.<sup>2</sup>

The attached confidential appendix includes a more detailed discussion of the specific methodology and input parameters used to determine the estimated benefit/cost ratio of the various Offers. It also includes a summary of the Offers.

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<sup>2</sup> California Public Utilities Commission, Decision No. 06-06-066, “Interim Opinion Implementing Senate Bill No. 1488, Relating to Confidentiality of Electric Procurement Data Submitted to the Commission”, filed June 30, 2005, Appendix 1.

## 2. ADEQUACY OF OUTREACH TO PARTICIPANTS AND ROBUSTNESS OF THE SOLICITATION

This section discusses an assessment of the degree to which PG&E adequately conducted outreach activities to solicit sufficient participation in the SSRFO project, and the degree to which the solicitation may be judged robust enough to be competitive.

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### A. PRINCIPLES TO ASSESS ADEQUACY OF OUTREACH

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Here are some considerations used to evaluate whether PG&E performed successfully in reaching out to the community of natural gas storage operators and developers:

- How many individuals were contacted?
- Were both existing storage field operators and developers of new gas storage facilities involved?
- How widely was information about the solicitation disseminated?
- Was information about the solicitation readily available to the public?
- To what extent did Participants appear well-informed about the details of the solicitation?

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### B. PRINCIPLES TO ASSESS ROBUSTNESS OF THE SOLICITATION

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Here are some considerations used to evaluate whether PG&E performed successfully in conducting a robust solicitation:

- Did the response to the solicitation include most of the universe of existing and potential new gas storage operators?
- Was the distribution of responses tilted towards projects that were assessed as generally viable, or was there an excess of less viable offers?
- Were RFO requirements designed in a manner to discourage participation by entities with less viable or as-yet-unbuilt projects? Did such entities participate?

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### C. ADEQUACY OF OUTREACH

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The current universe of existing and potential providers of natural gas storage services in California is fairly limited. Three providers operate existing facilities in northern California:

- PG&E's California Gas Transmission (CGT) business unit
- Wild Goose Storage, LLC, a subsidiary of Niska Gas Storage
- Lodi Gas Storage, LLC, a subsidiary of Buckeye Partners, L.P.

Additionally, there are three projects in development that have announced plans to permit, construct, and operate new storage facilities in northern California in the near future:

- Sacramento Natural Gas Storage, LLC
- Gill Ranch Storage, LLC, a subsidiary of Northwest Natural Gas Co.<sup>3</sup>
- Central Valley Gas Storage, LLC, a subsidiary of Nicor, Inc.

While there are storage facilities in southern California, a requirement of the solicitation was for the delivery point to be the Seller's receipt pool at the PG&E Citygate. PG&E customers would be less likely to benefit from storage withdrawals for use in northern California generating stations from a southern California facility in the event of system stress. The same issue applies to non-California storage operators.

All six of the operators of existing and potential natural gas storage facilities in northern California were directly contacted prior to issuance of the SSRFO. Representatives of all six entities were invited to participate in the pre-bid conference; five were able to participate, and PG&E communicated the information from the conference to the sixth in a follow-up discussion. The SSRFO solicitation document was posted on PG&E's public website on November 19, 2008.

Based on these observations, the outreach conducted by PG&E was entirely adequate.

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### D. ROBUSTNESS OF SOLICITATION

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In the actual Offer submittals, five of the six northern California existing or proposed storage operators responded to the RFO with submittals; the sixth chose not to. While this is not a very large universe of participants, the majority of entities capable of serving Electric Fuel Department's need for storage services did compete for the award. Also, the fact that

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<sup>3</sup> Note that PG&E and Gill Ranch Storage, LLC entered into a Joint Project Agreement to develop the Gill Ranch project, of which PG&E owns 25%. However, Gill Ranch Storage, LLC is not an affiliate of PG&E in the sense of the CPUC's Affiliate Transaction Rules, and the two entities have stated their intent to market their shares of the storage capacity separately.

several of the offers were close in pricing suggests that the solicitation was robust and competitive.

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**E. SOLICITING FEEDBACK FROM PARTICIPANTS**

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After arriving at a selection of the winning Offer using the evaluation methodology, PG&E contacted each of the Participants on December 5 to communicate the outcome of the competition. In that telephonic contact each Participant was provided an opportunity to engage in a discussion of the outcome, if desired.

### 3. FAIRNESS OF OFFER EVALUATION AND SELECTION METHODOLOGY

The key finding of this chapter is that, based on detailed IE review activities and findings to date, PG&E's evaluation and selection methodology for identifying the winning Offer with the best value for ratepayers in the 2008 SSRFO was designed and administered fairly.

The following discussion identifies principles for evaluating the methodology, describes the methodology, evaluates the strengths and weaknesses of the chosen methodology, and identifies some possible improvements that could be addressed in future solicitations.

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#### A. PRINCIPLES FOR EVALUATING THE METHODOLOGY

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A set of principles was applied for the purpose of evaluating the fairness of the offer evaluation and selection methodology.

- The IOU offer evaluation should only be based on those criteria requested in the response form. There should be no consideration of any information that might indicate whether the bidder is an affiliate or a utility-owned business unit.
- The methodology should identify how quantitative measures will be considered and be consistent with an overall metric.
- The methodology does not have to be the one that the IE would independently have selected but it needs to be 'reasonable'.
- The methodology should identify how qualitative measures (e.g. those other than market valuation) will be considered.
- The valuation methodology should be reasonably consistent with industry practices.

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#### B. PG&E'S METHODOLOGY

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PG&E's offer evaluation criteria and the process for its 2008 SSRFO are summarized in Section II.M of PG&E's 2008 SSRFO solicitation document. The criteria included

- Benefit/cost ratio
- Portfolio fit

- Project viability

Credit and collateral considerations were not a component of the selection process, though the winning Participant would possibly be subject to collateral requirements subject to CPUC Decision 08-07-009.

### MARKET VALUATION

PG&E assessed valuation of the storage services Offers using a benefit/cost ratio as the evaluation criterion. The benefit to ratepayers was estimated using a natural gas forward market price simulation, detailed in the confidential appendix to this report. The cost was estimated using such simulations and the offered natural gas storage demand prices and usage prices, taking into account any constraints on storage operation specified by Participants in their Offers.

### PORTFOLIO FIT

For this solicitation, the PG&E evaluation team took into account attributes of the Offers that have a bearing on the utility's ability to realize value from the storage. For example, the utility communicated a preference to Participants to procure the entire requested storage quantity of 6,080,000 decatherms (Dth), and injection and withdrawal rate of 100,000 Dth/day, from a single supplier. Similarly, the utility expressed a preference to contract for the entire requested contract period. PG&E was willing to consider non-conforming Offers that started their contract period later than the requested start date of April 1, 2010; this could accommodate as-yet-unbuilt storage facilities that anticipated coming into commercial operation after April 2010.

The portfolio fit criterion also included an evaluation of deliverability, the extent to which the storage provider could ensure the free flow of gas from the storage facility to and from the PG&E Citygate, even in periods of system stress during the issuance of Operational Flow Orders, Emergency Flow Orders, or Diversions.

### PROJECT VIABILITY

In the case of Participants that proposed to serve PG&E's storage needs from projects that are as yet unbuilt, PG&E sought to evaluate the viability of those projects, to assess the likelihood that such new projects would be commercially operational on the date offered and the risk of failure to achieve operation. This included consideration of the progress such projects had made in securing regulatory permits and approvals, obtaining firm contracts with other storage customers, and entering into arrangements for design, engineering, equipment purchases, and construction.

### CREDIT AND COLLATERAL

The creditworthiness or ability of the Participant to post collateral was not a consideration in the evaluation of Offers for this RFO. The team assumed that should

PG&E's credit department identify an appropriate need for the Participant to post collateral, this would be requested after the selection of a winning Offer. Thus, entities with smaller financial resources than others were not disadvantaged in the evaluation and selection process on the basis of creditworthiness.

### SELECTION OF A WINNING OFFER

The evaluation process did not call for a quantitative scoring of Offers against the three major criteria, or for quantitative weighting of the strengths or weaknesses of Offers to calculate a single score. Instead, the procedure was intended to allow the PG&E evaluation team to use its subjective best judgment to make tradeoffs across criteria.

The team communicated clearly to Participants that the primary criterion for ranking acceptable offers would be the benefit/cost ratio, and that considerations of portfolio fit and project viability would be less impactful in making a selection.

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### **C. STRENGTHS AND WEAKNESSES OF PG&E'S METHODOLOGY**

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PG&E's evaluation methodology for natural gas storage has been employed in prior solicitations, and the Electric Fuels Department has considerable experience and familiarity with the tools used to value storage as well as knowledge of the physical and business attributes of the existing and proposed new storage facilities.

At a high level, PG&E's methodology has several strengths:

- Use of an IE and a PRG for review, and the particular focus on ensuring fair treatment of Offers from independent storage operators vs. utility-owned storage, is beneficial.
- The benefit/cost ratio analysis is a straightforward and generally accepted industry practice for evaluating the economics of natural gas storage. As described in the confidential appendix to this report, the specific methodology to evaluate ratepayer benefits is a stable approach that is among several accepted in the industry.
- A methodology that allows the use of subjective judgment in making trade-offs between economic and non-economic criteria provides PG&E with more latitude to emphasize key criteria other than valuation that have current importance, such as project viability, in contrast to a rigid weighting system for price and non-price criteria.
- The fact that PG&E provides a pre-bid conference to answer potential Participant's questions and to seek feedback on any issues or concerns with the proposed design of the solicitation was helpful and encouraged participation of independent storage providers.
- PG&E made available the questions and answers from the pre-bid conference discussion and from other communications with individual Participants on its public

website. This helped ensure that no individual Participant benefitted from having unique access to information about the solicitation.

There may be a few minor weaknesses of this approach.

- Relying on subjective judgment to combine the evaluations of the three criteria opens a risk that other considerations than those publicly identified within the Solicitation Protocol’s stated list of criteria other than benefit-cost ratio may play a role in selecting or rejecting offers. This risk is lower when a mechanical weighting approach or other objective process is used to incorporate the criteria other than benefit-cost ratio in selecting a winning offer.
- The simulation used in the benefit/cost analysis does not necessarily represent precisely how the storage would actually be used in the real world by the Electric Fuels Department to meet the needs of electric generation.
  - The analysis values the gas storage contract as a stand-alone facility and not as one component of a portfolio of generating assets and natural gas commodity positions managed by Electric Fuels
  - The analysis does not focus on the role of gas storage as a key source of operational security to meet unexpected contingencies in Electric Fuel’s portfolio, such as accommodating the injection of already-purchased gas when a generating unit undergoes an outage or the withdrawal of needed gas for generation when unexpected electric demand is realized. Instead, it focuses on the hedging or trading value of the storage in a constantly changing, uncertain gas price environment.
- It may be challenging for the PG&E team to evaluate the likelihood that a new storage project will enter commercial operation at a given date in the future when PG&E does not request or obtain information about the financing plan for the facility and does not necessarily have access to relevant information about the state of capital markets upon which the project’s success in achieving financing may rely.

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#### **D. POTENTIAL IMPROVEMENTS TO PG&E’S METHODOLOGY**

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Incremental improvement to PG&E’s methodology may be possible in future solicitations for gas storage; this section suggests one area where this may be made.

It may be desirable to “lock down” the market inputs to the economic analysis as close to RFO issuance as possible. When commodity markets are turbulent, market prices may move considerably in a space of two weeks, so that aged inputs may no longer seem representative.

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#### **E. SAFEGUARDS AGAINST BIAS**

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One issue of interest in the 2008 SSRFO was the participation of PG&E's California Gas Transmission business unit in the competition. Safeguards were put in place to avoid biased or preferential treatment of CGT by the evaluation team in PG&E's Electric Fuels Department. For example, during the duration of the project from development of the RFO solicitation document through Offer Opening and selection of a winning Offer, the IE monitored communications between CGT and the Electric Fuels Department evaluation team, including the review of phone logs and instant messages. The IE participated in phone calls and face-to-face meetings between the evaluation team and CGT staff members that were required to gather information for the selection process, information unrelated to CGT's Offer.

Based on this review of the communications between CGT and the SSRFO evaluation team, Arroyo found no instances of the release of unique information to CGT that might benefit the utility business unit in its development of an Offer compared to independent storage operators. Similarly, Arroyo reviewed the inputs to the valuation tool to ensure that the CGT Offer was processed in an unbiased manner. Arroyo concurred with the evaluation team's rating of the CGT Offer on the other, non-price evaluation criteria.

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#### **F. FAIRNESS OF SSRFO SELECTION**

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In the actual evaluation of Offers, PG&E's team applied its methodology fairly to select a winning Offer.

- No bias or preference was given to Offers from a PG&E business unit or from a Participant that had a Joint Participation Agreement in place with PG&E to develop new storage capacity
- The team adhered to the procedures for evaluation that were chosen prior to Offer Opening
- The economic ranking of Offers produced by PG&E's benefit/cost ratio analysis agreed with that of Arroyo's independent, albeit rough and simplified analysis
- The selection was made primarily on economic valuation for ratepayers, as previously communicated by PG&E to Participants and the PRG. While Offers varied in their ratings for project viability and portfolio fit, these less important criteria did not affect the selection in the actual event.

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#### **G. PROJECT-SPECIFIC NEGOTIATIONS**

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Because the winning Offer was that of an existing independent storage operator with whom PG&E Electric Fuels Department had previously done business, and because of the design of the solicitation, negotiations were de minimus. Upon selection of the winning

Offer, PG&E provided that entity with a fully executed Offer Form, constituting a binding agreement between the two parties (subject to CPUC approval). No change to the pricing terms of the original Offer was made, and the winning Offer conformed to the requirements of the SSRFO solicitation document.

## 4. MERIT FOR CPUC APPROVAL

In Arroyo's opinion, the proposed contract between PG&E and Wild Goose Storage, LLC merits approval by the CPUC.

- Wild Goose offered pricing terms that, based on PG&E's detailed economic evaluation, are expected to provide the highest benefit/cost ratio of any Offer received
- The PG&E economic evaluation is consistent with Arroyo's independent, albeit rough and simplified analysis. The latter indicates that as a stand-alone storage component operating with currently expected market conditions, Wild Goose's Offer would provide better net value to ratepayers than the other Offers received
- Wild Goose's Offer meets the entire requested volume of storage as one counterparty, avoiding the increased complexity of operations that would be needed to manage multiple storage contracts
- The Wild Goose facility already exists and is directly connected to the PG&E gas transmission system. There are few or no risks of failure to achieve commercial operation by 2010 as there might be with proposed projects that have not yet been fully permitted, financed, and constructed.
- The Wild Goose offer meets fully the physical need that PG&E outlined with its PRG and requested in this solicitation.
- The Wild Goose Offer conforms to PG&E's stated requirements for contract term, meeting well the utility's currently forecast need for gas storage.

In summary, Arroyo's opinion is that the selection of the Wild Goose Offer in the 2008 SSRFO was the product of a robustly competitive solicitation that encompassed almost all qualifying competitors, using a fair and reasonable evaluation methodology administered in an unbiased manner. Arroyo's assessment is that the Wild Goose Offer is superior to competing Offers in its pricing and economic value to ratepayers, and merits CPUC approval.

**Attachment B to Advice 3389-E**

**Request for Offers to Provide Long Term Natural Gas Storage Services  
for PG&E's Electric Fuels Department**

**Request for Offers**  
to Provide  
**Long Term Natural Gas Storage Services**  
For PG&E's Electric Fuels Department

**Issued November 19, 2008**

I. Introduction

Pacific Gas and Electric Company (PG&E), acting through its Electric Fuels Department, hereby invites you (Seller) to submit an Offer meeting the specifications of the following Request for Offers (RFO):

PG&E seeks Offers to provide natural gas storage services (Storage Services) to PG&E's Electric Fuels Department. PG&E's Electric Fuels department procures gas for utility-owned generation and tolling agreements. The RFO is for the following services, capacities, and terms, but PG&E may consider, in its sole discretion, non-conforming offers as well:

| Function   | Term                                     | Firm Capacity        |
|------------|--|----------------------|
| Inventory  | April 1, 2010, through<br>March 31, 2013 | 6,080,000<br>MMBtu   |
| Injection  | April 1, 2010, through<br>March 31, 2013 | 100,000<br>MMBtu/day |
| Withdrawal | April 1, 2010, through<br>March 31, 2013 | 100,000<br>MMBtu/day |

Offers must be received by PG&E no later than 12:00 Noon, Pacific time, December 1, 2008.

Alternately, Seller may offer PG&E a storage service that does not meet one or more of the precise specifications set forth above (a "Non-Conforming Offer"). PG&E will consider Non-Conforming Offers and may, in its sole discretion, execute such an offer or continue discussions and pursue negotiations for such storage services.

II. General Information

A. *This RFO is managed by PG&E Electric Fuels Department*

This Request for Offers is being managed by PG&E Electric Fuels, a department of PG&E, the regulated utility, acting to supply gas for its owned and contracted electric generation facilities. Neither PG&E's California Gas Transmission (CGT) nor Core Gas Procurement, each a separate department

of PG&E, has participated in the development of this RFO or will be given access to information provided by any Seller responding to this RFO. As a provider of storage services, CGT will be asked to submit offers in this RFO. Evaluation criteria will be applied equally to all offers from CGT or any other storage provider.

B. *Contracting Parties*

Any Contract for storage services resulting from this RFO will be between Seller and Pacific Gas and Electric Company, on behalf of its Electric Fuels function.

C. *Contract Provisions*

The Offer Form, when fully executed, shall constitute the Parties' agreement. That agreement may be supplemented by a Confirmation or other form of agreement if such agreement does not alter the substantive terms of the Offer Form. The services provided in accordance with the Offer Form shall be subject to the filed tariffs of the storage facility, unless Seller and PG&E otherwise agree, and Seller has the authority to provide such non-tariffed services.

D. *Contract Contingent upon CPUC Approval*

Any Offer accepted by PG&E shall be contingent upon approval by the California Public Utilities Commission (CPUC). Following execution of any accepted Offer, PG&E will file an Advice Letter with the CPUC seeking approval of the storage services contract, including recovery of all costs in electric rates. If the CPUC fails to approve the storage contract, including cost recovery acceptable to PG&E, the storage services Offer and agreement will become null and void.

E. *Offers Binding on Seller until 5:00 p.m., Pacific time, December 5, 2008.*

All Offers submitted to PG&E under this RFO are binding on Seller when delivered by Seller to PG&E. PG&E will notify each Seller regarding the status of its offer by the close of business, Pacific time, December 5, 2008, via telephone; however, whether or not such notice is given by the close of business on December 5, 2008, Seller's Offer shall become null and void.

F. *Service Level*

This RFO is for firm storage services.

G. *Transportation*

PG&E will be responsible for transportation to and from Seller's facility at the PG&E Citygate.

H. *Delivery Point*

The Delivery Point for deliveries to and receipts from Seller's storage facility shall be Seller's receipt pool at the PG&E Citygate. PG&E will nominate gas for injection to Seller's receipt pool and gas for withdrawal from Seller's receipt pool.

I. *Offer Price*

Offers must be quoted in U.S. dollars in the following units:

| Function     | Demand Rate    | Usage Rate       |
|--------------|----------------|------------------|
| Inventory    | \$/MMBtu/month | n/a              |
| Injection    | n/a            | \$/MMBtu         |
| Withdrawal   | n/a            | \$/MMBtu         |
| Fuel charges | n/a            | % upon injection |

J. *Contract Term*

The Contract Term solicited in this RFO will begin April 1, 2010, and the term will end March 31, 2013, unless otherwise agreed to by Seller and PG&E (non-conforming offer).

K. *Qualified Offers*

PG&E reserves the right to deem any Offer with incomplete responses as non-responsive and exclude it from further consideration or to request clarification of incomplete responses to an item. Failure of Seller to provide such clarification in a timely and sufficient manner may result in that Offer being deemed non-responsive.

L. *Credit Requirements*

PG&E will follow current CPUC guidelines in its evaluation of credit and credit assurance requirements. If, pursuant to these guidelines, PG&E requires collateral from Seller, collateral will be due within three days of PG&E's notice to the seller. A failure by Seller to provide collateral as requested will constitute a breach and shall entitle PG&E, at its election, to void this agreement to take storage services from Seller.

M. *Selection Criteria and Approval Process*

PG&E reserves the right, in its sole discretion, to refuse any and all Offers. PG&E will rank acceptable offers primarily based upon a cost-benefit analysis. Benefits of the storage services will be estimated based on the parameters of the offered services and forward price simulation. PG&E may

use other evaluation criteria including project viability, portfolio fit and a preference to contract for the requested services with a minimum number of counterparties.

N. *Information Release*

All Offers and supporting documentation become the sole property of PG&E Electric Fuels. PG&E may share Offers received in this RFO with its Procurement Review Group<sup>1</sup> (PRG) and the California Public Utilities Commission and its staff. PG&E may share Offers with an Independent Evaluator contracted, under a nondisclosure agreement, to review this RFO.

O. *Confidentiality*

PG&E will treat all information provided by Sellers as confidential, protected material. All confidential information provided by PG&E to PG&E's Procurement Review will be provided under a protective order issued by the CPUC on May 20, 2003. All confidential information provided by PG&E to the CPUC and its staff will be provided with a request for confidential treatment under D.06-06-066, Appendix 1, the August 22, 2006, Administrative Law Judge Ruling Clarifying Interim Procedures for Complying with D.06-06-066, the September 7, 2006, Assigned Commissioner's Ruling Requiring Compliance with Confidentiality Procedures in D. 06-06-066, and California Public Utilities Code Section 583.

P. *WMDVBE Participation*

It is PG&E's policy that women, minority, and service-disabled veteran owned business enterprises ("WMDVBEs") shall have the maximum practicable opportunity to provide the products and services PG&E purchases. Verified WMDVBE Sellers/Suppliers are encouraged to submit Offers. Prior to submitting an Offer, a WMDVBE Seller should verify its status with the WMDVBE clearinghouse.

Q. *Offer for Service Using a Field Not Yet In Service*

If Seller is making an offer to provide service from a storage field that is not yet in service, Seller must follow these procedures. First, Seller must indicate clearly in its offer that the offer is for service from an undeveloped field. Second, Seller must, within 30 days of December 5, 2008, execute a binding Precedent Agreement in substantially the form attached hereto. The Precedent Agreement will set forth Project milestone dates to be negotiated by the

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<sup>1</sup> The CPUC established "Procurement Review Groups", whose members are CPUC Energy Division staff, the Office of Ratepayer Advocates, The Utility Reform Network, California Energy Commission and other non-market participants as defined in the May 1, 2002, PUC Protective Order and who agree to execute an appropriate non-disclosure agreement. It is intended to act in a consultative fashion regarding utility procurement activities and plans, and has not been given authorizing capability. (D.02-08-071)

parties, which, if missed, will enable PG&E to terminate the Precedent Agreement and void PG&E's acceptance of Seller's offer. If the parties cannot agree on and execute a Precedent Agreement within this time, PG&E's acceptance of Seller's offer is void.

Offers for service using a field not yet in service should also include factual information concerning the progress of their project's development, including supporting documentation. Said information should include 1) the status of all pertinent regulatory hurdles and permits; 2) a construction timeline, including milestones achieved to date, 3) the volume of services already contracted, differentiated by binding and nonbinding commitments received to date, 4) a timeline, including milestones achieved to date, of project financing arrangements, and 5) details of Seller's interconnection(s) with PG&E's gas pipeline system demonstrating Seller's ability to deliver stored gas on a firm basis to the PG&E Citygate. For item 5), Seller should provide a written request to CGT granting Electric Fuels permission to review any interconnect studies and information specific to Seller.

### III. Offer Procedures

#### A. *Deadlines*

**All Offers must be received by PG&E no later than 12:00 Noon, Pacific time, December 1, 2008. Offers received after these times may be deemed non-responsive and may be excluded from further consideration.**

#### B. *Offer Form*

Offers shall be in writing and must be entered on the attached Offer Form (only one service per form).

#### C. *Signature by authorized representative, only*

The Offer form or the proposal package must be signed by the Seller's authorized representative.

#### D. *Offer Submittal*

##### Offers Transmitted by Facsimile:

Offers transmitted by fax must be identified with the Seller's name, address, telephone number, the Offer due date and the words "**PG&E Electric Fuels Gas Storage RFO.**" Faxed Offers should be sent to the following number:

Fax number: (415) 973-0400  
Attention: Michael Kowalewski

Offer facsimiles may also be submitted in Adobe portable document file (.pdf) format via e-mail to: msk4@pge.com.

All pages of an Offer must be received in full on this fax machine. **Any faxed Final Offer not received in full by 12:00 Noon Pacific time December 1, 2008, may not be accepted.** To confirm Offer receipt, please call Michael Kowalewski at (415) 972-5589. All faxed or e-mailed offers must be signed and will have the same legal effect as an original.

In addition, please mail or send original executed Offers to:

Pacific Gas and Electric Company  
Electric Fuels  
77 Beale Street  
Mail Code: N13C  
San Francisco, CA 94105  
Attention: Michael Kowalewski

E. *Notification*

PG&E will notify each Seller regarding the status of its offer by 5:00 Pacific time, December 5, 2008, via telephone. If Seller's offer is accepted by PG&E, PG&E will fax a fully-executed Offer Form to Seller on December 5, 2008. Seller may elect to supplement the Offer Form with a confirmation, which PG&E may execute if the confirmation does not alter or modify the agreed-upon terms set forth in the Offer Form.

IV. PG&E Electric Fuels Contact Person:

For questions regarding any aspect of this RFO, please telephone Michael Kowalewski at (415) 972-5589.



Pacific Gas and Electric Company  
 Request for Offers for Long Term Natural Gas Storage Services  
 For PG&E's Electric Fuels Department

## OFFER FORM

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**PRICES:**

| Function   | Demand Price | Usage Price      |
|------------|--------------|------------------|
| Inventory  | \$           |                  |
|            | /MMBtu/month |                  |
| Injection  |              | \$ /MMBtu        |
| Withdrawal |              | \$ /MMBtu        |
| Fuel       |              | % upon injection |

**For Seller (By the signature of its authorized representative in the space provided below, Seller represents and warrants that its Offer shall remain open until close of business Pacific time, December 5, 2008, and that, once counter-signed by PG&E, this Offer shall become a binding obligation of Seller to PG&E), subject to approval by the California Public Utilities Commission as discussed herein:**

**By:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**For PG&E:**

**By:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_

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