STATE OF CALIFORNIA

Edmund G. Brown Jr., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

January 26, 2012

Advice Letter 3775-E

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

Subject: Power Purchase Agreement for Procurement of Renewable Energy Resources Between Norman Ross Burgess and PG&E

Dear Mr. Cherry:

Advice Letter 3775-E is effective September 22, 2011 per Resolution E-4418.

Sincerely,

Edward Randolph

Edward F. Randolph, Director
Energy Division

Pacific Gas and Electric Company®

Jane K. Yura
Vice President
Regulation and Rates

Pacific Gas and Electric Company
77 Beale St., Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

Fax: 415.973.6520

December 10, 2010

Advice 3775-E
(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

Subject: **Power Purchase Agreement for Procurement of Renewable Energy Resources Between Norman Ross Burgess and Pacific Gas and Electric Company**

I. INTRODUCTION

A. Purpose and Overview

Pacific Gas and Electric Company ("PG&E") seeks the California Public Utilities Commission's ("Commission" or "CPUC") approval of a Renewable Portfolio Standard ("RPS")-eligible Power Purchase Agreement ("PPA") that PG&E has executed with Norman Ross Burgess ("Seller"). PG&E submits the PPA for CPUC Approval to establish PG&E's ability to recover the cost of payments made pursuant to the PPA through its Energy Resource Recovery Account ("ERRA").

B. Subject

The Commission's approval of the PPA will authorize PG&E to accept deliveries of up to 1.625 megawatts ("MW") of RPS-eligible energy from the Three Forks Water Power Project, a hydroelectric facility located in Trinity County, California (the "Project"), for a term of 20 years. The Project is located within the California Independent System Operator-("CAISO") controlled grid. Once approved, the Project is expected to deliver an average of approximately 8 gigawatt hours ("GWh") per year, which will contribute to PG&E's near- and long-term RPS procurement goals.

The Project is an existing facility and has been operating under a Qualifying Facility ("QF") contract with PG&E since 1984. The original QF PPA expired on December 27, 2009; however, the Project has remained in contract with PG&E via an extension agreement since then. Upon approval of the PPA, the existing extension agreement and the underlying QF contract will terminate and the new PPA will take effect.

The PPA is a result of bilateral negotiations. Consistent with the protocol used for both the review of bilateral RPS contracts and contracts resulting from the 2009 RPS Solicitation, PG&E has included Confidential Appendices A through G, and Public Appendix H, which demonstrate the reasonableness of the PPA. As discussed below, PG&E requests confidential treatment for the information contained in Appendices A through G.

PG&E requests that the Commission issue a resolution no later than July 28, 2011, approving the PPA in its entirety and all payments to be made by PG&E under the PPA, and containing the findings required by the definition of CPUC Approval adopted by Decision ("D.") 07-11-025 and D.08-04-009.[1] As discussed in further detail below and in the confidential appendices, PG&E found from its Least-Cost Best-Fit ("LCBF") analysis that the PPA is reasonable, viable and meets PG&E's current renewable resource needs. The Project has been under contract with PG&E since 1984, with a proven technology and will help PG&E ensure RPS compliance by re-contracting with an existing Qualifying Facility ("QF") facility at a competitive market price. Furthermore, the Project is an in-state project located within PG&E's service territory and is interconnected directly into the CAISO grid.

Under the terms of the PPA, PG&E would buy RPS-eligible energy starting in 2011 and have right to the capacity for a term of 20 years. Based on these and other factors discussed in this Advice Letter filing, PG&E requests that the Commission approve the PPA.

C. General Project Description

The following table summarizes the substantive features of the Project:

[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.

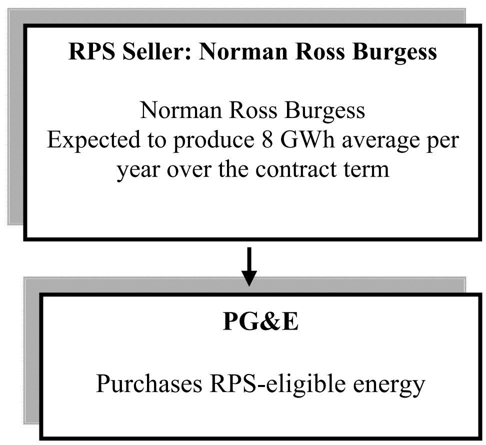
Project Name	Three Forks
Owner/Developer	Norman Ross Burgess
Technology	Hydroelectric
Capacity (MW)	1.625 MW
Capacity Factor	Approximately 47%
Expected Generation (GWh/Year)	Approximately 8 GWh per year on average over the contract term
Commercial Operational Date ("COD")	Existing – Project will begin deliveries under the PPA upon CPUC Approval
Date Contract Delivery Term Begins	Initial Energy Delivery Date (see COD above)
Delivery Term (Years)	20 years
Vintage (New/Existing/Repower)	Existing
Location (City and State)	Zenia (unincorporated), Trinity County, California
Control Area (e.g., CAISO, BPA)	CAISO
Nearest Competitive Renewable Energy Zone ("CREZ") As Identified by the Renewable Energy Transmission Initiative ("RETI")	Not Applicable
Type of cooling, If Applicable	Not Applicable
Price relative to MPR (i.e., Above/Below)	Exceeds the applicable 2009 Market Price Referent ("MPR") for projects coming online in 2011. (Cost information is discussed in further detail in Confidential Appendices A and D.)

A copy of the PPA is provided in Confidential Appendix F. A contract analysis is provided in Confidential Appendix D.

D. General Deal Structure

The PPA was executed as a result of bilateral negotiations. PG&E will be receiving the full output from this Project. As discussed above, the Project will interconnect to the CAISO-controlled grid. PG&E will be the scheduling coordinator.

Figure 1: PPA Delivery Structure



E. RPS Statutory Goals

Senate Bill ("SB") 1078 established the California RPS Program, requiring an electrical corporation to increase its use of eligible renewable energy resources to 20 percent of total retail sales no later than December 31, 2017. The legislature subsequently accelerated the RPS goal to reach 20 percent by the end of 2010. In addition, California is actively considering increasing its renewable goals beyond the current 20 percent renewable energy target. Governor Schwarzenegger's Executive Order issued in November 2008 describes a new target for California of 33 percent renewable energy by 2020, and his executive order issued in September 2009 directs the California Air Resources Board to adopt a regulation consistent with this 33 percent. On September 23, 2010, the California Air Resources Board approved its 33 percent renewable electricity standard ("RES").

The Project is scheduled to begin deliveries under the PPA in 2011, after the conditions precedent, including Commission approval of the PPA, are satisfied. The PPA will contribute to maintaining PG&E's 20 percent RPS goal, and will also contribute to California Air Resource Board's recently adopted 33 percent RES.

F. Confidentiality

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 under either 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 – Consistency with Commission Decisions and Rules and Project Development Status

Appendix B – 2009 Solicitation Overview

Appendix C – Independent Evaluator Report (Confidential)

Appendix D – Contract Summary

Appendix E – Comparison of Contract With Utility's Pro Forma Power Purchase Agreement

Appendix F – Power Purchase Agreement

Appendix G – Project's Contribution Toward RPS Goals

Public Attachments:

Appendix H – Independent Evaluator Report (Public)

II. CONSISTENCY WITH COMMISSION DECISIONS

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

PG&E's 2009 renewable procurement plan ("2009 Plan") was conditionally approved in D.09-06-018 on June 4, 2009. As required by statute, the 2009 Plan included 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]

The goal of PG&E's 2009 Plan was to procure approximately one to two percent of its retail sales volume, or between 800 GWh and 1,600 GWh per year. With expected RPS-eligible energy deliveries, on average, of approximately 8 GWh per year for a term of 20 years with full commercial operation commencing in 2011**,** the PPA meets the criteria for the renewables procurement contained in the 2009 Plan. Additionally, the PPA will contribute to PG&E's longer-term RPS goals.

The PPA is also consistent with PG&E's approved 2009 Plan because it was evaluated consistent with the review protocol in the 2009 RPS Solicitation, including portfolio fit, viability and market valuation.

B. Consistency With Commission Guidelines for Bilateral Contracting

PG&E and Seller negotiated the PPA on a bilateral basis. PG&E proceeded with bilateral negotiations for this project because it has a reasonable price, is an existing resource, and can provide for immediate deliveries of RPS-eligible energy. If PG&E had required the Seller to bid into its 2010 Solicitation, deliveries from the project would have been delayed substantially.

To address the issue of bilateral contracting, the Commission developed guidelines pursuant to which utilities may enter into bilateral RPS contracts. In D.03-06-071, the Commission authorized entry into bilateral RPS contracts, provided that such contracts did not require Public Goods Charge funds and were "prudent."[3] Later, in

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[2] Pub. Util. Code § 399.14(a)(3).

[3] D.03-06-071 at 57-58.

D.06-10-019, the Commission again held that bilateral contracts were permissible provided that they were at least one month in duration, and also found that such contracts must be reasonable and submitted for Commission approval by advice letter.[4] Also in that decision, the Commission stated that bilateral contracts were not eligible for supplemental energy payments.[5]

Based on D.03-06-071 and D.06-10-019, the Commission set forth the following four requirements for approval of bilateral contracts in a Resolution approving a bilateral RPS contract executed by PG&E: (1) the contract is submitted for approval by advice letter; (2) the contract is longer than one month in duration; (3) the contract does not receive above-market funds ("AMFs"); and (4) the contract is deemed reasonable by the Commission.[6] The Commission noted that it would be developing evaluation criteria for bilateral contracts, but that the above four requirements would apply in the interim.[7]

On June 19, 2009, the Commission issued D.09-06-050 establishing price benchmarks and contract review processes for short-term and bilateral RPS contracts. D.09-06-050 provides that bilateral contracts should be reviewed using the same standards as contracts resulting from RPS solicitations.

The PPA satisfies the four requirements listed above and the requirements of D.09-06-050. The PPA is being submitted for approval via this Advice Letter and is not eligible for AMFs because it resulted from bilateral negotiations. The PPA's term is longer than one month in duration; it has a term of 20 years. Finally, the PPA is reasonable when considered against the pricing and other standards used for evaluating contracts resulting from PG&E's 2009 RPS Solicitation, as PG&E explains in this Advice Letter and in the attached Confidential Appendices. The Commission should therefore approve the PPA.

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[4] D.06-10-019 at 29.

[5] *Id.* at 31.

[6] Resolution E-4216 at 5.

[7] *Id.*

C. Consistency of Bid Evaluation Process With Least-Cost Best-Fit Decision

The RPS statute requires PG&E to procure the LCBF eligible renewable resources.[8] The LCBF decision directs the utilities to use certain criteria in their bid ranking[9] and 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. PG&E's approved process for identifying the LCBF renewable resources 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.

PG&E examined the reasonableness of the PPA using the same comparison tools used with RPS transactions received in the 2009 RPS Solicitation and with other bilaterals currently being offered to PG&E. Additionally, as part of a project viability assessment, PG&E examined such factors as ownership experience, O&M experience, and technological feasibility. The general finding is that the Project is strongly viable and reasonably priced. A more detailed discussion of PG&E's evaluation of the PPA is provided in Confidential Appendices A and D.

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 A.

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[8] Pub. Util. Code § 399.14(a)(2)(B).

[9] D.04-07-029.

2. Portfolio Fit

Portfolio fit considers how well an offer's features match PG&E's portfolio needs. As part of the portfolio fit assessment, PG&E differentiates offers by the firmness of their energy delivery and by their energy delivery patterns. A higher portfolio fit measure is assigned to the energy that PG&E is sure to receive and fits the needs of the existing portfolio. The Project will begin initial deliveries in 2011 and these deliveries will continue for 20 years, which will contribute toward PG&E's near- and long-term RPS goals and would provide additional RPS-eligible energy generation to PG&E's portfolio. The Project is a run of river small hydro facility with majority of deliveries during December through May; however, due to some dispatch capability, the Project has historically generated at relatively high levels during peak and partial peak hours. The PPA fits PG&E's portfolio in a satisfactory manner. Further discussion of Portfolio Fit is included in Confidential Appendix A.

3. Consistency With the Transmission Ranking Cost Decision

Under the transmission ranking cost decision, the customer's potential cost of accepting energy deliveries from a project must be considered when determining the project's value. This is discussed in more detail in Confidential Appendix D.

4. Qualitative Factors

PG&E considered qualitative factors as required by D.04-07-029 and D.07-02-011 when evaluating the PPA, including benefits to low-income or minority communities, environmental stewardship, local reliability, and resource diversity benefits. Further details are provided in Confidential Appendix A, including the results of the project viability assessment.

D. Compliance With Standard Terms and Conditions

The Commission set forth standard terms and conditions to be incorporated into contracts for the purchase of electricity from eligible renewable energy resources in D.04-06-014 and D.07-02-011, as modified by D.07-05-057 and D.07-11-025. These terms and conditions were compiled and published in D.08-04-009. Additionally, the non-modifiable term related to Green Attributes was finalized in D.08-08-028.

Due to the small size of the facility, the fact that it was already in operation, and the "as-available nature of hydro resource, many provisions in the standard form 2009

Plan PPA were not necessary or appropriate to include. As a result, rather than using the 2009 form RPS PPA as a starting point for negotiations, PG&E and the Seller used the form PPA included in PG&E's Electric Schedule E-SRG for small renewable generators under 1.5 MW. The Project is only slightly above 1.5 MW, and both parties agreed that it was appropriate to use the E-SRG form rather than the 2009 form RPS PPA. Thus, many of the modifiable terms in the 2009 form RPS PPA are not included in the PPA. However, 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, as modified by D.08-08-028. In addition, the PPA includes the non-modifiable terms and conditions specified in D.10-03-021 (Appendix C) for bundled contracts.

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

The following table sets forth the specific page and section number where the Commission's non-modifiable terms are located in the PPA:

Non-Modifiable Term	PPA Section No.	PPA Page No.
STC 1: CPUC Approval	2.3.4	3
STC 2: RECs and Green Attributes		
• Definition of Green Attributes	Appendix A, Section B	3
• Conveyance of Green Attributes	3.1	4
STC 6: Eligibility	4.3.2.	7
STC 17: Applicable Law	14	15
STC REC-1 Transfer of renewable energy credits	4.3.3	7
STC REC-2 Tracking of RECs in WREGIS	3.2	4

E. Consistency With Unbundled Renewable Energy Credit Transactions

The PPA is for the purchase of bundled RPS-eligible energy and therefore does not include the purchase of unbundled renewable energy credits ("RECs"). The PPA is not subject to D.10-05-018's moratorium on the CPUC's approval of RPS contracts that would be defined as REC-only transactions under D.10-03-021 because the Project's first point of interconnection is with a California balancing authority (*i.e.*, the CAISO).

F. 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 executed in 2010 and thus counts towards PG&E's contracting obligation under D.07-05-028. PG&E expects that in 2010, it will be in compliance with the minimum quantity requirement set forth in D.07-05-028.

G. Tier 2 Short-Term Contract "Fast Track" Process

PG&E is not submitting this contract under the "Fast Track" process.

H. Market Price Referent

While the actual price under the PPA is confidential, market-sensitive information, PG&E will indicate that the price under the PPA exceeds the 20-year 2009 MPR for projects with a 2011 commercial online date adopted in Resolution E-4298 on December 17, 2009. Total cost information is discussed in Confidential Appendix D.

As discussed above in the LCBF section, the overall reasonableness of the PPA was examined using the same comparison tools as RPS transactions resulting from the 2009 RPS Solicitation. PG&E compared the price and net market value of the Project to offers resulting from the 2009 RPS Solicitation, recently executed contracts and other bilateral offers currently being made to PG&E as detailed in Confidential Appendices A and D.

As discussed in the section entitled "Independent Evaluator" below, PG&E employed Wayne J. Oliver from Merrimack Energy Group, Inc., to be the Independent Evaluator ("IE") of this Project.[10] The IE stated in its report attached in Appendix H that the Project offers a contract price that is competitive with recent bids received in the 2009 RPS solicitation, as well as bilateral contracts offered, and the PPA merits CPUC approval.

I. Above Market Funds

The PPA is not eligible for AMFs because it is the result of bilateral negotiations.

Had the PPA been eligible for AMFs, it would be considered "voluntary" procurement because PG&E was notified by the CPUC on May 28, 2009, that PG&E had exhausted its portion of the AMFs available for above-MPR contract payments. Since exhausting its AMFs, PG&E has continued to voluntarily procure renewables that are priced above the MPR, subject to Commission approval and a finding that the procurement is just and reasonable and fully recoverable in rates.

Notwithstanding the fact that the PPA is not AMFs-eligible, an AMF analysis of the PPA is included in Confidential Appendix D, in accordance with CPUC requirements.

J. Compliance With Interim Emissions Performance Standard

A greenhouse gas Emissions Performance Standard ("EPS") was established by SB 1368, which requires that the Commission consider emissions costs associated with new long-term (five years or greater) power contracts procured on behalf of California ratepayers.

In D.07-01-039, the Commission adopted an 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. 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 percent and therefore is not baseload generation under paragraphs 1(a)(ii) and 3(2)(a) of the Adopted Interim EPS Rules. Notification of compliance with

[10] The IE used for the 2009 RPS Solicitation, Lewis Hashimoto from Arroyo Seco Consulting, was not available; therefore Wayne J. Oliver from Merrimack Energy Group, Inc., was selected.

D.07-01-039 is provided through this Advice Letter, which has been served on the service list in the RPS rulemaking, R.08-08-009.

K. Procurement Review Group Participation

PG&E informed its Procurement Review Group ("PRG") of the PPA on June 11, 2010 and again on August 13, 2010. PG&E addresses PRG feedback in Confidential Appendix A.

The PRG for PG&E includes representatives of the California Department of Water Resources, the Commission's Energy Division and Division of Ratepayer Advocates, Union of Concerned Scientists, The Utility Reform Network, the California Utility Employees, and Jan Reid, as a PG&E ratepayer.

L. Independent Evaluator

As discussed above, the IE, Wayne Oliver from Merrimack Energy Group, Inc., evaluated the PPA and concluded that the PPA merits CPUC approval. Please also refer to Public Appendix H for the public portion of the Independent Evaluator's report on the PPA and Confidential Appendix C for the confidential appendix to that report.

III. PROJECT DEVELOPMENT STATUS

A. Company/Development Team

The project is an existing facility and has been operating under a QF contract with PG&E since 1984. The original QF PPA expired on December 27, 2009; however, the Project has remained in contract with PG&E under an extension agreement since then. The PPA is intended to be a replacement for the QF contract. When the conditions precedent are satisfied, the QF extension agreement will terminate and the PPA will be in effect.

B. Technology

1. Technology Type and Level of Technology Maturity

The Project uses a twin jet impulse hydraulic turbine, which is a widely commercialized, proven technology.

2. Quality of Renewable Resource

The Project receives sufficient flow upstream from the following diversions: Bluford Creek, Mud Creek, Middle Creek and Rock Creek. In addition, the Project has a silt pond reservoir with approximately 15 acre-feet holding capacity.

3. Other Resources Required

None.

C. Development Milestones

1. Site Control

Seller has full site control. Further discussion is included in the Confidential Appendix A.

2. Equipment Procurement

Existing project - Not applicable.

3. Permitting/ Certification Status

Existing project - Not applicable.

4. Production Tax Credit / Investment Tax Credit

The project will not be using Production Tax or Investment Tax Credits.

5. Transmission

The Project will interconnect into the CAISO-controlled grid on the PG&E system. Additional transmission information is discussed in Confidential Appendix A under the section entitled "Transmission."

6. Financing Plan

The Project is fully financed.

IV. CONTINGENCIES AND/OR MILESTONES

The PPA includes certain performance criteria and milestones that PG&E includes in its form RPS PPA contract. These and other contingencies and milestones are addressed in Confidential Appendix D.

V. REGULATORY PROCESS

A. Requested Effective Date

PG&E requests that the Commission issue a resolution approving this advice filing by July 28, 2011. Justification for this date is provided in Confidential Appendix D.

B. Earmarking

PG&E reserves the right to earmark deliveries from this PPA.

VI. REQUEST FOR COMMISSION APPROVAL

PG&E requests that the Commission issue a resolution not later than July 28, 2011, that:

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 RPS (Public Utilities Code Section 399.11 et seq.), 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 2009 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 costs 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 addressed in D.08-09-012.

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 covered procurement subject to the EPS because the generating facility has a forecast capacity factor of less than 60 percent and, therefore, is not baseload generation under paragraphs 1(a)(ii) and 3(2)(a) of the Adopted Interim EPS Rules.

    b. PG&E has provided the notice of procurement required by D.06-01-038 in its Advice Letter filing.

Protests:

Anyone wishing to protest this filing may do so by sending a letter by **December 30, 2010**, which is **20** days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

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

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

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004, and Honesto Gatchalian, Energy Division, at the address shown above.

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

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-6520
E-Mail: PGETariffs@pge.com

Effective Date:

PG&E requests that the Commission issue a resolution approving this advice filing by **July 28, 2011**.

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.08-08-009, R.06-02-012 and R.08-02-007. 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 to the General Order 96-B service list and electronic approvals should be directed to e-mail PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Advice letter filings can also be accessed electronically at: http://www.pge.com/tariffs.

Jane Yura /emt

Vice President – Regulation and Rates

cc: Service List for R.08-08-009
Service List for R.06-02-012
Service List for R.08-02-007
Paul Douglas – Energy Division
Sean Simon – 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 and 454.5(g) 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 and D.08-04-023. A separate Declaration Seeking Confidential Treatment regarding the confidential information is filed concurrently herewith.

Confidential Attachments:

Appendix A – Consistency With Commission Decisions and Rules and Project Development Status

Appendix B – 2009 Solicitation Overview

Appendix C – Independent Evaluator Report (Confidential)

Appendix D – Contract Summary

Appendix E – Comparison of Contract With Utility's Pro Forma Power Purchase Agreement

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Public Attachments:

Appendix H – Independent Evaluator Report (Public)

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:	Contact Person: David Poster and Linda Tom-Martinez
☑ ELC ☑ GAS	Phone #: (415) 973-1082 and (415) 973-4612
☐ PLC ☐ HEAT ☐ WATER	E-mail: dxpu@pge.com and lmt1@pge.com

EXPLANATION OF UTILITY TYPE	(Date Filed/ Received Stamp by CPUC)
ELC = Electric GAS = Gas PLC = Pipeline HEAT = Heat WATER = Water	

Advice Letter (AL) #: **3775-E** **Tier: 3**

Subject of AL: **Power Purchase Agreement for Procurement of Renewable Energy Resources Between Norman Ross Burgess and Pacific Gas and Electric Company**

Keywords (choose from CPUC listing): Contracts, Portfolio

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: ☐ Yes ☐ No 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: Hugh Merriam (415) 973-1269

Resolution Required? ☑Yes ☐ No

Requested effective date: **July 28, 2011** 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[1]: N/A

Pending advice letters that revise the same tariff sheets: 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
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Jane Yura
Vice President, Regulation and Rates
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com

**DECLARATION OF HUGH MERRIAM
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3775-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Hugh Merriam, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee at PG&E since 1983. My current title is Manager within PG&E's Energy Procurement organization. In this position, my responsibilities include negotiating new and amended Power Purchase Agreements. 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 August 22, 2006 "Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066," I make this declaration seeking confidential treatment of Appendices A, B, C, D, E, F, and G to Advice Letter 3775-E, submitted December 10, 2010. By this Advice Letter, PG&E is seeking this Commission's approval of a power purchase agreement that PG&E has executed with Norman Ross Burgess.

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"), and/or constitutes information

that should be protected under 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 submittal.

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 December 10, 2010 at San Francisco, California.

Hugh M. Merriam

PACIFIC GAS AND ELECTRIC COMPANY
Advice Letter 3775-E
December 10, 2010

IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066 AND DECISION 08-04-023

	Redaction Reference	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
1	Document: Advice Letter 3775-E							
2	Appendix A	Y	Item VII G) 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. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluations from the 2009 Solicitation; discusses, analyzes and evaluates the Project and the terms of the PPA; contains information concerning and analyses and evaluations of project viability; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. In addition, if information about and evaluations of project viability is made public, it could harm the counterparties and adversely affect project viability. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparty.	For information covered under Item VII G) and Item VII (un-numbered category following VII G), remain confidential for three years For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected. For information covered under General Order 66-C, remain confidential.
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 2009 Solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, offers from the 2005, 2006, 2007, 2008, and 2009 solicitations and offers received outside of those 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 until after final contracts submitted to CPUC for approval For information covered under Item VIII B), remain confidential for three years after winning bidders selected

	Redaction Reference	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 C	Y	Item VII G) 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. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluation from the 2009 Solicitation; discusses, analyzes and evaluates the Project and the terms of the PPA; contains information concerning and analyses and evaluations of project viability; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. In addition, if information about and evaluations of project viability is made public, it could harm the counterparties and adversely affect project viability. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparty.	For information covered under Item VII G) and Item VII (un-numbered category following VII G), remain confidential for three years For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected. For information covered under General Order 66-C, remain confidential.
5	Appendix D	Y	Item VII G) 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. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluations from the 2009 Solicitation; discusses, analyzes and evaluates the Project and the terms of the PPA; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparties to the PPA have an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparty.	For information covered under Item VII G) and Item VII (un-numbered category following VII G), remain confidential for three years For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected. For information covered under General Order 66-C, remain confidential.
6	Appendix E	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without SEPs.	Y	Y	Y	This Appendix contains the 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, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparty to the PPA has an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA.	Remain confidential for three years

	Redaction Reference	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	
7	Appendix F	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, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, the counterparty to the PPA has an expectation that the terms of the PPA will remain confidential pursuant to confidentiality provisions in the PPA.	Remain confidential for three years	
8	Appendix G	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, 2007, 2008, and 2009 solicitations and with other counterparties, this information should remain confidential for three years.	Remain confidential for three years	

Public Appendix H

Independent Evaluator Report

Pacific Gas and Electric Company Submission of a Bilateral Transaction with Norman Ross Burgess (Three Forks Water Power Project) for Procurement of Renewable Energy

Report of the Independent Evaluator

Public Version

December 8, 2010

Prepared by
Merrimack Energy Group, Inc.

Merrimack
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Energy

Table of Contents

I. Introduction

A. Overview

In December, 2010 Pacific Gas and Electric Company ("PG&E") submitted an Advice Letter to the California Public Utilities Commission ("CPUC") seeking approval of a renewable power purchase agreement ("PPA") with Norman Ross Burgess ("Seller") for the output from the Three Forks Water Power Project located in Trinity County, California.[1] The transaction will result in delivery of renewable energy under the California renewable portfolio standard ("RPS"). The agreement was executed by PG&E on September 22, 2010, and the contract term is scheduled to begin upon CPUC approval, subject to certain contractual conditions being met, and continue for a period of twenty years.

Under the agreement, the Seller is obligated to deliver all RPS-eligible energy and related green attributes from the Seller's existing 1.625 MW Three Forks Water Power Project[2] at the prices and terms and conditions specified in the contract. PG&E expects delivery of approximately 8 GWh per year under the contract.

B. Regulatory Requirements for the Independent Evaluator ("IE")

The requirements for participation by an IE in RPS solicitations are outlined in Decision ("D").04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28), D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8) of the California Public Utility Commission ("CPUC") and D.09-06-050.

In D.04-12-048 (December 16, 2004), the CPUC required the use of an IE by investor-owned utilities (IOUs) in resource solicitations where there is an affiliated bidder or bidders, or where the utility proposed to build a project or where a bidder proposed to sell a project or build a project under a turnkey contract that would ultimately be owned by a utility. 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.[3] Instead, the IE would be consulted by the IOU, along with the Procurement Review Group ("PRG") on the design, administration, and evaluation aspects of the Request for Proposals ("RFP"). The Decision identifies the technical expertise and experience of the IE with regard to industry contracts, quantitative evaluation methodologies, power market derivatives, and other aspects of power project development. From a process standpoint, the IOU could contract directly with the IE, in consultation with its PRG, but the IE would coordinate with the Energy Division.

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[1] The project has an existing SO4 contract that is expiring.
[2] The project is capable of producing up to 1.8 MW.
[3] 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)

In D.06-05-039 (May 25, 2006), the CPUC required each IOU to employ an IE regarding all RFPs issued pursuant to the RPS, regardless of whether there are any utility-owned or affiliated-owned projects under consideration. In addition, the CPUC directed the IE for each RFP to provide separate reports (a preliminary report with the shortlist and final report with IOU advise letters to approve contracts) on the entire bid, solicitation, evaluation and selection process, with the reports submitted to the utility, PRG and CPUC and made available to the public (subject to confidential treatment of protected information). The IE would also make periodic presentations regarding its findings to the utility and the utility's PRG consistent with preserving the independence of the IE by ensuring free and unfettered communications between the IE and the CPUC's Energy Division, and an open, fair and transparent process that the PRG could confirm.

In D.09-06-050 issued on June 18, 2009 in Rulemaking 08-08-009, Order Instituting Rulemaking to Continue Implementation and Administration of California Renewable Portfolio Standard Program,[4] the CPUC required that bilateral contracts should be reviewed according to the same processes and standards as contracts that come through a solicitation. This includes review by the utility's Procurement Review Group and its IE, including a report filed by the IE. As stated in D.09-06-050:

> An Independent Evaluator (IE) reviews a utility's annual RPS solicitation and writes a report evaluating the entire solicitation, evaluation, and selection process (D.06-05-039, at 46). The IE's final report is a required part of the Tier 3 advice letter filing for RPS contracts. There is currently no market for short-term RPS-eligible resources comparable to the short-term or spot markets for conventional generation. There are a small number of sellers and buyers and there is an ever-closer goal of 20% of retail sales by the end of 2010. In these circumstances, the IE's participation in review of even short-term contracts provides additional assurance that a particular short-term contract is a reasonable choice of the utility in the procurement circumstances of that year, as well as providing review of any transactions with utility affiliates. IE reports will also provide some additional information to utilities and to staff that is likely to be helpful in reviewing the effectiveness of the fast-track process set up in this decision.
>
> To the extent possible, the paperwork should be tailored to the problem. For very short-term contracts, the IE report may be in the short form authorized by the Energy Division. For moderately short-term contracts, the full IE report should be supplied. As discussed further in Section 3.12 below, these IE requirements apply equally to all very short-term and moderately short-term contracts, whether through a solicitation or bilaterally negotiated. (pg. 24-25).

C. Issues Addressed in this Report

This report addresses Merrimack Energy's assessment and conclusions regarding the following seven issues identified in the CPUC's IE Report Template.

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[4] Decision Establishing Price Benchmarks and Contract Review Processes for Short-Term and Bilateral Procurement Contracts for Compliance With the California Renewable Portfolio Standard.

1. Describe the role of the IE throughout the solicitation.

2. Was the IOU's methodology for bid evaluation and selection fairly designed?

3. Describe the IOU's Least Cost Best Fit ("LCBF") methodology. Was the LCBF evaluation process fairly administered?

4. How did the IOU conduct outreach to bidders, and was the solicitation robust?

5. Describe project specific negotiations. Highlight any areas of concern including unique terms and conditions.

6. If applicable, describe safeguards and methodologies employed by the IOU to compare affiliate bids or utility-owned generation ("UOG") ownership proposals. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownerships, explain and analyze whether the IOU's selection of such bid(s) was appropriate.

7. Does the contract(s) merit CPUC approval? Explain

All these issues are addressed in this report. However, for organizational purposes the report addresses PG&E's LCBF methodology in Section III and the evaluation of the bidding and selection process in Section IV.

II. Description of the Role of the IE throughout the Solicitation

In compliance with D.09-06-050 issued June 18, 2009, PG&E requested in March 2010 that Merrimack Energy serve as IE for the Three Forks Water Power Project contract filing. As a result, Merrimack Energy's role as IE began after the contract negotiation process was initiated with the Seller for the long-term contract.

Merrimack Energy's role included participating in a few conference calls among the parties as well as reviewing email traffic, several versions of the contract and other documents exchanged by the parties. PG&E kept the IE informed throughout the process about the status of negotiations and copied the IE on emails sent between the parties.

III. Description of PG&E's LCBF Evaluation Methodology

This section of the report provides an overall description of PG&E's LCBF evaluation methodology and criteria applicable to the 2009 Renewable Portfolio Standard Solicitation Protocol ("2009 RPS Solicitation"). PG&E evaluates and ranks proposals based on LCBF principles that comply with criteria set forth by the CPUC in D.03-06-071 and D.04-07-029 ("LCBF Decisions"). The LCBF methodology includes evaluation of both quantitative and qualitative aspects of each proposal to estimate its value to PG&E's customers and relative value in comparison to other proposals.

PG&E evaluates each bid in terms of the following attributes:

1. Market Valuation ($/MWh), excluding Transmission Adder
2. Portfolio Fit (Score range 0-100)
3. Credit (Score range 0-100)
4. Project Viability (Score range 0-100)
5. RPS Goals (Score range 0-100)
6. Adjustment for Transmission Cost Adders ($/MWh)

Solicited bids are evaluated using the following step-by-step process:

1. The Market Valuation is computed for each Offer. Portfolio Fit is assessed for each Offer. Then, each of the scores for Credit, Project Viability, and RPS Goals are assessed and collected.

2. The Offers are then sorted by transmission cluster and Offers within each cluster are ranked by Market Valuation.

3. The initial ranking results in the allocation of existing transmission and any costs associated with transmission upgrades based on the Transmission Ranking Cost Report (TRCR) to projects with highest market value. Next, the lower of either the cost of a Transmission Adder or an alternative commercial arrangement is included in the bid market valuation. The result is called Net Value.

4. Once the Market Valuation has been adjusted by transmission value, the other attributes are considered and applied to the bid to arrive at its final place in the ranking. After transmission-adjusted Market Valuation, of the remaining attributes, Project Viability has the greatest qualitative effect on the ranking. The set of highest ranked Offers which allow for a reasonable probability of satisfying PG&E's procurement goal is selected for the short list.

1. Market Valuation

Market valuation considers how an Offer's costs compare to its benefits, from a market perspective. Costs include fixed and variable components representing all anticipated significant relevant costs, including Transmission and Integration cost adders. Benefits include energy, capacity, and ancillary services. Costs and Benefits are each quantified and expressed in terms of present value (January 1, 2010 dollars) per MWh. Market Value is Benefits minus Costs, and is expressed in terms of levelized price, that is, present value per MWh (2010 dollars and 2010 MWh). All energy benefit calculations use an LMP multiplier to comprehend the locational value of the energy delivered. The specific multiplier depends upon the TOD (Time of Delivery) period.

Offers are classified into three types based upon how they are financially modeled: (1) forward contracts; (2) dispatchables; and (3) buyout options.[5] How benefits and costs are calculated varies with each of the three types of Offers. Since the valuation method for each Offer determines how the Offer is valued, the calculation of Benefits, Costs, and Market value is described below. Whether an offer is for a power purchase agreement (PPA) or purchase and sales agreement (PSA) does not affect valuation, except for the buyout offer associated with a PSA. Offers of "sites for development" are not discussed here.

Forward Contracts

Forward contracts are defined as offers with no dispatch flexibility. This type of offer includes baseload product, peaking product, as-available product, product combination I (peaking plus as-available) and product combination II (peaking plus firm products).

<u>Quantification of Benefits</u>

The benefits of forward contract offers include energy, capacity, and ancillary services. Benefits are measured in units of present value per MWh (2010 dollars and 2010 MWh).

Energy Benefits

The energy benefit for each hour of delivery is the quantity of energy delivery for an hour times the forward energy price for that hour. The quantity of energy delivery for each hour is determined by the hourly generation profile of the offer. Combination products will be considered accordingly. Discounted hourly energy benefit is summed across hours of delivery, and summed across years. The total discounted benefit is then divided by total discounted MWh of energy, expressed in terms of present value per MWh.

Capacity Benefit

The capacity benefit for Resource Adequacy (RA), for year of availability, is the monthly quantity of qualifying capacity multiplied by the monthly capacity value, discounted to 2010 dollars and summed across years. The total discounted benefit is then divided by total discounted MWh of energy, expressed in terms of present value per MWh. Pursuant to D.09-06-028, for intermittent energy (e.g. wind and solar) products, the qualifying capacity for each month is determined by the capacity that has an exceedance factor of 70% for the five on-peak hours. That is, for 70% of the time, per hour energy generation for the five peak hours (HE14 – HE18) for April through October, and HE17-HE21 for the rest of the year) is greater than or equal to the qualifying capacity. For other types of products, the qualifying capacity is determined by the monthly average of the hourly (noon to 6 pm, weekdays only) generation profile of the offer. Combination products will be considered accordingly. A unit must be online for sixty days before it can count for

[5] The methodology to assess buyout options is not discussed in this report since it is not relevant to the assessment of the contract.

RA and hence for capacity benefit. No RA value is assigned for an out-of-state intermittent energy offer if firming and shaping are not associated with the offer.

For Offers whose location would contribute to PG&E's satisfaction of its Local Capacity Requirement as specified by the CAISO and adopted by the CPUC, the capacity attributable to the Offer will be valued at a premium relative to the value of capacity that satisfies only system needs. Offers classified as forward contracts are assumed to provide zero ancillary services benefit.

<u>Quantification of Costs</u>

Cost is determined by the expected payments under each Offer, plus Transmission and Integration cost adders, which are determined using the methodology adopted by D.04-06-013 and D.05-07-040.

PG&E's payments for each Offer are determined by the Offer's price 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 (2010 dollars and 2010 MWh).

In the case of PSA Offers, PG&E's payments for each Offer are replaced by the revenue requirements, fixed and variable operations and maintenance costs, and ownership costs

Integration costs are defined as the costs and values of integrating a generation project into a system-wide electrical supply. The primary categories of integration costs are regulation, load following, and shadow capacity. Pursuant to D.04-07-029, and unless provided further guidance from the California Public Utilities Commission and/or the California Energy Commission, PG&E will assume that integration costs are zero.

Dispatchable Products

The term dispatchable is used to describe Offers which provide some flexibility in their dispatch.

<u>Quantification of Benefits</u>

Benefits include energy, capacity, and ancillary services. Benefits are measured in units of present value per MWh (2010 dollars and 2010 MWh)

Energy Benefits

Energy benefits of a dispatchable type of Offer are calculated as a daily exercise of European call options. Additional details depend on the nature of the particular characteristics of a specific Offer.

Capacity Benefits

Capacity benefit for a dispatchable type of Offer depends on the characteristics of a specific offer.

Quantification of Costs

The cost represented by a dispatchable type of Offer is calculated the same way as described above for the forward contract type, except that PG&E's payments for each Offer are determined by the Offer's pricing multiplied by the appropriate Time of Availability (TOA) factors. Cost is measured in units of present value per MWh (2010 dollars and 2010 MWh).

Integration Costs

Integration costs are defined as the costs and values of integrating a generation project into a system-wide electrical supply. The primary categories of integration costs are regulation, load following, and shadow capacity. Pursuant to D.04-07-029, and unless provided further guidance from the California Public Utilities Commission and/or the California Energy Commission, PG&E will assume that integration costs are zero.

2. Portfolio Fit

The portfolio fit measure differentiates Offers by the firmness of their energy delivery and by their energy delivery patterns. A higher portfolio fit measure is assigned to the energy that PG&E is sure to receive and fits the needs of the existing portfolio. It is extremely important that PG&E be able to count on energy when planned as part of managing its long term portfolio.

The Portfolio Fit metric is an integer value between 0 and 100, inclusive. It is obtained by averaging, with equal weighting, the two scores obtained from (1) the delivery firmness, and (2) the time of delivery. The average value is rounded to the closest integer (a half-integer value is rounded up). The scores will be accompanied by an explanation of the rationale behind the scoring.

3. Credit and Collateral Requirements

PG&E will assess the Participant's (1) credit quality (as determined by PG&E in its sole discretion), (2) collateral form/amount provided to secure its obligations (from Bid Offer up to and including Project Development Security and Delivery Term Security), and (3) credit concentration that PG&E has with the Participant and any of its affiliates. The credit assessment will result in a score on a scale of 0 (lowest) to 100 points (highest).

PG&E evaluates Offers per the terms of Section VII and Section XX of the 2009 Solicitation Protocol. Participants are required to post security in a form and amount acceptable to PG&E, as described further below.

For project development security, upon execution of the agreement and up to and including the date that is within thirty (30) days following the Agreement's CPUC Approval, a Letter of Credit or Cash in the amount of $15/kW of the maximum contract capacity. In addition, within thirty (30) days following CPUC approval and up to and including the generating facility's commercial operation date, a letter of credit or cash in the amount of $100/kW (in case of a dispatchable product) or in the case of all other products, $100/kW multiplied by the greater of either the capacity factor or .5.

The delivery term security will be in effect from the commercial operation date of the facility until the end of the delivery term. The delivery term security is equal to the average expected revenue from the project during the delivery term times the number of months based on the delivery term of the offer. For twenty year contracts, delivery term security is equal to 12 months minimum expected revenue of the project.

4. Project Viability Assessment

To evaluate project viability, PG&E uses a modified version of the final Project Viability Calculator ("PVC") provided by the CPUC's Energy Division. The CPUC allows IOU's to modify certain aspects of their final calculator. PG&E added one criteria "EPC Experience" and modified category and criteria weightings to reflect PG&E's experience with regard to assessing project viability. PG&E's version of the CPUC final PVC incorporating these changes is illustrated in Exhibit 1.

A project's viability score is based on weighted scores in three categories: (1) Company/Development team; (2) Technology; and (3) Development Milestones. The Project Viability assessment results in a score ranging from 0 to 100 points with 100 being the highest possible score. Offer information required by PG&E for evaluation of project viability is described in the 2009 Solicitation Protocol.

Exhibit 1 Project Viability Criteria

Category	**Criteria**
A. Company/Development Team	
	1. Project Development Experience 2. EPC Experience 3. Ownership/O&M Experience
B. Technology	.
	1. Technical Feasibility 2. Resource Quality 3. Manufacturing Supply Chain
C. Development Milestones	
	1. Site Control 2. Permitting Status

	3. Project Finance Status 4. Interconnection Progress 5. Transmission Requirements 6. Reasonableness of COD

In addition to scoring projects using the modified CPUC final PVC, PG&E also scores projects using its own test project viability calculator. PG&E compares its experience and outcomes using its test calculator to that using the modified CPUC calculator to develop any recommendations for possible improvements to the CPUC final PVC.

Similar to the CPUC PVC, PG&E's test calculator provides a project score ranging from 0-100 based on weighted criteria scores in three categories: (1) Participant Experience; (2) Technical Viability; and (3) Project Development. A brief description of how each category is evaluated is provided below

Participant Experience

Various factors will be considered, including the Participant's previous experience in developing, financing, constructing, and operating utility-scale power generation projects. The evaluation of Participant Experience places greater value on a greater number of projects developed, experience in California, increased likelihood of success in financing the proposed project, relationships with EPC contractors, and demonstrated experience owning and operating power generation assets. Prior experience using the same technology as proposed in the Offer also garners higher scores. Furthermore, in PG&E's experience, a Participant's previous history provides a significant indicator of future outcomes. As such, for a Participant that has previous power contract experience with PG&E, either positive or negative, PG&E may modify the score that Participant receives in this category based on such prior experience.

Technical Viability

Various factors will be considered, including the maturity of the technology being employed and technical challenges of the project relative to its proposed scale. The evaluation of technical viability places greater value on (1) technologies that are readily available in the marketplace, have multiple large-scale deployments, along with well-known operating histories, or for new technologies, demonstrable relationships to existing, known technologies, and (2) on projects that have identified and planned for addressing the technical challenges associated with the project's scale.

Project Development Status

Multiple factors will be considered relating to permitting, site control, and transmission/interconnection for the project from the generator to the delivery point. Projects already in operation, or at an advanced stage of development (e.g. permits received, sites and easements obtained, transmission studies completed, design/construction in progress, etc.) score higher than those in earlier stages of development. Demonstration of significant milestones achieved and any fees paid to apply for or obtain development rights also contribute to a higher score.

5. RPS Goals

PG&E assesses the Offer's consistency with and contribution to California's goals for the RPS program and the Offer's support of PG&E's supplier diversity goals (collectively "RPS Goals"). The RPS Goals assessment results in a score of 0 to 100 points with 100 being the highest and 0 the lowest. Determination of the extent to which the proposed development supports RPS Goals is based on the information provided in the Offer as well as PG&E's assessment of the project.

Each project is also scored based on its support of the following attributes:

- Non-quantifiable factors identified in CPUC Decision 04-07-029, including benefits to low income or minority communities, Environmental Stewardship, Local Reliability, and resource diversity benefits.

- Legislative findings and declaration that increasing California's reliance on renewable energy may do each of the following:
    i. Increase the diversity, reliability, public health and environmental benefits of the energy mix;
    ii. Promote stable electricity prices;
    iii. Protect public health;
    iv. Improve environmental quality;
    v. Stimulate sustainable economic development;
    vi. Create new employment opportunities;
    vii. Reduce reliance on imported fuels;
    viii. Ameliorate air quality problems;
    ix. Improve public health by reducing the burning of fossil fuels;
    x. Provide tangible demonstrable benefits to communities with a plurality of minority or low-income populations.

- Consistency with the CPUC's Water Action Plan adopted on December 15, 2005. To the extent a project uses water on site, its impact on California's water quality and consistency with the CPUC's recommended water conservation practices and goals is reviewed.

- Executive Order S-06-06 signed on April 25, 2006. In this executive order, Governor Schwarzenegger described the benefits or biomass resources in electricity production and established a goal that the state would meet 20% of its renewable energy needs with electricity produced from biomass. The Participant is encouraged to describe in its Offer how its ERR facility, if applicable, can support the 20% goal.

- Supplier Diversity. In support of PG&E's supplier diversity goals, the good faith efforts of Participants to subcontract with Women, Minority, and Disabled Veteran-Owned Business Enterprises (WMDVBEs) and if a Participant is a WBE, MBE, or DVBE are factors that are considered in the bid evaluation process.

6. Transmission Adder

The transmission adder adjusts Offer prices to include the cost, if any, of bringing the power from the generating facility to PG&E's network. Once Offers have been ranked on all evaluation criteria except transmission, the means by which the generation will be delivered to PG&E's customers is examined. Each bid is associated with a transmission cluster based upon the location of the facility. If a CAISO interconnection study has been completed for the project, the costs in that report are used for bid evaluation. If no study has been completed, the project's transmission costs are based upon either the ability to affect deliveries to PG&E's load through exchanges, or other commercially-recognized means, or transmission costs are assigned using the transmission ranking cost report methodology. PG&E uses the lesser of the transmission adder or alternative commercial arrangements in determining the market value of the bids and selecting the short list.

Available capacity at each transmission cluster (if any) is assigned to the bids at each cluster based on rank. Each bid is then assigned the transmission cost adder indicated by the Transmission Ranking Cost Report (TRCR) as necessary to accept its project capacity on the transmission network.

The cluster-based cost adders are used for bid evaluation only. Resource projects do not have to physically connect to a cluster, and connecting projects do not necessarily pay the interconnection prices listed in the TRCR.

After the initial ranking of Offers on Market Valuation, the team calculating the transmission adder receives a download of data for each Offer. The data is grouped by transmission cluster and sorted by Market Valuation, from highest to lowest.

PG&E assigns each Offer an estimated amount of transmission network upgrade costs, if applicable, using the Transmission Ranking Cost Table in the 2009 RPS Solicitation Protocol. Within each of the transmission clusters, PG&E has identified various levels of possible additional transmission capacity, in megawatts, and the related costs, in dollars, of providing that capacity. These megawatts and dollars in the table are divided between "Peak and Shoulder" and "Night" periods.

Within each of the transmission clusters, and within each period (Peak and Shoulder and Night), starting with the highest scoring Offer, each Offer is assigned a pro-rata share of the cost. This share is based on the Offer's maximum MW as a percentage of the maximum MW of potential generation assigned to each transmission level based on the initial ranking provided. Offers whose MW's fall into two levels are assigned a pro-rated cost based on the amount of the Offer's MWs in each transmission adder level. For purposes of determining the level to which a project's MWs are assigned, only the highest ranking Offer from each Project above it in the cluster ranking is considered. This rule is intended to prevent the allocation of transmission capacity to multiple Offers of a single project.

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

If the proposed project is located outside the CAISO-controlled grid and is offering delivery outside the CAISO grid, the Seller is asked but not required to provide a premium it would charge to deliver the energy onto or to an intertie with the CAISO grid. Such a premium could be expected to include the cost of wheeling and related charges through the host utility and any intervening utilities. Following the application of such a premium, the resulting transmission cost adder is based on the transmission ranking cost at the cluster closest to the point where its power would enter PG&E's territory (e.g. for power coming in from the Pacific Northwest, the cluster would be Round Mountain). This premium typically applies to Offers outside of the CAISO-controlled grid and ensure those Offers are properly valued with respect to Offers with delivery within the CAISO-controlled grid. However, as noted above, PG&E also considers possible commercial arrangements that might be more economical than physically transmitting the power to the PG&E service area and will choose the most cost-effective option using least-cost best-fit principles. For shortlisting purposes, as a proxy for the cost of entering into a banking/shaping/firming agreement to effect delivery of energy from an out-of-state point to the CAISO-controlled grid, the full cost of the applicable transmission tariff(s) is used to represent the cost of such a service.

A Present Value Revenue Requirement (PVRR) is calculated from the Transmission Ranking Cost Report for each evaluated bid. This PVRR captures from a ratepayer perspective the risk and cost to construct and maintain transmission upgrades to accommodate the generation from the renewable resource.

This PVRR of the costs of the Network Upgrades are converted into a present value per MWh (2010 $ and 2010 MWh) by dividing the PVRR by the Discounted MWh. These present value per MWh (2010 $ and 2010 MWh) values, one for each Offer, are returned to the database for a recalculation of the Market Valuation.

Analysis of Results

The pricing in the Norman Ross Burgess contract is for the term of the contract. Payment shall be adjusted by the appropriate Time of Delivery (TOD) factor listed in Appendix C of the contract.

To assess the value of the contract, PG&E has compiled the Levelized Net Margin Metric ($/MWh) based on the same methodology used for the evaluation and selection of short listed bids from the 2009 RFO as well as other bilateral contracts either recently executed or under consideration. PG&E reports a Levelized Net Margin for the Norman Ross Burgess contract of .

Also, the contract price is than the 2009 Market Price Referent ("MPR") of $100.98/MWh for a 20 year contract beginning in 2011 but the comparable 2008 MPR of $117.30/MWh which was in effect when contract negotiations were initiated.

From a qualitative perspective, the project would have ranked highly as well. The underlying generating facility is currently in operations, which eliminates project development risk. The project has secured site control, has been fully permitted and financed, and is already connected to the CAISO grid. Furthermore, the contract will result in deliveries of renewable energy in the near term.

IV. Evaluate the Fairness of the IOU's Bidding and Selection Process

The contract which is the subject of this filing was negotiated via a bilateral agreement and was not a part of the bidding and solicitation process. Therefore, this section of the report will focus on the fairness and consistency of the evaluation methodology and process used by PG&E to evaluate the contract and assess whether this methodology was consistent with the methodology used to evaluate bids received in response to recent solicitation processes.[6] Principles such as the following would apply to such bilateral contracts:

- Did PG&E consistently apply the requirements, procedures, and criteria of the evaluation process as identified in the applicable RFP documents?
- Were the same cost factors included in the evaluation of the project?
- Was there any evidence of undue bias regarding the evaluation and selection process?

The contract has been evaluated by PG&E relative to the requirements of D. 09-06-050 as well as the short list results from the 2009 RPS Solicitation. As a result, this section of

[6] A number of criteria or principles used to determine the fairness of a solicitation process are not applicable to bilateral negotiations, such as principles related to bidder access to the same information, equitable treatment of all bidders, consistent application of the same information, etc.

the report will assess whether the selection of this resource conforms to the requirements of D. 09-06-050 and the short list selection principles from the 2009 Renewable RPS Solicitation process.

As noted, PG&E evaluated the project using the same methodology and assumptions used to evaluate short-listed bidders from the 2009 solicitation, including calculation of Market Value, which allows for a consistent assessment of the project relative to the 2009 short list.

From a qualitative perspective, the generating project underlying the transaction is a fully developed project that has been in operations for a number of years. As previously noted, the project has a secure site, is fully connected and integrated into the transmission grid, is based on a proven technology, and contains no permitting, financing or interconnection challenges. The project is an in-state project located within the Utility service territory and will interconnect directly into the CAISO grid. This project would therefore be classified as a highly viable project.

In conclusion, the evaluation process undertaken by PG&E is consistent with the evaluation process and criteria used to undertake the evaluation of bids submitted in response to the 2009 RPS Solicitation, is a fair and unbiased process, and produces reasonable and consistent results.

V. Outreach to Bidders

PG&E negotiated the agreement as a bilateral contract rather than selecting the project through a solicitation process. PG&E has a QF contract with the facility, which expires in 2010. Therefore, outreach initiatives focusing on a solicitation process in this category are not applicable. However, PG&E commenced discussions with Three Forks during the 2009 RPS Solicitation cycle.

VI. Contract Negotiations Process

As noted, during the contract negotiation process Merrimack Energy had the opportunity to review a few mark-ups of the contract, participated in project conference calls and participated in discussions with PG&E's lead transactor on the status of contract negotiation. The contract was largely based on the contract of another similar 4 MW hydro facility which, at this time, has achieved CPUC approval. Many of the provisions of PG&E's standard form Power Purchase Agreement ("PPA") are not included in this contract due to the small size of the facility and the fact that the project is an existing operational project. However, all CPUC non-modifiable provisions included in PG&E's standard form PPA are included in this contract, albeit in a more simplified form.

The contract does include delivery term security of for the 1.625 MW facility, which is consistent with PG&E's credit policy. Several standard terms and conditions such as guaranteed energy production, events of default and force majeure are either modified or excluded due to the project status and size.

There were no outstanding contract terms or conditions that were of concern to the IE.

VII Safeguards to Compare Affiliate Bids or Utility Owned Generation Options

This section is not applicable since this is a third-party non-affiliate transaction.

VIII. Recommendation For Contract Approval

Based on the review and evaluation of the contract negotiation process and results of the process, the IE believes that the contract was negotiated fairly and reasonably. PG&E also exhibited a reasonable degree of flexibility in the negotiation process given the nature of the resource. Finally, the contract price is competitive with recent bids received from the 2009 RPS Solicitation as well as bilateral contracts offered. Merrimack Energy therefore believes the contract reasonably merits Commission approval.

In addition:

- The contract is made with the owners of a generating facility that is in commercial operations;
- The levelized price of the contract is competitive with the established price benchmarks;
- The terms and conditions in the contract include the non-modifiable provisions in the proforma contract submitted with PG&E's RPS RFO Procurement Plan;
- The contract terms were reviewed by the IE;
- The contract is consistent with the utility's least-cost best-fit criteria for RPS procurement and is competitive with the highest ranked short listed options from the 2009 RPS Solicitation;

Based on the results of the quantitative analysis undertaken by PG&E and reviewed by the IE, the viability of the existing Three Forks Water Power Project and the balanced risk allocation provisions in the contract, the IE recommends that the contract warrants approval by the CPUC.

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

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