

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



January 22, 2015

Advice Letter 4489-E

Meredith Allen
Senior Director, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

**Subject: Approval of PG&E's Power Purchase Agreement with
Tesoro Refining and Marketing Company LLC for
Procurement of Combined Heat and Power Energy and
Capacity**

Dear Ms. Allen:

Advice Letter 4489-E is effective January 20, 2015.

Sincerely,

A handwritten signature in cursive script that reads "Edward Randolph".

Edward Randolph
Director, Energy Division



September 12, 2014

Advice 4489-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Approval of Pacific Gas and Electric Company's Power Purchase Agreement With Tesoro Refining & Marketing Company LLC for Procurement of Combined Heat and Power Energy and Capacity

I. INTRODUCTION

A. Purpose of the Advice Letter

Pacific Gas and Electric Company ("PG&E") seeks California Public Utilities Commission ("Commission" or "CPUC") approval of the Power Purchase Agreement ("PPA") that PG&E has executed with Tesoro Refining & Marketing Company LLC ("Tesoro") for deliveries from an existing 99.9 megawatt ("MW") cogeneration facility, owned by the Martinez Limited Cogeneration Partnership and known as "Tesoro Martinez" or "Facility" located in Martinez, California. This PPA ("Tesoro Agreement") will replace an existing Combined Heat and Power ("CHP") Transition PPA expiring on June 30, 2015.¹

The Tesoro Agreement resulted from an offer that Tesoro submitted into PG&E's third competitive solicitation or "Request for Offers" ("RFO") for CHP. PG&E conducted this CHP RFO to accordance with the Qualifying Facility ("QF")/CHP Settlement Agreement ("Settlement Agreement" or "Settlement") adopted by Commission Decision ("D.") 10-12-035. Through this RFO, PG&E intended to procure CHP resources that count toward the CHP MW target established for PG&E by the Settlement Agreement. The Tesoro Martinez offer was one of the best-ranked offers. After negotiations, the parties executed the Tesoro Agreement. The effectiveness of the agreement is subject to Final CPUC Approval.

The Tesoro Agreement provides significant benefits relative to the existing CHP Transition PPA, including the following:

¹ Capitalized terms that are not defined in this document have the meaning provided by the Tesoro Agreement.

- Updated Terms and Conditions that will improve the operational integration of Tesoro's generation with the electric grid;
- The continued operation of an Existing CHP Facility that will meet, and will continue to meet, the Federal Energy Regulatory Commission ("FERC") QF efficiency standards; and
- A contribution of 99.9 MW towards the MW Target established for PG&E by the Settlement Agreement.

Subject to Commission approval and the satisfaction of other conditions precedent, the Tesoro Agreement's 82-month delivery term will start on July 1, 2015, which is the day after the Transition PPA expires.

The terms and conditions of the Tesoro Agreement are reasonable and merit the Commission's unconditional approval. The Tesoro Agreement is essentially the pro-forma CHP PPA, subject to non-material modifications. Accordingly, PG&E seeks approval through a "Tier 2 Advice Letter."² The Commission should authorize PG&E to recover the costs of the Tesoro Agreement through its Energy Resource Recovery Account ("ERRA"), as provided by the Settlement Agreement,³ consistent with D.10-12-035, as modified by D.11-07-010, and PG&E's Advice Letter 3922-E.⁴ PG&E asks the Commission to approve the Tesoro Agreement as set forth in Section V, below, no later than February 1, 2015.

B. Background

The Settlement Agreement between PG&E, the other investor-owned utilities ("IOU"), representatives of QF/CHP generators, and consumer representatives ("Settling Parties")⁵ established the New CHP Program for California. The operative provisions of the Settlement Agreement are contained in the Term Sheet. The Term Sheet provided a form Transition PPA that could be signed by existing QFs such as Tesoro Martinez to continue their existing deliveries to IOUs until June 30, 2015.

The Term Sheet requires PG&E to procure at least 1,387 MW of eligible CHP capacity during the Initial Program Period.⁶ The IOUs must conduct three RFOs exclusively for

² See Section 4.10.1 of the Settlement Agreement Term Sheet ("Term Sheet").

³ Specifically, Term Sheet Sections 13.1.2.2 and 13.2.1.

⁴ PG&E Advice Letter 3922-E was approved on December 19, 2011.

⁵ The settling parties consist of Southern California Edison, San Diego Gas & Electric Company, California Cogeneration Council, Cogeneration Association of California, Energy Producers and Users Coalition, Independent Energy Producers Association, The Utility Reform Network ("TURN") and the Office of Ratepayer Advocates ("ORA").

⁶ Term Sheet, Section 2.2.2.2. The Initial Program Period began on the Settlement Effective Date, November 23, 2011, and will conclude on November 22, 2015.

CHP resources and may use other means to achieve their MW targets.⁷ The Term Sheet also specifies a Greenhouse Gas (“GHG”) Emissions Reduction Target, of which PG&E’s portion is currently estimated to be 2.17 million metric tons (“MT”); however, completion of the GHG Target is not required until the end of the Second Program Period in 2020.

The Tesoro Agreement originated from PG&E’s third CHP RFO, which was issued on January 23, 2014.⁸ The *Combined Heat and Power Request for Offers – Protocol for Third Solicitation* (“CHP RFO Protocol”) sets forth the terms and conditions of PG&E’s third competitive solicitation for CHP resources.⁹ PG&E requested offers for existing, new, repowered and expanded CHP facilities, Utility Prescheduled Facilities and CHP capacity-only products. PG&E stated a strong preference for offers that are low cost and from facilities with efficient operations. Additionally, PG&E sought offers that either have low associated GHG emissions or provide GHG emissions reductions under the Settlement through changes in operations or technology. As required by the Commission, PG&E engaged an Independent Evaluator to assure that the CHP RFO was conducted fairly and that PG&E’s selection of winning offers was fair and reasonable.¹⁰

PG&E reviewed the merits of each offer received in the CHP RFO and compiled a shortlist of the most attractive offers. On April 22, 2014, PG&E informed Tesoro that its offer had been shortlisted. The parties subsequently engaged in negotiations over the terms of the offers. On August 25, 2014, PG&E and Tesoro executed the Tesoro Agreement.

⁷ Term Sheet, Section 4.2.1, specifies that each IOU shall conduct RFOs exclusively for CHP resources (CHP RFOs) for achieving its CHP MW and GHG Emissions Reduction Target.

⁸ The MW procurement targets are set forth in Section 5.1.2 of the Term Sheet, and the GHG Emissions Reduction Targets are explained Article 6 of the Term Sheet.

⁹ The third CHP RFO Protocol is available for public review on PG&E’s website at: http://www.pge.com/includes/docs/pdfs/b2b/wholesaleelectricssuppliersolicitation/CHP3/CHP_RF03_Protocol_Document.pdf.

¹⁰ Term Sheet, Section 4.2.5.7; PG&E Bundled Procurement Plan, Appendix 1, Sheet 179.

C. General Project Summary

Project Name	Martinez Limited Cogeneration Partnership or Tesoro Martinez
Owner/Developer	Tesoro Refining & Marketing Company LLC
Technology	Combined cycle cogeneration power plant consisting of 2 GE designed Frame 6B gas turbines each with a Foster Wheeler Heat Recovery Unit
Contract Capacity (MW)	99.9 MW ¹¹
Expected Generation (MWh/Year)	220,000 MWh/Year
Delivery Pattern (As-Available, Firm, Utility Prescheduled Facility)	As-available
Delivery Term (number of months)	82 months
Vintage (New, Existing, Repower, Expanded, Utility Prescheduled Facility)	Existing
Location (city and state)	Martinez, CA
Source of Agreement (e.g., RFO or Bilateral Negotiations)	RFO

- A confidential description of the Tesoro Agreement's consistency with the Commission's Decisions and Rules is attached as Confidential Appendix A.
- A confidential version of the Independent Evaluator's Report is attached as Confidential Appendix B.
- A confidential summary of the Tesoro Agreement is attached as Confidential Appendix C.

¹¹ Contract capacity is the maximum capacity that may be transacted under the contract. Nameplate capacity is the maximum design capacity. The contract capacity and nameplate capacity of the Tesoro Agreement is 99.9 MW.

- A comparison of the Tesoro Agreement with PG&E's CHP Pro Forma PPA is attached as Confidential Appendix D.
- The Tesoro Agreement is attached as Confidential Appendix E.

D. General Project Description

Tesoro Martinez is co-located with the Tesoro Martinez Refinery in Martinez, California. The Facility consists of two GE Frame 6 Gas Turbines each with Heat Recovery Steam Generators for a total combined nameplate of 99.9 MW. Tesoro Martinez is an existing QF that has been providing steam and electricity to the Tesoro Martinez Refinery for over 25 years. The Tesoro Martinez Refinery uses the thermal energy and electricity from the Facility to process crude oil into lubricants and fuels. The additional power from the Facility currently is sold to PG&E under the Transition PPA.

E. QF/CHP Settlement Targets

The Tesoro Agreement will contribute 99.9 MW of capacity towards the CHP MW Target assigned to PG&E under the following provisions of Section 5.2.3.1 of the Term Sheet:

For the purposes of Section 5.2 regarding MW counting, Existing CHP Facilities are gas-fired Topping Cycle CHP Facilities that exported and delivered electric power to an IOU listed by QF ID number in each IOU's July 2010 Cogeneration and Small Power Production Report (July 2010 Semi-Annual Report) – "Contract Nameplate," as amended, if necessary. The MWs counted for New PPAs executed with Existing CHP Facilities will be the published Contract Nameplate value, unless otherwise noted in this Settlement.

The Tesoro Martinez facility was listed in PG&E's July 2010 Semi-Annual Report with a contract nameplate capacity of 99.9 MW. The following table illustrates the Tesoro Agreement's contribution towards PG&E's MW Target.

Table A
PG&E's MW Target as Prescribed by the QF/CHP Settlement

Project Name	PG&E's MW Target by the End of the Initial Program Period	MWs Procured From Project to Count Towards PG&E's Settlement MW Target	As-Available Average MWs (AMWs) (Where Applicable)
Tesoro Martinez	1,387	99.9	N/A

Under the Tesoro Agreement, operations at the Facility will continue as they are under the Transition PPA. Term Sheet Section 7.3.3.1 states that an Existing CHP facility with no change in operations, such as Tesoro Martinez, "is neutral for GHG accounting purposes." The Tesoro Agreement will count as neutral towards PG&E's GHG Emissions Reduction Target. See Table B, below.

Table B
GHG Target as Prescribed by the QF/CHP Settlement

Project Name	PG&E's GHG Target by 2020 (MTCO ₂ e)	GHG Credit/Debit of Project to Count Towards the Settlement GHG Target (MTCO ₂ e)
Tesoro Martinez	Currently 2.17 million	0

The Energy Division's 2012 update of PG&E's 2020 GHG Target is used as "PG&E's GHG Target by 2020." This number is subject to revision based on conditions in effect on the deadline for GHG Target compliance.¹²

¹² Term Sheet, Sections 6.1.1.4., 6.4, 6.5, 6.6, and 6.7.

II. CONSISTENCY WITH COMMISSION DECISIONS

A. Consistency With PG&E's Requirements During the Initial Program Period Adopted in the QF/CHP Settlement

PG&E's obligations under the Settlement Agreement are set forth in the Term Sheet. Specifically, during the Initial Program Period¹³ adopted in the Settlement, the MW Target for PG&E is 1,387 MW.¹⁴ The MW Targets may be met through a variety of procurement mechanisms, including any of the CHP Procurement Processes described in Term Sheet Section 4.¹⁵ PG&E must conduct three RFOs exclusively for CHP resources as a means of achieving its MW Target and its GHG Emissions Reduction Targets.¹⁶ Participants in CHP RFOs must meet specific eligibility criteria.¹⁷ CHP RFO PPAs are subject to maximum terms¹⁸ and must be found to be reasonable when evaluated in accordance with specified criteria.¹⁹ As part of the offer package for each CHP RFO, each IOU may request offers with specific terms that differ from the CHP Pro Forma PPA.²⁰ The Settlement included a CHP Form PPA, which is sometimes referred to as a "pro-forma agreement," to be used in CHP RFOs, pursuant to Sections 4.2.6 and 4.2.12 of the Term Sheet.

PG&E's selection and execution of the Tesoro Agreement is consistent with all of these obligations.

Tesoro Martinez is an eligible CHP facility that meets the criteria of Section 4.2.2.1 of the Term Sheet. Tesoro Martinez is an existing natural gas-fired qualifying cogeneration facility that meets and will continue to meet Public Utility Regulatory Policies Act efficiency requirements. The Tesoro Agreement originated from the third of the three CHP RFOs that PG&E is required to hold during the Initial Program Period.

¹³ The "Initial Program Period" commenced on the Settlement Effective Date, November 23, 2011, and will conclude November 22, 2015. Term Sheet, Section 2.2.1.

¹⁴ Term Sheet, Section 2.2.2.2.

¹⁵ Term Sheet, Section 5.1.1.

¹⁶ Term Sheet, Sections 4.2.1 and 5.1.4.1.

¹⁷ Term Sheet, Section 4.2.2.

¹⁸ Term Sheet, Section 4.2.3.

¹⁹ Term Sheet, Sections 4.2.5.3 through 4.2.5.7.

²⁰ Term Sheet, Section 4.2.12.

PG&E's RFO Protocol expressed a strong preference for offers that were low cost, efficient, provided GHG reductions and located in PG&E's service territory.²¹ While these are preliminary considerations, offers are selected for further consideration on the basis of the value they provide to PG&E's customers, in light of their contributions to PG&E's resource portfolio.

Tesoro Martinez will provide energy and capacity to the CAISO controlled grid. The Agreement recognizes the "unique attributes" of this CHP facility and meets the CHP program objectives described in the Settlement.²²

A closer evaluation of commercially sensitive terms, such as pricing and operational requirements, supports PG&E's decision to execute the Tesoro Agreement. PG&E's evaluation and selection of the Tesoro Agreement is provided in Confidential Appendix A.

B. Confidentiality

In support of this request for approval, PG&E has attached materials that describe the Tesoro Martinez transaction and its benefits. Certain information in these documents, such as the price, terms and conditions of performance, market-based comparisons with alternatives, the parties' negotiations, and other factors, could affect the price that PG&E subsequently pays for energy and is deemed to be confidential market sensitive information that should be protected from public disclosure. The following documents are appended to and constitute a part of this advice letter; those which contain confidential information are provided in redacted form, where possible, or are confidential in their entirety.

Appendix 1:	<i>Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014</i> of Merrimack Energy Group, Inc. (Redacted)
Appendix 2:	Declaration of Hugh M. Merriam Seeking Confidential Treatment and the IOU Matrix
Confidential Appendix A:	Project Evaluation and Consistency With Commission Decisions and Rules

²¹ PG&E's "Combined Heat and Power Request for Offers Protocol for CHP RFO Three" is available for public review on PG&E's website at:

http://www.pge.com/includes/docs/pdfs/b2b/wholesaleelectricssuppliersolicitation/CHP3/CHP_RF03_Protocol_Document.pdf.

²² Term Sheet, Sections 1.2.2 and 4.2.5.2.

Confidential Appendix B:	<i>Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014 of Merrimack Energy Group, Inc.</i>
Confidential Appendix C:	Contract Summary
Confidential Appendix D:	Comparison of the Tesoro Agreement With PG&E's CHP Pro Forma PPA
Confidential Appendix E:	Tesoro Agreement

This information is being submitted in the manner directed by the *Decision Adopting Model Protective Order and Non-Disclosure Agreement, Resolving Petition For Modification and Ratifying Administrative Law Judge Ruling, D.08-04-023* (issued on April 18, 2008), 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 ("GO") 66-C. In support of this request for confidential treatment, the *Declaration of Hugh M. Merriam Seeking Confidential Treatment and the IOU Matrix* is attached as Appendix 2 to this advice letter.

C. Interim Emissions Performance Standard

Pursuant to Section 4.10.4 of the Term Sheet, a Tier 2 or Tier 3 advice letter seeking approval of a PPA with a term equal to or greater than five years in length must demonstrate that the PPA complies with the Emissions Performance Standard ("EPS") that was adopted in D.07-01-039.²³ The EPS applies to new or renewed contracts for a term of five or more years for "baseload generation," which is electricity generation from a power plant that is designed and intended to provide electricity at an annualized plant capacity factor of at least 60 percent.²⁴

The EPS applies to the Tesoro Agreement because its term is greater than five years and the Facility's expected capacity factor will exceed 60 percent. The Facility complies with the EPS because the net emissions from its expected operations will be less than 1,100 pounds of carbon dioxide per MWh. The calculations supporting compliance with the EPS are shown in Confidential Appendix A.

²³ Public Utilities ("Pub. Util.") Code Section 8341(b)(1) states: "The commission shall not approve a long-term financial commitment by an electrical corporation unless any baseload generation supplied under the long-term financial commitment complies with the greenhouse gases emission performance standard established by the commission...."

²⁴ Pub. Util. Code Section 8340(a).

Accordingly, the Commission should find that the Tesoro Agreement is compliant with the EPS for purposes of Section 4.10.4.1 of the Term Sheet.

D. Procurement Review Group and Cost Allocation Mechanism Group Participation

The Term Sheet provides that each IOU's Procurement Review Group ("PRG") shall advise the CHP RFO process.²⁵ PG&E's Cost Allocation Mechanism ("CAM") Group is also consulted because procurement under the QF/CHP Settlement will be allocated to all benefitting customers in accordance with D.10-12-035, Ordering Paragraph 5. When procuring or potentially procuring CHP resources under D.10-12-035 where the costs are allocated to all benefitting customers, PG&E utilizes an advisory CAM Group.²⁶

PG&E's CAM Group includes the members of PG&E's PRG, that is, representatives of Commission's Energy Division and ORA, TURN, the Coalition of California Utility Employees, Department of Water Resources, the Union of Concerned Scientists, and Coast Economic Consulting. In addition, PG&E's CAM Group includes one member representing Community Choice Aggregation ("CCA") customers and one member representing Direct Access ("DA") customers.

PG&E presented its third CHP RFO to its consultative groups at three meetings beginning in January 14, 2014. On January 14, 2014, PG&E presented to the PRG and CAM Group that it would launch its third CHP RFO and sought PRG and CAM comments and questions. After performing an initial review of the submitted offers, on April 18, 2014, PG&E provided the PRG and CAM Group with the number and types of offers it had received in general terms and an overview of its CHP RFO offer evaluation methodology. PG&E presented the shortlisted offers from its third CHP RFO to the PRG and to the CAM Group. The Tesoro Martinez transaction was included on the shortlist of offers. On July 17, 2014, PG&E presented the proposed to be agreed-upon terms and the status of the Tesoro Agreement to its PRG Group.

During each of these information sessions, CAM members were invited and were subsequently briefed either in person or telephonically if they were not able to attend the originally scheduled meetings. There was ample opportunity for a complete discussion of the terms and conditions under which the solicitation was undertaken, the features and merits of the offers received, and the methodology and reasons for PG&E's ranking of the offers. Throughout this process, PG&E provided answers in response to any comments or questions from its CAM Group members.

²⁵ Term Sheet Section 4.2.5.8.

²⁶ See PG&E's Long Term Procurement Plan, filed May 21, 2012, Sheet 175.

E. Independent Evaluator

PG&E engaged an Independent Evaluator (“IE”) as required by the Settlement Decision and D.07-12-052, which approved the 2006 Long-Term Procurement Plan (“LTPP”) of the IOUs. The LTPP Decision requires IOUs to engage an IE to monitor the integrity of their competitive solicitations for electric supply-side resources with a delivery term of two years or more. The scope of the IE’s work includes reviewing and advising on the solicitation protocol, the actual conduct of the solicitation, the offer evaluation and shortlist selection process, monitoring the IOU-provider negotiations, and opinion on contract execution. The IE for PG&E’s third CHP RFO was Merrimack Energy Group, Inc. (“Merrimack Energy”). In the course of its CHP RFO evaluation, Merrimack Energy also evaluated the integrity of the means by which PG&E executed any agreement with a participant in the third CHP RFO and the merit of the resulting agreement. In this case, Merrimack Energy was represented by Wayne Oliver.

Before PG&E opened the offers it received in response to its third CHP RFO, the IE reviewed PG&E’s development of its CHP RFO 3 evaluation criteria and its protocols for the evaluation of offers. Mr. Oliver was present at offer opening, received a copy of all offer documents, and performed an independent evaluation of the offers. In addition to attending and monitoring the substantive negotiations between the parties and discussions within PG&E, Mr. Oliver participated in every CAM Group meeting related to PG&E’s third CHP RFO solicitation. Based upon his comprehensive knowledge of the third CHP RFO and its objectives, Mr. Oliver issued the *Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014* (“IE Report”), which provides his findings on PG&E’s conduct of its third CHP RFO solicitation, the offers, his concurrence with the ranking and shortlist, his critique of the contract negotiation process, and his evaluation of the key terms of the Tesoro Agreement. His observations were shared with the PRG and CAM Group on July 17, 2014. The IE concluded that the Tesoro Agreement merits Commission approval.

III. REGULATORY PROCESS

PG&E requests that a Resolution approving the Tesoro Agreement be issued no later than February 1, 2015.

IV. COST RECOVERY MECHANISM

In its decision approving the QF/CHP Settlement, the Commission determined that the utilities should procure “CHP resources on behalf of non-IOU LSEs [i.e., load serving entities] and [allocate the] net capacity costs and associated benefits as described in Section 13.1.2.2 of the Term Sheet.”²⁷ Section 13.1.2.2 of the Term Sheet provides:

If the CPUC determines that the IOUs should purchase CHP generation on behalf of DA and CCA customers, then D.06-07-029 (and D.08-09-012 if necessary) shall be superseded to the extent necessary to authorize the IOUs to recover the net capacity costs associated with the CHP Program from all bundled service, DA and CCA customers and all Departing Load Customers except for CHP Departing Load Customers and from Municipal Departing Load (MDL) Customers only to the extent as described below, on a non-bypassable basis. The net capacity costs of the CHP Program shall be defined as the total costs paid by the IOU under the CHP Program less the value of the energy and any ancillary services supplied to the IOU under the CHP Program. No energy auction shall be required to value such energy and ancillary services. In exchange for paying a share of the net costs of the CHP Program, the LSEs serving DA and CCA customers will receive a pro-rata share of the RA [Resource Adequacy] credits procured via the CHP Program.²⁸

PG&E is entering into the Tesoro Agreement pursuant to the terms of the QF/CHP Settlement. PG&E’s procurement of the Tesoro Agreement will help to satisfy the QF/CHP Settlement requirements for CHP procurement and GHG emissions reductions associated with the customers of Energy Service Providers (“ESP”) who facilitate DA service, and CCAs, as well as its own MW and GHG Emissions Reduction Targets. Accordingly, the net capacity costs associated with the Tesoro Agreement must be proportionately allocated to all bundled, DA, CCA, and specified Departing Load (“DL”) Customers.

The net capacity costs of the Tesoro Agreement will be recovered through PG&E’s New System Generation Balancing Account, which is collected through the non-bypassable charge on all end users within PG&E’s territory. In exchange for this proportionate

²⁷ The Commission adopted IOU procurement of CHP resources as a means of meeting the ESP and CCA portion of the state’s GHG Emissions Reduction Targets and stated that “ESP and CCA customers would be responsible for the costs of CHP resources procured on their behalf by the IOUs.” D.10-12-035, at p. 56.

²⁸ Term Sheet, Section 13.1.2.2., as modified by D.11-07-010, OP 3.

allocation of costs, bundled, DA, CCA and other nonexempt DL Customers will receive a commensurate portion of RA benefits associated with the Tesoro Agreement. PG&E requests authorization to recover its costs associated with the Tesoro Agreement through its ERRA.

V. REQUEST FOR COMMISSION APPROVAL

PG&E requests that the Commission issue a resolution no later than February 1, 2015, that:

1. Approves the Tesoro Agreement in its entirety, including payments to be made thereunder, subject only to Commission review of the reasonableness of PG&E's administration of the contract.
2. Determines that the rates and other terms and conditions set forth in the Tesoro Agreement are reasonable.
3. Finds that 99.9 MW from the Tesoro Agreement applies toward PG&E's procurement target of 1,387 MW of CHP capacity in the Initial Program Period, as established by the QF/CHP Settlement.
4. Finds that PG&E's shall recover the costs incurred pursuant to the Tesoro Agreement in rates.
5. Adopts the following findings of fact and conclusions of law in support of cost recovery for the Tesoro Agreement:
 - a. PG&E shall be entitled to allocate the net capacity costs and associated RA benefits to bundled, DA, CCA, and departing load (to the extent not exempted) customers consistent with D.10-12-035, as modified by D.11-07-010, and PG&E's Advice Letter No. 3922-E, approved December 19, 2011.
 - b. The costs of the Tesoro Agreement are recoverable through ERRA less the net capacity costs, which are recovered through PG&E's NSGBA.
6. Find that the Tesoro Agreement is compliant with the EPS adopted in D.07-01-039.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, facsimile or E-mail, no later than October 2, 2014, which is 20 days after the date of this filing. Protests must be submitted to:

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

Facsimile: (415) 703-2200
E-mail: EDTariffUnit@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 shall also be sent to PG&E via either E-mail or U.S. mail (and by facsimile, if possible) at the address shown below on the same date it is mailed or delivered to the Commission:

Meredith Allen
Senior Director, 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

Any person (including individuals, groups, or organizations) may protest or respond to an advice letter (GO 96-B, Rule 7.4). The protest shall contain the following information: specification of the advice letter protested; grounds for the protest; supporting factual information or legal argument; name, telephone number, postal address, and (where appropriate) e-mail address of the protestant; and statement that the protest was sent to the utility no later than the day on which the protest was submitted to the reviewing Industry Division (GO 96-B, Rule 3.11).

Effective Date

PG&E requests that this advice filing be effective on or before February 1, 2015. PG&E submits this request as a Tier 2 advice letter because Tesoro Martinez is an Existing CHP Facility and the Agreement is based on the CHP Pro Forma PPA without material modification.

Notice

In accordance with GO 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for Rulemaking ("R.") 13-12-010. Address changes to the GO 96-B service list should be directed to PG&E at e-mail address 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. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.



Senior Director, Regulatory Relations

Attachments:

- | | |
|--------------------------|---|
| Appendix 1: | <i>Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014 of Merrimack Energy Group, Inc. (Redacted)</i> |
| Appendix 2: | Declaration of Hugh M. Merriam Seeking Confidential Treatment and the IOU Matrix |
| Confidential Appendix A: | Project Evaluation and Consistency With Commission Decisions and Rules |
| Confidential Appendix B: | <i>Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014 of Merrimack Energy Group, Inc.</i> |
| Confidential Appendix C: | Contract Summary |
| Confidential Appendix D: | Comparison of the Tesoro Agreement With PG&E's CHP Pro Forma PPA |
| Confidential Appendix E: | Tesoro Agreement |

cc: Damon Franz, Energy Division, CPUC
Noel Crisostomo, Energy Division, CPUC
Jason Houck, Energy Division, CPUC
Amy Kochanowsky, Energy Division, CPUC
Yuliya Shmidt, ORA, CPUC
Service List for R.13-12-010

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 contracts themselves, price information, and analysis of the proposed energy procurement contracts, which are protected pursuant to D.06-06-066 and D.08-04-023. A declaration seeking confidential treatment of the following attachments is being submitted with this advice letter in accordance with D.08-04-023:

- Confidential Appendix A: Project Evaluation and Consistency With Commission Decisions and Rules
- Confidential Appendix B: *Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014* of Merrimack Energy Group, Inc.
- Confidential Appendix C: Contract Summary
- Confidential Appendix D: Comparison of the Tesoro Agreement With PG&E's CHP Pro Forma PPA
- Confidential Appendix E: Tesoro Agreement

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 E)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Jennifer Wirowek

Phone #: (415) 973-1419

E-mail: J6ws@pge.com and PGETariffs@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) #: **4489-E**

Tier: **2**

Subject of AL: **Approval of Pacific Gas and Electric Company's Power Purchase Agreement With Tesoro Refining & Marketing Company LLC for Procurement of Combined Heat and Power Energy and Capacity**

Keywords (choose from CPUC listing): Agreements, Portfolio

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.10-12-035

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 appendix 2

Confidential information will be made available to those who have executed a nondisclosure agreement: Yes No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: Evelyn Lee 415-973-2786

Resolution Required? Yes No

Requested effective date: **February 1, 2015**

No. of tariff sheets: N/A

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

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

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

Tariff schedules affected: N/A

Service affected and changes proposed: N/A

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:

California Public Utilities Commission

Energy Division

EDTariffUnit

505 Van Ness Ave., 4th Flr.

San Francisco, CA 94102

E-mail: EDTariffUnit@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Meredith Allen

Senior Director, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

Appendix 1

**Independent Evaluator Report on Bid Evaluation and Selection Process
Tesoro Martinez Power Purchase Agreement – September, 2014 of
Merrimack Energy Group, Inc. (Redacted)**

***Pacific Gas and Electric Company
Combined Heat and Power Request for Offers for Third
Solicitation
2014
Public Version***

***Independent Evaluator Report on
Bid Evaluation and Selection Process
Tesoro Martinez Power Purchase Agreement***

September, 2014

***Prepared by
Merrimack Energy Group, Inc.
26 Shipway Place
Charlestown, Mass. 02129***



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Introduction

A. Overview

Pacific Gas and Electric Company (“PG&E”) is seeking California Public Utilities Commission (“Commission” or “CPUC”) approval of a power purchase agreement (“PPA”) with Tesoro Refining and Marketing Company LLC for the purchase of as-available capacity and energy from the Martinez Cogeneration Limited Partnership (“MCLP”) facility at Tesoro’s Golden Eagle Refinery, an existing combined heat and power (“CHP”) Facility located in Martinez, California. The as-available capacity of the facility has a total nameplate rating of 99.9 MW. Tesoro estimates that host demand is approximately 75 MW during normal operations, leaving available capacity of approximately 25 MW on average.

The facility is a combined cycle cogeneration power plant consisting of two John Brown Engineering (now GE) 6B turbines rated at approximately 35 MW, each with a Foster Wheeler heat recovery system and single extraction and a condensing steam turbine generator rated at 30 MW. The agreement is for a term of 82 months. The delivery term of the agreement starts on July 1, 2015 and runs through April 2022. The Martinez facility’s annual as-available energy output is expected to be 220,000 MWh.

The Golden Eagle Refinery is the steam host for the MCLP facility. The existing cogeneration facility has sold its output to PG&E under a CHP Transition PPA which expires on June 30, 2015. The refinery takes the majority of electric load from the MCLP facility and benefits its energy and GHG position by optimizing the steam from the facility. For this reason, Tesoro is offering an as-available type capacity structure as most consistent with the operation of the facility. Under the new PPA, the facility will continue to deliver steam and electricity to the Golden Eagle Refinery.

On January 23, 2014, PG&E issued its third Combined Heat and Power Request for Offers Protocol (“CHP RFO 3” or “CHP RFO”). PG&E issued the CHP RFO to achieve its megawatt (“MW”) and Greenhouse Gas (“GHG”) Emissions Reduction Targets, established in the Qualifying Facility (“QF”)/Combined Heat and Power (“CHP”) Program Settlement Agreement (“Settlement Agreement” or “Settlement”) that was approved by CPUC Decision 10-12-035. PG&E solicited offers from owners of eligible CHP generating facilities to supply the requested product. Offers were received on February 27, 2014.

PG&E seeks to acquire a total of up to 1,387 MW of CHP capacity under power purchase agreements (“PPA” or “Agreements”) during the Initial Program Period¹ and about 2.2 million metric tons (“MMT”) of GHG reductions through the Second Program Period.²

¹ The initial program period ends four years after the Settlement Effective Date of November 23, 2011.

² The Second Program Period commences from the end of the Initial Program Period and concludes on December 31, 2020. GHG Targets change yearly based on the load served by each IOU. A final 2020 GHG Target for PG&E will be set in 2015 pursuant to section 6.4 of the QF/CHP Settlement Term Sheet.

Through this third of three CHP RFOs required during the Initial Program Period, PG&E seeks offers to meet its third interim CHP MW target of 381 MW.³

As noted in the 2013 CHP RFO (“CHP RFO 3”) Protocol, PG&E has a strong preference for Offers that are low cost, efficient, are bottoming cycle facilities, have either low associated GHG emissions or provide GHG emission reductions through changes in operations or technology, and are located in PG&E’s service territory. A facility that offers operating flexibility will be considered favorably.

In this CHP RFO, PG&E accepted offers for the following resources, as defined in the Settlement Agreement and the CHP RFO:

- Existing CHP
- New CHP
- Repowered CHP
- Expanded CHP
- Existing CHP Facilities Converting to Utility Prescheduled Facilities (referred to as Utility Tolling Facilities)

Pursuant to regulatory requirements of the CPUC and the Settlement Agreement requirements, PG&E retained Merrimack Energy Group, Inc. (“Merrimack Energy”) as the Independent Evaluator (“IE”) for the CHP RFO 3 procurement process.⁴

This IE report is submitted in conformance with the requirements of the CPUC and is designed to be consistent with the requirements outlined in the CPUC’s IE Report Template (Long Form), subject to adjustments in requirements to reflect the unique nature of this solicitation.

B. Background to the CHP Settlement Agreement

The QF/CHP Program Settlement Agreement is an extensive agreement that contains a number of requirements and directives that affect the design and implementation of the utility CHP RFO Protocol or solicitation process.⁵ Given the extensive and complex

³ According to Attachment A of the Settlement Agreement, PG&E’s MW Targets are 630 MW for the first solicitation (“Target A”), 376 MW for the second solicitation (“Target B”), and 381 MW for the third solicitation (“Target C”). Prior to issuance of CHP RFO 3, PG&E has procured 1,364 MW toward its CHP MW target and 1.33 MMT toward its GHG reduction target. The Commission has approved 1,044.55 MW, with contracts for 319.45 MW pending CPUC approval. Including the contracts executed and approved as well as those pending CPUC approval, PG&E has a requirement to contract for 23 MW to reach its target of 1,387 MW of eligible CHP capacity. In addition, PG&E has procured 1.33 MMT of the total 2.16 MMT target requirement for GHG emission reductions, leaving an open position of .83 MMT.

⁴ Merrimack Energy also served as IE for PG&E’s first and second CHP RFO solicitation.

⁵ This solicitation process is unique in that the provisions of the CHP Settlement Agreement have a primary influence on the design and implementation of the CHP procurement process. As a result, the IE views that one of the IE requirements is to ensure that the solicitation process conforms to the requirements of the Settlement Agreement. To provide a basis for assessment of these requirements, the report provides a summary of the major provisions of the CHP Settlement as a means of comparison with the approach used by PG&E for meeting Settlement Agreement requirements.

nature of the CHP Settlement Agreement, Merrimack Energy will attempt to identify several of the major provisions that are associated with the CHP procurement process.

The CHP Settlement process was initiated in May 2009 and encompassed a 16 month process. The Settling Parties submitted the QF/CHP Settlement Agreement for CPUC approval on October 8, 2010. On December 21, 2010, the CPUC issued Decision 10-12-035, in which it approved the QF/CHP Settlement Agreement. Applications for rehearing were filed in January 2011. On March 24, 2011, the CPUC issued Decision 11-03-051, in which some but not all of the challenges were resolved. On October 11, 2011, the CPUC issued Decision 11-10-016, which granted a petition to modify the cost allocation terms of the Settlement Agreement. On October 6, 2011, the CPUC issued Decision 11-10-016, which disposed of one of the remaining issues. On October 24, 2011, the CPUC issued Decision 11-10-043, denying rehearing of D.10-12-035 raised by the City and County of San Francisco. The QF/CHP Settlement Agreement became effective on November 23, 2011 when the decisions granting modification and denying rehearing of D.10-12-035 became final and non-appealable.

One of the goals of the Settlement was to resolve existing disputes and future litigated issues associated with QFs that were before the Courts and CPUC. The Settlement was designed to develop a new state CHP program that includes competitive solicitations for CHP projects greater than 5 MW.

One of the primary results of the Settlement was a CHP procurement program that would be implemented through 2020, with established CHP MW targets and GHG reduction targets. The Settlement established a target of 3,000 MW of CHP contracts resulting from the CHP Program Procurement Processes. The Initial Program Period established a target of 2,949 MW for the three Investor-Owned utilities (“IOU”) for a four year period after the effective date of the Settlement.⁶ The Second Program Period, which extends from the end of the Initial Program Period to December 31, 2020, establishes a target of any shortfall from the Initial Program Period Targets as well as any additional amounts established in the Long-Term Procurement Plan (“LTPP”) proceeding at the CPUC.

The Settlement also established a GHG Reduction Target of 6.7 million metric tons of GHG annual reductions from CHP statewide by 2020. The Settlement includes accounting mechanisms based on:

- Avoided GHG emissions assumptions;
- Facility efficiency;
- Must-take status;
- New or existing capacity;
- Repowering;
- Conversion to prescheduled facilities; and
- Shut-downs with or without continuation of thermal application.

⁶ Based on the Settlement effective date of November 23, 2011, the four year period for the Initial Program Period would end on November 22, 2015. The Settlement Agreement became effective when the decisions granting modification and denying rehearing of D.10-12-035 became final and non-appealable.

The initial IOU GHG Targets are allocated on a proportional share of retail sales.

The Settlement also identifies a number of eligible procurement options under the CHP Program for meeting CHP MW and GHG targets. These include:

- RFOs conducted by IOUs;
- Optional As-Available PPAs;
- PPAs for QFs 20 MW or less;
- AB 1613 PPAs;
- Bilaterally negotiated PPAs and amendments;
- IOU-owned CHP for GHG targets, capped at 10% of GHG targets;
- Utility Prescheduled Facilities;
- New behind the meter CHP facilities

The statewide CHP program has a number of goals and objectives which are set forth in Section 1 of the Settlement Agreement. Among them are the retention of existing efficient CHP, support for changes in operations and upgrades of inefficient CHP to provide greater benefits, providing an orderly exit for CHP Facilities that cannot participate, or are unsuccessful, in the new CHP program, retaining existing CHP GHG emissions reductions benefits and incrementally reducing GHG emissions through new or repowered CHP or changes in operations in existing CHP Facilities, and the resolution of long-standing disputes and litigation regarding California’s prior QF PURPA Program.

As a component of the Settlement, the parties also established a CHP RFO Pro Forma Contract that would be used by the utility for securing traditional CHP projects.

Exhibit 1 provides a summary of the key provisions of the CHP Settlement primarily pertaining to CHP procurement process requirements as a basis for assessing the consistency of PG&E’s CHP RFO process relative to Settlement requirements associated with CHP procurement.

Exhibit 1: Summary of QF/CHP Settlement Provisions

Settlement Provisions	Description of Provisions
Section 1 – Settlement Goals and Objectives	
Section 1.1 Settlement Goals and Objectives	Settlement goals and objectives include: <ul style="list-style-type: none"> • Develop a State CHP Program • Create a smooth transition from the existing QF CHP PURPA program to a state-administered CHP Program • Settle all CHP/QF litigation
Section 1.2 State CHP Program Policy Objectives	This section of the Settlement Agreement provides an extensive list of policy and societal goals and objectives for the State CHP Program. Some of the policy objectives that pertain more closely to the procurement aspects of the Program are listed below: The purpose of the State CHP program is to encourage the continued

	<p>operation of the State’s existing CHP Facilities, and the development, installation, and interconnection of new, clean, and efficient CHP facilities.</p> <p>These policies and purposes will be achieved by a State CHP program that procures CHP as set forth in the Settlement, retains existing efficient CHP, supports the change in operations of inefficient CHP to provide greater benefits to the State, and replaces CHP that will no longer be under contract with the IOUs with a new, efficient CHP.</p> <p>In addition, this State CHP program will secure additional Greenhouse Gas (GHG) emission reduction benefits, consistent with the reduction targets of Assembly Bill (AB) 32, by addition of new, efficient CHP.</p>
Section 1.2 CHP Program Objectives	<p>The Settlement identifies a number of Program objectives. These include:</p> <ul style="list-style-type: none"> • Encourage the upgrade of the inefficient CHP facilities in the IOU’s electric portfolios into efficient CHP through repowering or change of operations; • Provides an orderly exit strategy for CHP Facilities that cannot participate, or are unsuccessful, in the new CHP Program; • Sustains and enhances reductions in GHG emissions; • Encourages the development of new, clean and efficient CHP.
Section 2. Program Periods	<p>The Settlement establishes two Program periods; (1) an Initial Program Period that extends from the Settlement Effective Date until November 23, 2015 and (2) The Second Program Period that commences at the end of the Initial Program Period and ends on December 31, 2020.</p> <p>The Settlement establishes procurement targets for each utility for the Initial Program Period.</p>
Section 3. Transition PPA	<p>A CHP facility currently selling to an IOU under a Legacy PPA or an extension that is expiring during the Transition Period, may sign a Transition PPA with the same IOU-Buyer. The Transition PPA begins upon the expiration of the Legacy PPA or extensions of a Legacy PPA and ends at the election of the Seller but no later than the last day of the Transition Period (i.e. July 1, 2015). During the Settlement Term, QFs who elect to sign a Transition PPA waive their rights to sign a CHP PPA that is not obtained through competitive procurement, bilateral negotiations or the under 20 MW nameplate PURPA must-take obligation.</p>
Section 4. – CHP Procurement Targets	
1. Eligibility to Bid (Section 4.2.2)	<p>Any CHP Facility with a nameplate larger than 5 MW may bid into the CHP RFO, including CHP facilities seeking firm and as-available capacity PPAs, provided that the CHP Facility meets the California Public Utilities Code Section 216.6 and the federal definition of a qualifying cogeneration facility under 18 CFR Section 292.205 implementing PURPA.</p> <p>A CHP Facility that met the PURPA efficiency requirements as of September 2007 and converts to a Utility Prescheduled Facility is also eligible to participate in the CHP RFOs. After the existing CHP Facility converts to a Utility Prescheduled Facility, it may be either a QF or an Exempt Wholesale Generator if the facility otherwise meets the criteria in this Section 4.2.2.2.</p>
2. Term (Section 4.2.3)	<p>Maximum term is up to 7 years for Existing CHP Facilities or</p>

	<p>Expanded CHP Facilities, if they do not provide credit and collateral. An existing CHP Facility is one that was operational before the Settlement Effective Date.</p> <p>Maximum term is up to 12 years for New CHP facilities, Repowered CHP Facilities, or Expanded CHP facilities if they provide credit and collateral as set forth in section 4.2.8. A New CHP Facility is one that becomes operational after the Settlement Effective Date and a Repowered CHP Facility is one that repowers after the Settlement Effective Date.</p>
3. Pricing (Section 4.2.4)	Pricing is defined according to the executed PPA.
4. CHP RFO Scope – Evaluation and Selection Criteria (Section 4.2.5)	<p>The CHP RFO will recognize that CHP has unique attributes and that CHP offers shall be compared only to other CHP offers within the CHP RFO process.</p> <p>The IOU shall conduct an evaluation process, including an analysis of market value, in its CHP RFO process.</p> <p>When evaluating an offer from an Existing CHP Facility, the IOU should evaluate the energy that is being delivered to the grid from that CHP Facility.</p> <p>CHP offers shall be evaluated on all of the CHP Program goal characteristics, including GHG emissions.</p>
5. CHP RFO Pro-Forma PPA (Section 4.2.6)	The CHP Pro-Forma PPA may be modified on a bilateral basis during negotiations for a particular CHP PPA or Utility Prescheduled Facility PPA. The IOU may also offer other contract options in the CHP RFO.
6. GHG Compliance Costs (Section 4.2.7)	Seller must offer two options in its proposal: (1) Seller assumes GHG Compliance Cost and (2) Seller elects to pass-through GHG Compliance costs to Buyer. Also, Seller and Buyer may elect a hybrid approach for GHG cost recovery. For example, buyer covers GHG costs up to a certain Heat Rate and Seller assumes additional costs above that heat rate.
7. Credit and Collateral Provisions for New, Repowered or Expanded Facilities (Section 4.2.8)	<p>Credit and collateral provisions shall apply only to PPAs for new CHP Facilities, Repowered or Expanded CHP Facilities. An IOU may request additional offers for different credit and collateral terms.</p> <p>Credit and collateral provisions for an Existing CHP Facility will not be required in any CHP PPA but may be requested by an IOU in CHP RFOs or bilateral negotiations and will be evaluated by IOUs and Sellers accordingly.</p> <p>Performance Assurance for New or Repowered CHP Facilities shall be established equal to the value from one of the following options and the option is at the election of the Seller:</p> <ul style="list-style-type: none"> • Twelve months of capacity payments • Twelve months of revenues • Five percent of anticipated revenues projected over the term of the PPA • Negotiated performance assurance value and conditions for providing securing for such Performance Assurance.
8. Efficiency Performance Obligations and Compliance (Section 4.2.9)	The Efficiency Performance Obligation shall apply as incorporated into the final CHP RFO PPA, and the 60% efficiency in the Optional As-Available PPA. Failure to meet the Efficiency requirement in the CHP PPA throughout the Term shall be, at the Buyer’s election, an Event of

	<p>Default under the PPA.</p> <p>Seller may have up to two cure periods during the term of the applicable PPA for no more than two Efficiency Performance Deficiencies.</p>
<p>9. Curtailment – Economic (Section 4.2.10 and Section 4.2.11)</p>	<p>The CHP Pro-Forma PPA will contain an Economic Curtailment Option that may be selected by the CHP RFO participant and the participant may bid zero under this option. The Buyer can only instruct the Seller to curtail production in those hours when the CAISO published Day-Ahead Integrated Forward Market (IFM) results indicate there is a negative EZ-Gen Hub Location Marginal Price (LMP) or negative System Marginal Energy Cost.</p> <p>Once a Curtailment Period Cap is reached for any quarterly period (either on-peak or off-peak), no additional economic curtailment is available to the Buyer in that quarterly on-peak or off-peak period. Any MWhs not called by the Buyer in any period cannot be rolled over to another period.</p>
<p>10. PPA Options in CHP RFOs (Section 4.2.12)</p>	<p>As part of the bid package for each CHP-Only RFO, each IOU may request offers with specific (1) credit and collateral, (2) voluntary curtailment, and (3) dispatchability terms that differ from the CHP RFO Pro Forma PPA.</p> <p>In IOU evaluations of final offers from CHP bidders, the IOU will give preference to Pro Forma offers with no options, relative to non-Pro Forma offers, to the extent that such Pro Forma offers are competitive with the non-Pro Forma offers.</p>
<p>11. Bilaterally Negotiated PPA (Section 4.3)</p>	<p>Bilaterally negotiated and executed CHP PPAs or Utility Prescheduled Facilities PPAs are part of the procurement options in this CHP Program. Use of an IE shall be required for any negotiations between an IOU and its affiliate and may be used, at the election of either the Buyer or the Seller in other negotiations.</p>
<p>12. IOU-Owned CHP (Section 4.7)</p>	<p>IOU-owned CHP counts toward the IOU’s GHG Emission Reduction Targets for the Second Program Period, but not for the 3,000 MW Target. The counting from these resources is capped at 10% of the IOU’s GHG Emission Reduction Target.</p>
<p>13. Utility Pre-Scheduled Facilities – Eligibility (Section 4.8)</p>	<p>A CHP Facility that met the PURPA efficiency requirements as of September 20, 2007 and converts to a Utility Prescheduled Facility is eligible to participate in a CHP RFO or to obtain a PPA through bilateral negotiations or amend an existing Legacy PPA through bilateral negotiations.</p> <p>New PPAs with Utility Prescheduled Facilities (not Legacy PPA Amendments) count towards the MW Targets if the existing QF PPA expires before the end of the Transition Period.</p> <p>Amendments to Legacy PPAs to convert to a Utility Prescheduled Facility count towards each IOU’s GHG Emissions Reduction Targets.</p>
<p>14. Approval of PPAs (Section 4.10)</p>	<p>IOUs will utilize a Tier 2 Advice Letter for Existing CHP facilities that execute the CHP RFO Pro Forma PPA without material modification.</p> <p>IOUs will utilize a Tier 3 Advice Letter for all other PPAs (new, repowering or existing PPAs) that contain any material modification of the PPAs approved in this Settlement.</p>

	PPAs of less than five years do not require advance CPUC approval according to existing CPUC policy.
Section 5 - MW Targets	
1. CHP RFOs (Section 5.1)	<p>The IOUs combined target is 3,000 MW;</p> <p>Each IOU shall conduct 3 RFOs during the initial Program Period to seek PPAs for the portion of the MW Targets not procured by other procurement processes;</p> <p>The CHP RFOs during the Initial Program Period shall be scheduled at regular intervals, provided the first CHP RFO is initiated within 90 days of the Settlement Effective Date;</p> <p>The amount of CHP sought in each CHP RFO during the Initial Program Period shall not be less than the Net MW Target for each IOU. For PG&E the target for the initial RFO is 630 MW; 376 for the second RFO and 381 for the third RFO for a total of 1,387 MW.</p>
2. MW Counting Rules (Section 5.2)	<p>PPAs executed during the period between September 1, 2009 and the Settlement Effective Date count towards the IOUs MW Targets and GHG Emission Reduction Targets.</p> <p>The MWs counted for New PPAs executed with Existing CHP Facilities will be the published Contract Nameplate value, unless otherwise noted in the Settlement.</p> <p>If full output of a facility is offered, only the actual amount procured by a utility will count. If a utility acquires all that the Seller offers but the project is larger, the utility can count the full size of the project.</p> <p>Capacity from repowered and new CHP Facilities will be determined based on a Capacity Demonstration Test.</p>
3. Justification for Failure to Meet MW Targets (Section 5.4)	<p>Any IOU that is unable to meet its MW Target must make a showing to justify its inability to meet the MW Target. Lack of sufficient offers can be used as a reason to justify failure to procure the MW Targets and GHG Emissions Reduction Targets. The efficiency of the CHP Facility participating in the IOU's procurement programs as compared to the Double Benchmark, offer prices in excess of levels as provided herein, and the amount of GHG emissions reductions may be valid justifications for missing the IOU MW Targets and GHG Emissions Reduction Targets. Lack of need or portfolio fit arguments shall not be used as reasons to justify failure to procure the MW Targets, but are reasons to justify an inability to meet the GHG Emissions Reduction Targets.</p> <p>If the IOU claims that CHP RFO offer prices are excessive, the IOU must refer to independent or publicly-available sources.</p>
Section 6 – GHG Emission Reduction Targets	
1. Objectives/Strategy (Section 6.1)	<p>The CPUC will adopt a strategy to reduce statewide GHG emissions by the following means:</p> <ul style="list-style-type: none"> • Maintain the existing GHG emissions reduction attributable to the efficient existing CHP Facilities and reduce GHG emissions from the inefficient Existing CHP Facilities by encouraging the repowering, conversion to Utility Prescheduled Facilities (“UPF”) or retirement of such CHP

	<p>facilities;</p> <ul style="list-style-type: none"> • Increase the efficiency of the CHP fleet by adding efficient CHP resources to the IOU's electric portfolios to make progress towards the CARB CHP RRM; • Achieve the GHG Emissions Reduction targets by December 31, 2020
2. IOUs GHG Emissions Reduction Targets (Section 6.2)	<p>Existing: Maintain GHG Emission reductions from existing CHP. The IOUs shall maintain an equivalent amount of GHG emission reductions attributable to the gas-fired Topping Cycle CHP Facilities included in each IOU's July 2010 Semi-Annual Reports for PPAs that expire in the Initial Program Period.</p> <p>New GHG Reductions: In addition to existing GHG reductions, the Settlement establishes a GHG target of 4.3 MMT based on the CARB Scoping Plan estimates that, by 2020, the State can add 4,000 MW of additional CHP. These 4,000 MW are estimated to reduce GHG emissions by 6.7 MMT. The CARB CHP RRM does not have specific allocations to the IOUs.</p>
3. Method to Determine Each IOU's GHG Emissions Reduction Target (Section 6.4)	<p>In 2015, after the Initial Program Period, all Parties, in conjunction with CPUC Energy Division Staff, will meet and confer to determine the status of the Existing CHP Facilities from each IOU's July 2010 Semi-Annual Reports for purposes of determining any GHG Emission Reduction Target shortfall or surplus.</p> <p>Coal-fired, wood waste, and renewable CHP will count towards the GHG Emission Reduction Targets.</p>
Section 7 – GHG Emission Accounting Methodology	
1. GHG Accounting Principles (Section 7.1)	<p>Progress toward the IOU's GHG Emissions Reduction Targets will be determined by a GHG Credit or GHG Debit. A "+" counts as a GHG Credit which will count toward the IOU's then-current GHG Emissions Reduction Target from CHP resources. A "-" counts as a GHG Debit, which will count against the IOU's then-current GHG Emissions Reduction Target.</p> <p>Except as noted in Section 7.3, the parties agree to measure the amount of GHG emissions from CHP Facilities as compared to the current Double Benchmark in place at the time of PPA execution or, for a Utility Prescheduled Facility, execution of a new PPA or a Legacy PPA Amendment.</p> <p>The Double Benchmark is intended to reflect the GHG emissions that would have occurred if the same amount of electricity and thermal output were obtained from conventional generation resources and a stand-alone boiler. The Double Benchmark measures the additional amount of GHG emissions that otherwise would exist if the CHP Facility did not exist.</p> <p>For the purposes of GHG accounting, an "efficient" CHP refers to one that reduces emissions as compared to the Double Benchmark. An "inefficient" CHP refers to one that increases GHG emissions as compared to the Double Benchmark.</p>
2. Double Benchmark (Section 7.2)	The Double Benchmark is as follows:

	<ul style="list-style-type: none"> • The Heat Rate for the electricity generated is 8,300 BTU/kWh HHV at the busbar and excluding line losses; • The thermal efficiency of the standard boiler is 80%;
<p>3. Detailed Accounting Methodology to Measure Progress Toward the IOU's GHG Emissions Reduction Targets (Section 7.3)</p>	<p>Projects counted as a GHG Credit (+) include:</p> <ul style="list-style-type: none"> • New CHP Facilities as compared to the Double Benchmark; • Physical change from a Repowered Facility, MW Expansion, or Fuel change. The measurement is the difference between (i) the previous two calendar years of operational data compared to the Double Benchmark in place at the time of PPA execution and (ii) the anticipated change in operations as identified in the PPA compared to the Double Benchmark; • CHP Facility Change in Operations or Conversion to a Utility Prescheduled Facility which counts as a GHG Credit. Measurement is based on the Baseline year emissions minus the projected PPA emissions and emissions associated with replacing 100% of the decreased electric generation at a time differentiated Heat Rate. The Baseline year emissions are the average of the previous 2 calendar years of operational data; • Existing inefficient CHP Facility shuts down – counts as a GHG Credit toward the CARB CHP RRM of the IOU that previously contracted with the CHP. <p>Projects counted as a GHG Debit toward GHG Emission Reduction Targets include:</p> <ul style="list-style-type: none"> • Inefficient New CHP Facilities; • Shutdown or Retirement of an existing, efficient CHP Facility and the thermal need continues; • Physical change, a Repowered CHP Facility, MW Expansion or Fuel Change. <p>Projects counted as Neutral toward GHG Emission Reduction Targets include:</p> <ul style="list-style-type: none"> • Existing CHP with no change in operations. Regardless of contract status (i.e. a new PPA with an Existing CHP Facility or one that sells to the market) the CHP facility is considered neutral for GHG accounting purposes; • Efficient existing CHP Facility shuts-down and the thermal need is discontinued. For example, if the host facility does not put in boilers, then there is no change to the IOU GHG Emissions Reduction Target; • Inefficient projects required by law to execute (including PURPA <20 MW, as-available, and feed-in tariffs)
<p>4. Effective Date for Accounting of Changes in GHG Credits and GHG Debits (Section 7.4)</p>	<p>The GHG benefit shall be calculated at the time of execution of the CHP PPA (includes RFO, bilateral agreement, Feed-in Tariff, as-available, PURPA<20 MWs). The calculation of the GHG Credit or GHG Debit attributable to the CHP Facility shall not be altered for the term of the PPA for the purposes of counting progress towards the IOU's GHG Emissions Reduction Targets, regardless of a change to the Double Benchmark or modifications to the CARB Scoping Plan regarding the goal of securing 6.7 MMT of incremental GHG reductions from incremental CHP resources. If revised by a CARB determination and adopted by the CPUC in the LTPP proceeding, the modified Double Benchmark shall only apply to a CHP Facility that executes a PPA on or after the adoption of the modified Double</p>

C. PG&E CHP Solicitation Background

PG&E initiated development of its CHP RFO 3 Solicitation process in the fourth quarter of 2013. The starting point for the CHP RFO 3 and related documents was the documents used for CHP RFO 2, which was completed a few months prior to initiation of CHP RFO 3.

D. CHP RFO Procurement Protocol

On January 23, 2014 PG&E launched the Combined Heat and Power Request for Offers Protocol for Third Solicitation and posted the CHP RFO Protocol document on its website. In the CHP RFO Protocol document, PG&E listed a number of requirements and preferences to inform prospective Participants of the requirements for competing in the procurement process. A summary of the key provisions of the Protocol are provided in Exhibit 2.

Exhibit 2: Provisions for the 2013 CHP RFO Protocol (CHP RFO 3)

2013 CHP RFO Requirements/Characteristics	Description of Key Provisions
Resource Requirements	PG&E seeks to acquire a total of up to 1,387 MW of CHP capacity during the Initial Program Period and about 2.2 million metric tons of GHG reductions during the Second Program Period. For this third solicitation, PG&E seeks offers to meet its third interim CHP MW Target of 381 MW as specified in the Settlement. Given PG&E's current progress toward meeting its CHP MW target of 1,387 MW, PG&E states that it may elect to place higher emphasis on seeking Offers that are low cost and provide significant GHG reductions.
Objectives of RFO	In this Solicitation, PG&E states that it has a strong preference for Offers that are (1) low cost; (2) efficient; (3) have either low associated GHG emissions or provide GHG emissions reductions through changes in operations or technology; (4) bottoming cycle; (5) located in PG&E's service territory. A facility that offers operating flexibility will be considered favorably
Proposed Schedule	The Schedule contained in the 2013 CHP RFO Protocol document contained the following key dates for the RFO: <ul style="list-style-type: none"> • January 23, 2014 – Issue RFO; • February 27, 2014 – Deadline for PG&E to receive offers;

	<ul style="list-style-type: none"> • Week of April 28, 2014 – Notification of shortlist selection; • Week of September 8, 2014 – RFO negotiations concluded.
Product Requirements	<p>Through this RFO, PG&E is seeking Offers from existing, new, repowered, and expanded CHP Facilities, and existing CHP Facilities converting to dispatchable capacity under a Utility Tolling PPA.</p> <p>For PPA Offers from Utility Tolling Facilities and Hybrid Facilities, PG&E’s preferred contract structure is a natural gas fuel conversion (Utility Tolling PPA) structure.</p>
Eligible Products	<p>Eligible CHP offers/products include:</p> <ul style="list-style-type: none"> ○ Existing CHP facilities – a facility that was operational before the Settlement Effective Date; ○ New CHP facilities – a facility that became or will become operational after the Settlement Effective Date and satisfies the Fundamental Use Test as defined by FERC; ○ Repowered CHP facilities – a facility that, on or after the Settlement Effective Date, has had its prime movers replaced or refurbished, subject to the specific provisions outlined in the Settlement; ○ Expanded CHP facilities; ○ Existing CHP facilities converting to utility prescheduled facilities – referred to as utility tolling facilities – an existing facility that has changed operations to convert the facility to a utility dispatchable generation facility, including but not limited to an Exempt Wholesale Generator (“EWG”)
Eligibility Requirements	<p>PG&E will consider an Offer that meets the following eligibility requirements or specifications:</p> <ul style="list-style-type: none"> • CHP Facility with a nameplate capacity larger than 5 MW; ○ CHP Facility that meets the requirements in Section II.C “Resources” contained in the RFO; ○ If the CHP Facility does not meet the

	<p>FERC criteria for topping-cycle or bottoming-cycle qualifying cogeneration facilities set forth at 18 CFR 292.205, the CHP Facility has obtained a waiver of the applicable operating and efficiency standards from FERC;</p> <ul style="list-style-type: none">○ New CHP Facilities must be constructed with new equipment and meet the Fundamental Use Test established by FERC. In addition, PG&E is interested in Offers to repower existing generating facilities, as identified in the Settlement Agreement;○ CHP Facility must be located in California;○ The Delivery Point must be within the CAISO controlled transmission grid or applicable California IOU distribution grid. Each Participant is required to have the necessary agreements with the CAISO for physical delivery of its generation to a transmission P-Node within the CAISO controlled grid area;○ Each Participant is encouraged to initiate and submit an interconnection request to PG&E (or other California IOU) for distribution interconnection and to the CAISO for transmission interconnection prior to Offer submittal;○ Each Participant offering a new or expanded gas facility must initiate an Application for Gas Service. Participants with existing gas interconnection must provide documentation in their Offer submission;○ As applicable, each Participant accepting a position on the Shortlist must satisfy the Shortlist Offer Deposit requirements listed in the RFO Protocol;○ Each Participant offering a new or expanded gas-fired facility must demonstrate no later than two weeks after notification of shortlisting that it has control over the proposed site by
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	<p>ownership, long-term lease or an option to control the proposed site through ownership or a long-term lease;</p> <ul style="list-style-type: none"> ○ Offer shall confer upon PG&E exclusive rights to the Project’s capacity; ○ Each Participant must agree: (i) to schedule and dedicate the contracted amount of electrical output to PG&E, net of station use and electrical losses; and (ii) not to sell, deed, grant, convey, transmit, or otherwise provide any energy, capacity, ancillary services or any other related electricity product, including Green Attributes, or capacity attributes associated with the output to an entity other than PG&E; ○ Each Participant must agree to term start dates within the following time periods as applicable: within 24 months of PPA execution for Existing CHP Facility, Utility Tolling Facility and CHP-only Facility; within 36 months of CPUC approval for Expanded CHP Facility; and within 60 months of CPUC approval for New CHP and Repowered CHP Facility; ○ Each entity submitting an Offer in this RFO is a Participant. A Participant may be an individual owner, corporation, partnership or joint venture for a CHP or Utility Tolling facility.
Contract Options	<p>The RFO contains two contract options: (1) CHP RFO Proforma PPA; and (2) Utility Tolling PPA. Participants are encouraged to submit Offers based on either the CHP RFO or the Utility Tolling pro-forma without any changes. Participants seeking material changes to the CHP RFO pro-forma PPA should use PG&E’s Utility Tolling pro-forma PPA;⁷</p> <p>Participant’s Offer must include the appropriate pro-forma agreement, marked to state the term of Participant’s Offer, in order for its Offer to be valid.</p>

⁷ PG&E’s Utility Tolling Agreement was based on the Tolling Agreement used for PG&E’s Long Term RFOs.

Term	<p>The maximum delivery term for PPAs resulting from the CHP RFO shall be the following:</p> <ul style="list-style-type: none"> ○ Up to 7 years for existing CHP Facilities ○ Up to 7 years for Repowered CHP Facilities and Expanded CHP Facilities not providing credit and collateral as set forth in Section 4.2.8.3 of the Settlement Agreement ○ Up to 7 years for Utility Tolling Facilities providing credit and collateral as set forth in the Utility Tolling PPA ○ Up to 12 years for New CHP Facilities, Repowered CHP Facilities, and Expanded CHP Facilities providing credit and collateral as set forth in Section 4.2.8.3 of the Settlement Agreement;
Pricing	<p>In its pricing proposal, Participants are requested to provide pricing for the following items:</p> <ol style="list-style-type: none"> (1) Capacity payment (\$/kW-year) assuming the Seller will pass through GHG Compliance Costs to PG&E; (2) Capacity payment (\$/kW-year) assuming that the Seller will bear GHG Compliance Costs; (3) Energy payment in \$/MWh or at a guaranteed (fixed) heat rate (BTU/kWh) applied to the PG&E City Gate or SoCal Gas gas price index; (4) Fixed O&M Payment (\$/kW-year) if applicable; (5) Variable O&M Payments (\$/MWh); <p>Alternatively, Participant may address GHG Compliance Costs by providing:</p> <ol style="list-style-type: none"> (6) Variable O&M assuming that Seller will pass through GHG Compliance Costs to PG&E; (7) Variable O&M assuming that Seller will bear GHG Compliance Costs. <p>Participants are required to offer two GHG Compliance Cost options. Participants are required to offer pricing for a case assuming the Seller will pass through GHG Compliance costs to PG&E and assuming that the</p>

	<p>Seller will bear GHG Compliance costs. Participants can include the costs for the two cases in either the capacity payment or Variable O&M payment or in both;</p>
<p>Evaluation Process/Evaluation of Offers Received</p>	<p>The RFO Protocol identifies and describes the procedures for evaluation of offers. To evaluate Offers, PG&E indicates it will primarily use a Portfolio Adjusted Value (“PAV”) methodology to evaluate and rank Offers received in its CHP RFO. PG&E will also evaluate and consider the following criteria: Market Valuation, Credit, GHG Emissions, Project Viability, Project Technical Reliability, and Supplier Diversity. The evaluation criteria listed and described in the Protocol include:</p> <ul style="list-style-type: none"> ○ Portfolio Adjusted Value (“PAV”) ○ Market Valuation ○ Curtailment Option ○ Credit ○ GHG Emissions ○ Project Viability ○ Project Viability and Technical Reliability ○ Adherence to Pro-Forma PPA Terms and Conditions ○ Supplier Diversity <p>The RFO provides a description of the information which Participants are required to provide as part of their proposal. This includes:</p> <ul style="list-style-type: none"> ○ Cover Letter ○ Offer Forms ○ Project Description ○ Credit Information ○ Electric and Gas interconnection information ○ Supplier Diversity information ○ Credit and Finance Information ○ Redline PPA ○ Clean, executed PPA
<p>Participation in the RFO Process</p>	<p>Each entity submitting an Offer in this RFO is a Participant. A Participant may be an individual owner, corporation, partnership or joint venture for a CHP or Utility Tolling facility. The terms and conditions under</p>

	which each Participant agrees to be bound are listed in the RFO.
Allowable Offers	Respondents may submit one Offer for each project at a particular site. Each Offer may include two (2) Offer variations (the original Offer and one additional variation of the Offer). A variation may alter such attributes as term, price, commercial operation date, or other PPA terms and conditions.
Security and Performance Assurance	<p>Security and Performance Assurance requirements differ by resource/contract type.</p> <p>For New, Expanded and Repowered CHP Facilities under the CHP RFO PPA, Participants are required to (1) post Development Security in the amount of \$20/kW of Net Contract Capacity on or before the 30th day following the PPA Execution Date; (2) Post additional Development Security in the amount of \$40/kW of Net Contract Capacity at the end of 18 months following the PPA Effective Date; and (3) Post Performance Assurance in an amount equal to one of four options [(1) 12 months of expected total Net Contract Capacity revenues; (2) 12 months of expected total revenues; (3) 5% of expected total revenues; (4) As proposed by Seller].</p> <p>For Utility Tolling PPA, Participants are required to (1) Post Development Security for New Facilities in the amount of \$15/kW of maximum contract capacity within 10 business days following PPA execution. Participant shall post additional Project Development Security in the amount of \$85/kW of maximum contract capacity for a total of \$100/kW; (2) Post Pre-Delivery Term Security for Existing Facilities in the amount of \$15/kW of maximum contract capacity within 10 business days following the PPA Execution Date and an additional amount of \$20/kW of maximum contract capacity within 10 business days following PPA CPUC Approval; (3) Post and maintain Delivery Term Security in an amount equal to the sum of the Mark-to-Market Value and Independent Amount from the PPA Initial Delivery Date until the end of the PPA Delivery Term. The Independent Amount is only applicable to a Seller who is rated or has a Credit Rating below BBB- or Baa3 by S&P and Moody's respectively. This amount shall be calculated as 5% of the notional value of the expected capacity payment</p>

	under the Agreement.
Electric Interconnection	<ul style="list-style-type: none"> • In terms of interconnection requirements, Participants are required to seek a CAISO finding of Full Capacity Deliverability Status. The Seller must also demonstrate that there is sufficient capacity at the facility interconnection with PG&E’s electric grid to receive the full net output of the Project. This ability and the associated costs are determined from the applicable generator interconnection procedure, i.e. CAISO Tariff for CAISO controlled transmission grid interconnections and PG&E’s Wholesale Distribution Tariff for non-CAISO controlled distribution grid interconnections as applicable. While Participants are encouraged to initiate the applicable request as early as possible, Participants that are shortlisted that have not submitted an interconnection application must apply for interconnection at the next available interconnection open period; • For those projects that have a current interconnection study (i.e. a Feasibility Study, System Impact Study, Facilities Study, Phase I or Phase II) or Interconnection Agreement, each Offer must include all completed interconnection studies or a copy of the Interconnection Agreement to be considered for selection. The Participant must provide to PG&E the results of any updated CAISO Interconnection studies as those results become available. This information may be used by PG&E in ranking and evaluating Offers. • Participants must initiate applicable generation interconnection procedures or provide updated information for existing interconnection, as applicable. For Participants initiating new interconnection procedures, Participants must submit proof of interconnection application with its Offer if the application has been made. If the interconnection application has not been made, Participant must submit proof of application upon acceptance of shortlist position or 5 business days after the close of the

	<p>next applicable Generation Interconnection Procedures (“GIP”) cluster window;</p> <ul style="list-style-type: none"> • For projects that have already obtained cost estimates from completed and current interconnection Studies through the applicable Interconnection Procedure, the Participant shall submit copies of the completed studies with the Offer. For projects that do not yet have completed Interconnection Studies, pending the availability of the completed studies, PG&E will use transmission proxy costs for Offer evaluation. Copies of the completed Interconnection Studies must be provided to PG&E when they are available;
Gas Interconnection	<ul style="list-style-type: none"> • Participants who require a new gas interconnection with PG&E, or who have an existing gas interconnection with PG&E, but will have a higher peak gas demand, are required to submit a Preliminary Application for Gas Service and an Agreement to Perform Tariff Schedule Work; • Participants who do not take service from PG&E’s California Gas Transmission must demonstrate comparable initiation with their local gas service provider. The Participant is responsible for the cost of each interconnection study or application; • The 2013 CHP RFO Protocol also provides details on the PG&E Gas Transmission connection process including documentation required.
Regulatory Approval	<p>The effectiveness of any Agreement is expressly conditioned on PG&E’s receipt of Regulatory Approval. “Regulatory Approval” means a final and non-appealable order or orders of each regulatory or other governmental body designated by PG&E, including without limitation the CPUC, without conditions or modifications unacceptable to PG&E.</p>

E. Issues Addressed in This Report

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

1. Describe the role of the IE;
2. How did the IOU conduct outreach to bidders? Was the solicitation robust?
3. Evaluate the fairness of the investor-owned utility's ("IOU's") bid evaluation and selection process (i.e. quantitative and qualitative methodology used to evaluate and select offers, consistency of evaluation and selection methods with criteria specified in bid documents, etc.);
4. Describe the IOU's Least Cost Best Fit ("LCBF") methodology for evaluating offers. Was the LCBF process fairly administered? Evaluate the strengths and weaknesses of the IOU's methodology;
5. Describe project specific negotiations. Highlight any areas of concern including unique terms and conditions;
6. If applicable, describe safeguards, code of conduct and methodologies employed by the IOU to compare affiliate bids or utility-owned generation ownership offers;
7. Does the contract(s) merit CPUC approval? Is the contract reasonably priced and does it reflect a functioning market?;
8. Based on your analysis of the RFO bids, the bid process, and overall market, do you agree with the IOU that the contract(s) merit CPUC approval? Explain;
9. Based on the complete bid process, was the RFO acceptable?

II. Description of the Role of the IE

A. Regulatory Requirements For the IE

The requirements for participation by an IE in utility solicitations are outlined in Decisions ("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 CPUC, D.09-06-050 and D.10-07-042.

In addition, Section 4.2.5 of the Settlement Agreement identifies a requirement for an IE in the CHP RFO process. Section 4.2.5.7 of the Settlement Agreement states that each utility shall use an Independent Evaluator similar to that used in other IOU RFO

processes. According to the directive, it is preferable that the IE have CHP expertise and financial modeling experience. Also, section 4.2.5.8 requires that the IE review the entire CHP RFO process.

The role of IEs in California IOU procurement processes has evolved over the past ten years. 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.⁸ 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.

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 affiliate-owned projects under consideration. This was extended to any long-term contract for new generation in D.06-07-029 (July 21, 2006). In addition, the CPUC directed the IE for each RFP to provide separate reports (a preliminary report with the shortlist and final reports with IOU advice letters to approve contracts) on the entire bid, solicitation, evaluation and selection process, with the reports submitted to the utility, PRG, and 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 communication between the IE and the CPUC’s Energy Division, and an open, fair, and transparent process that the PRG could confirm.

In 2007, the use of an IE was required for any competitive solicitation seeking products for a term of more than three months in D.07-12-052 (December 21, 2007). Also, the process for retaining IEs was modified substantially, with IOUs developing a pool of qualified IEs, subject to feedback and any recommendations from the IOU’s PRG and the Energy Division, an internal review process for IE candidates, and final approval of IEs by the Energy Division.

In 2008, in D.08-11-008, the CPUC changed the minimum term requirement from three months to two years, and reiterated that an IE must be utilized whenever an affiliate or utility bidder participates in the RFO, regardless of contract duration.

⁸ 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.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, 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 PRG and its IE, including a report filed by the IE.

In D.10-07-042 issued on July 29, 2010, the Commission reaffirmed the role of the IE and required the Energy Division to revise the IE Template to ensure that the IEs focus on their core responsibility of evaluating whether an IOU conducted a well-designed, fair, and transparent RFO for the purpose of obtaining the lowest market prices for ratepayers, taking into account many factors (e.g. project viability, transmission access, etc.).

This IE report is submitted in conformance with the above requirements.

B. Description of Key IE Roles

In compliance with the above requirements, PG&E selected Merrimack Energy to serve as IE for the CHP RFO in December, 2013. The overall objective of the role of the IE is to ensure that the solicitation process is undertaken in a fair, consistent, unbiased, and objective manner and that the best resources are selected and acquired consistent with the solicitation requirements.

In addition to the requirements identified in CPUC Orders, the Scope of Work included in the Contract Work Authorization between Merrimack Energy and PG&E clearly identifies the tasks to be performed by the IE. These include the following tasks:

- Review and comment on the consistency of PG&E's evaluation methodology and processes with the CPUC Decision 10-12-035 and the Settlement Agreement;
- Review and comment on the fairness, appropriateness, and implementation of:
 - PG&E's solicitation process;
 - PG&E's evaluation methodology;
 - PG&E's selection process.
- Evaluate PG&E's methodology for evaluating offers to the Solicitation, and analyze the results of PG&E's evaluation of offers;
- Review and report on whether the outreach that PG&E conducted to potential industry participants ("Participants") in the solicitation was adequate and robust;
- Identify whether any Participant in the Solicitation received undue information or failed to receive due information, that advantaged or disadvantaged a Participant unfairly;

- Provide to PG&E, PG&E's Procurement Review Group ("PRG"), Cost Allocation Mechanism Group ("CAM"), and the Energy Division of the CPUC presentations of the Consultant's findings;
- Participate, as needed, in any PRG, CAM and/or supplier meetings and/or teleconferences and/or bidder conferences concerning the Solicitation;
- Review and comment on the draft Solicitation documents and bid evaluation methodology. The draft documents to be reviewed include the protocol document, associated contracts and other data forms and related documents. Review and comment on the fairness of the project-specific negotiations and the reasonableness of the resulting executed contracts, and whether they merit CPUC approval;
- Monitor communications between PG&E and Participants and participate in meetings with Participants, as required;
- Independently evaluate each executed offer and comment on whether the selected contracts are the best overall offers received;
- Be available to testify as an expert witness in any CPUC proceeding regarding review of potential transactions arising from the Solicitation; if appropriate, prepare direct and rebuttal testimony, respond to data requests, and perform other activities required to testify as an expert witness;
- Prepare the IE reports for inclusion in any Advice Letter filings, if necessary;

With regard to the role of the IE, the objective is to ensure that the process is undertaken in a fair and equitable manner and that the results of the offer evaluation and selection are accurate, reasonable and consistent and in the best interest of consumers. This role generally involves a detailed review and assessment of the evaluation process and the results of the quantitative and qualitative analysis.

C. Description of IE Oversight Activities

In performing its oversight and evaluation role, the IE participated in and undertook a number of activities in connection with the solicitation process including providing comments on the protocol documents, monitoring communications between PG&E and the Participants, reviewing internal RFO Evaluation Protocol documents, organizing and summarizing the bids received, reviewing the evaluation and selection process and results at each stage in the process, monitoring the status of short-listed offers, participating in calls with Participants after receipt of offers, communicating with PG&E's Project Manager on a regular basis to discuss RFO issues, participating in meetings with the PRG, PG&E's Evaluation Committee and PG&E's Steering Committee, and monitoring the contract negotiation process with shortlisted Participants. Merrimack Energy was retained by PG&E prior to the development of the RFO documents and therefore had the

opportunity to participate in and assess the development and implementation of the entire process from start to completion. A list of the activities of the IE during the procurement process consistent with the important activities and milestones for the process is described below.

Submitted Comments on RFO Protocol Design

Since the CHP RFO 3 protocol was largely based on the CHP RFO 2 protocol, Merrimack Energy submitted one round of comments on the design of the CHP RFO 3 protocol to PG&E based on the initial draft of the protocol. Merrimack Energy's primary comments were associated with the Offer Forms and Appendix B, Project Description, based on the lessons learned during CHP RFO 1 and 2.

Participated in Evaluation Committee Meeting on December 17, 2013

The IE participated in the first Evaluation Committee meeting associated with the CHP RFO 3 process in December 2013. The CHP RFO Project Manager provided a presentation to the Evaluation Committee which included an update on the CHP RFO 2 process as well as a discussion regarding the status of CHP RFO 3. With regard to CHP RFO 2, the Project Manager provided an update on the contract negotiation process from CHP RFO 2 as well as an update to PG&E's open position regarding CHP MW and GHG reductions. For CHP RFO 3, the project manager discussed the proposed schedule for undertaking CHP RFO 3 and discussed possible revisions to the evaluation methodology and criteria. The Project Manager also discussed proposed changes for CHP RFO 3. These included:

- A revision to the evaluation methodology and criteria, [REDACTED];
- Elimination of an RA Capacity-Only product as included in the previous two solicitations [REDACTED];
- Maintain a "no exclusivity" requirement for offers submitted;
- Shorten the solicitation schedule relative to previous solicitations.

Participated in Steering Committee Meeting on January 3, 2014

A Steering Committee meeting was held on January 3, 2014 to provide an update on the status of the CHP RFO 2 process and to address the implementation of the CHP RFO 3 solicitation. PG&E's Project Manager discussed the proposed schedule for CHP RFO 3, along with an update of PG&E's current CHP MW and GHG positions. The Project Manager also discussed potential changes for CHP RFO 3 relative to CHP RFO's 1 and 2. The Steering Committee approved the recommendations and also approved the proposed schedule for the RFO.

Participated in PRG/CAM Meeting on January 14, 2014

The PRG/CAM meeting of January 14, 2014 provided an update to the CHP RFO 2 process, [REDACTED]

Issuance of the CHP RFO 3 – January 23, 2014

PG&E issued the CHP RFO 3 documents on January 23, 2014 as scheduled.

Participants Conference – February 6, 2013

The IE attended the CHP RFO Participants Conference held on February 6, 2014. The IE also coordinated with PG&E’s Project Manager on the issues to address at the Participants Conference and provided comments on the presentation material. Topics addressed by PG&E included:

- CHP Settlement Overview
- Solicitation Overview
- Offer Submittal Process
- Offer Form Description and Highlights
- Description of Evaluation Methodology
- Supplier Diversity Requirements
- Gas Interconnection Requirements
- Electric Interconnection Requirements
- Overview of PPAs

In addition, PG&E set aside time for Questions and Answers. Questions were submitted and answered. Thirteen people attended the conference [REDACTED]

Participated Offer Form Webinar – February 13, 2014

PG&E held an Offer Form Webinar Call for prospective Participants on February 13, 2014 designed to explain to Participants the process for completing the Offer Forms, including describing the necessary requirements for completing each Tab on the forms, explaining the information required of Participants, and describing the changes made to the forms from previous CHP RFO processes. PG&E team members also described the Offer Forms and provided examples and highlights of the Offer Forms during the Participants conference. Participants also had the opportunity to ask follow-up questions and several Participants did ask clarifying questions about the Offer Forms. One of the additions to the Offer Forms for the CHP RFO 3 process was the inclusion of a short

Term Sheet that Participants had to complete for each offer. The term sheet included some information requested in the Offer Form but did provide a check that Participants had provided consistent information in both the Offer Form and Term Sheet.

Input Assumptions – February 21, 2014

An important aspect of the offer evaluation process is the development of input assumptions to use in the evaluation of the Participant’s pricing formulas and other evaluation parameters. PG&E’s quantitative evaluation team provided the input assumptions to the IE prior to receipt of offers. The input assumptions prepared by PG&E and submitted to the IE included the following:

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];

The input assumptions were locked-down by PG&E on February 21, 2014 and were used for the bid evaluation process leading up to project ranking and shortlist selection.

Discussions Between the IE and PG&E Project Team – February 24, 2014

The IE and PG&E’s project team members held a conference call on February 24, 2014 to conduct final review and discussion regarding the bid evaluation protocols developed by PG&E to guide the evaluation process and input assumptions prior to receipt of offers. The IE prepared a list of clarifying questions [REDACTED]. PG&E provided adequate responses to all the IE’s questions about the protocol documents.

Receipt of Offers – February 27, 2014

Offers were received on February 27, 2014 as required. [REDACTED] offers [REDACTED] were uploaded to the PowerAdvocate Platform.⁹ [REDACTED]

⁹ [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

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The IE and PG&E also conducted their own independent review and summary of the offers received and compared notes to ensure all offers had been accounted for along with categorizing the types of offers received and the products proposed.

[REDACTED]

[REDACTED] A summary of the offers received is presented in the Exhibit 3 below. More detailed information on each project/offer is presented in Appendices A and B. Also, Appendices C and D contain the proposed pricing for each offer submitted as the basis for evaluation.

Exhibit 3: Summary of Projects by Project Type

Type of Offers Received	Number of Projects	Total Countable MW
Existing CHP	[REDACTED]	[REDACTED]
New CHP	[REDACTED]	[REDACTED]
Hybrid	[REDACTED]	[REDACTED]
Tolling	[REDACTED]	[REDACTED]
Repowering	[REDACTED]	[REDACTED]
Expansion	[REDACTED]	[REDACTED]
Total Offers	[REDACTED]	[REDACTED]

[REDACTED]

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Initial Offer Review

[REDACTED]

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The initial tasks upon receipt of offers involved a review of the offers to ensure the Participants provided all the information required, check for conformance with eligibility requirements, and review of the offers and PPA mark-ups for purposes of identifying any follow-up questions or clarification of the offer. Follow-up conference calls were held with all Participants to ensure all information had been provided and interpreted properly by PG&E and for PG&E to seek clarification of any information provided, notably operational parameters associated with each project. The objective of this effort was to ensure that all necessary information for consistent evaluation of all offers was provided and understood thoroughly by PG&E prior to completion of the offer evaluation process.

Initial Offer Review/Discussions with Counterparties

Following the receipt of offers, PG&E's project team and IE began to review the offers received, including the Offer Forms, to ensure the information provided by the Participants was complete and accurate. PG&E conducted calls with each of the counterparties between March 10, 2014 and March 14, 2014 to discuss key provisions of each offer to ensure the Participant provided a complete offer and to ensure that PG&E fully understood the parameters of the offer for purposes of conducting the bid evaluations. PG&E also sent clarifying questions to Participants, if necessary, to further clarify more detailed information requirements. In addition, the discussions focused on issues associated with the status of the steam host, operational issues based on changes to steam host requirements, operational parameters of the offer including heat rates and operating flexibility, areas where the counterparty could offer additional value to PG&E, curtailment options for CHP offers, GHG emissions, fuel supply/transportation arrangements and costs, and contract exceptions. The IE attended all the calls and prepared clarifying questions for the counterparties along with members of PG&E's project team.

Offer Evaluation Results

PG&E sent the preliminary integration model evaluation results for each offer to the IE [REDACTED], which included input assumptions, the quantitative evaluation results for Net Market Value and PAV components, and the estimates for GHG emission reductions where applicable. PG&E provided detailed supporting documentation to the IE regarding the quantitative and qualitative evaluation results prepared by PG&E's project teams. As part of the information provided to the IE, PG&E presented the detailed integration model evaluation for each offer along with the identification numbers for each offer. The integration model also included the summary results for all the offers and a ranking by Net Market Value, PAV and GHG Emission reduction. The IE reviewed the results for all the offers, summarized the costs and benefits by component and prepared several follow-up questions with regard to the evaluation of certain offers. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Evaluation Committee Meeting – April 2, 2014

An Evaluation Committee meeting was held on April 2, 2014 to review the evaluation results, consider projects for shortlisting, and reach an initial consensus on the short list. The presentation of the results of the evaluation by PG&E’s Project lead also included a review of the Company’s position relative to its CHP MW and GHG targets. [REDACTED]

[REDACTED] The discussion focused on observations about specific projects that evaluated highly or had unique characteristics. [REDACTED]

[REDACTED]¹²

Steering Committee Meeting – April 10, 2014

A Steering Committee meeting was held by PG&E on April 10, 2014 to review the bid evaluation results and discuss shortlisting of offers based on recommendations of the project team. Discussions at the meeting addressed many of the same issues as discussed at the Evaluation Committee meeting. The Steering Committee discussed each project individually including the evaluation results and considerations specific to each offer.

[REDACTED] The Steering Committee approved the suggested shortlist identified by the project team.

The proposed short list approved by the Steering Committee and presented to the PRG/CAM is identified in Exhibit 4. This Exhibit identifies the project, type of resource, CHP MW offered and estimated GHG emission reductions. A more detailed presentation of the shortlist, including CHP and GHG values and ranking is included in Section IV of this report. The shortlist selected included the following projects:

[REDACTED]¹²

Exhibit 4: PG&E Proposed Shortlist for CHP RFO 3

[REDACTED]

[REDACTED]

The IE was in general agreement with the shortlist selection [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

PRG/CAM Group Meeting – April 18, 2014

PG&E presented its proposed short list to the joint PRG/CAM meeting on April 18, 2014.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Monitored Contract Negotiations with Shortlisted Bidders

The IE monitored follow-up contract negotiations with shortlisted Participants following notification of shortlist selection and execution of Non-Disclosure Agreements. [REDACTED]

[REDACTED]

[REDACTED] In all initial calls, PG&E indicated to bidders that although they were on the short list this is a highly competitive process and there was no guarantee that the counterparty will get a contract. PG&E encouraged the Participant to increase the value of their offers, if possible, to enhance their value and ranking.

[REDACTED]

PRG Meeting – July 17, 2014

A PRG meeting was held on July 17, 2014 for PG&E to provide an update on the CHP RFO 3 process. [REDACTED]

[REDACTED]

III. Did PG&E Do Adequate Outreach to Bidders and Was the Solicitation Robust?

This section of the Report focuses on the adequacy of outreach activities of PG&E and the robustness of the response of bidders with regard to the solicitation process.

A. Describe the IOU outreach to potential bidders (e.g., sufficient publicity, emails to expected interested firms)

Outreach activities are important to the success of a competitive solicitation process. PG&E's outreach efforts targeted a large number of potential Participants based on PG&E's contact lists of energy companies and individuals. These efforts likely played a role in the robust response to the RFO in terms of number of Participants and specific offers or projects.

PG&E maintains a detailed list of potential Participants with nearly [REDACTED] contacts that serves as the database for Seller contact and outreach. PG&E sent emails to all potential Participants on this list informing them of the CHP RFO 3 process and the issuance of the CHP RFO Protocol. [REDACTED]

[REDACTED] Based on the Settlement Agreement process a list of interested parties was also available. Finally, PG&E maintains a Diverse Supplier list that was also informed via email of the CHP RFO.

Since one of the objectives of CHP RFO 3 was the receipt of offers that are low GHG emitting (such as bottoming-cycle facilities) or provide GHG emission reductions, PG&E team members initiated an outreach program to target CHP suppliers and others to assess the opportunity for these entities to offer GHG emission reductions. PG&E contacted participants in previous solicitations, CHP trade organizations and industry groups to attempt to gauge the potential in the market for efficient low GHG emitting facilities such as bottoming cycle options as well as potential projects which could provide GHG emission reductions. [REDACTED]

[REDACTED] Although the feedback differed by industry segment, the overall feedback was that there was not a lot of interest by counterparties to submit offers to the RFO that met PG&E's objectives.

For CHP RFO 3, PG&E utilized the PowerAdvocate Platform as the means for receiving and storing proposals from Participants. PG&E also established a section on its internal public website for distribution of information to prospective Participants and other interested parties. The internal website also included contact information for PG&E should prospective Participants wish to ask any questions or request follow-up information. The PG&E internal website contained all the pertinent solicitation documents, presentations for prospective bidders, schedule for the solicitation, and a list of questions and answers related to the solicitation. PG&E maintained a website that focuses on the QF/CHP Settlement Agreement and related documents that is accessible to prospective Participants. A total of 48 questions and answers were posted on the website, including questions from the Participants Webinar. The IE found the website easy to

access and navigate. All documents associated with the CHP RFO were included on the website and were easy to identify, access, and download.

B. Identify Principles Used to Determine Adequate Robustness of a Solicitation (e.g. number of proposals submitted, number of MWhs associated with submitted proposals).

With regard to assessing whether the response to the solicitation was adequately robust, there are several criteria to consider:

- Was the response to the solicitation commensurate with the level of outreach?
- Did the solicitation encourage a diverse response from Participants in terms of products requested, project structure, pricing options, etc?
- Was the response large with respect to the number of proposals and megawatts (“MW”) offered relative to the amount requested?
- Was the process a competitive process based on the amount of MW submitted by Bidders relative to the number of MW requested?
- Were the Solicitation Documents clear and concise such that Participants could clearly assess how to structure a competitive offer?

C. Did the IOU Do Adequate Outreach? If Not, Explain in What Ways it Was Deficient

There are several criteria generally applied for assessing the performance of the utility in its outreach and marketing activities:

- Did the utility contact a large number of prospective Participants?
- Were the utility’s outreach efforts active or passive?
- Did the utility adequately market the solicitation?
- Could prospective bidders easily access information about the RFP?
- Did any prospective bidders complain about the process or access to information?

As noted above, the outreach activities of PG&E can be classified as “active” given that emails about the solicitation process were directly sent to prospective Participants and PG&E held webinars for Participants to seek information and ask any follow-up questions.

D. Was the Solicitation Adequately Robust

The overall result of this outreach activity was a reasonably robust response from Participants given that a number of CHP projects have already been contracted. Offers were also received from a range of eligible Sellers who offered proposals for existing CHP projects, conversion to UPF options, and new CHP.

Appendix A of this Report contains a list and summary of the Offers submitted. The IE found the response from the market to be reasonably robust, given the declining number of eligible CHP facilities in the market. While there was certainly an adequate amount of MW to meet PG&E's target, the amount of GHG emission reductions was limited.

In conclusion, the response of the market to PG&E's CHP RFO is reasonable evidence that the outreach activities of PG&E were effective and Sellers felt they had an adequate opportunity to receive a contract from the process. However, despite the outreach efforts initiated by PG&E to seek projects that offered more GHG emission reductions there was no response from the market to those specific outreach efforts.

E. Did the IOUs Seek Adequate Feedback About the Bidding/Bid Evaluation Process From All Bidders After the Solicitation Was Complete?

PG&E's project team members, particularly PG&E's Project Manager, were involved in regular communications with prospective Participants, with much of the communications occurring after submission of the offers. Also, as noted, PG&E agreed to debrief Participants who submitted offers that were not selected about the general reasons for non-selection. In the IE's view, the debriefing sessions were very well handled by the Project Manager, who provided consistent information to all Participants without unduly providing additional information to certain bidders.

F. Was the Outreach Sufficient and Materials Clear Such That the Bids Received Meet the Needs the Solicitation Was Intending to Fill?

PG&E used the CHP RFO 2 Protocol document as the starting point for the CHP RFO 3 documents. PG&E focused significant attention to improving the Offer Forms to be easier to complete and to be more flexible so as to address hybrid offers and other creative offers. The IE had the opportunity to review the CHP RFO 3 Protocol document, Bid Forms, Term Sheet requirements and other attachments during the development of the Protocols and provided comments on the documents. The IE's comments were designed to ensure the information was consistent and clear to Participants. In addition, given the unique nature of this process, the IE also focused on ensuring that the process was designed consistent with the requirements of the Settlement Term Sheet and that the

information requested of Participants was reasonable and consistent with the evaluation criteria established to evaluate CHP projects.

Overall, the IE was of the opinion that the documents and follow-up information presented by PG&E were clear and concise and reflected changes made as a result of the CHP RFO 2 solicitation process. The IE also felt that the documents and follow-up webinars provided detailed information for Participants to decide if they wanted to participate and to understand the requirements for competing.¹³ Prospective Participants had multiple opportunities to ask questions and participate in interactive discussions with PG&E staff regarding the Offer Forms, Attachments and contracts.

The IE also found that PG&E's project team was particularly responsive to the needs of prospective Participants and also responded to most questions in a timely and thorough manner.

G. Any Other Relevant Information or Observations

Most of the Participants provided reasonably complete proposals with limited clarification questions or information requirements. [REDACTED]

[REDACTED] The IE and PG&E both recognized that since every CHP project was unique in that projects had different steam requirements and operational characteristics, it was in PG&E's best interest to actively engage the Participants early in the solicitation process. For this solicitation, PG&E conducted telephone discussions with [REDACTED] Participants [REDACTED] after the offers were received to clarify the offers and fully discuss the projects and offers submitted.

IV. Fairness and Appropriateness of the CHP RFO Bid Evaluation and Selection Methodology and Design

A. Principles for Evaluating PG&E's Bid Evaluation Methodology

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

- Were the procurement targets, products solicited, principles and objectives clearly defined in PG&E's CHP RFO and other materials?

¹³ As noted in the previous section, feedback from actual Participants was very favorable regarding the clarity of the CHP RFO Protocol documents.

- Is the IOU bid evaluation based on those criteria specified in the bid documents? In cases where bid evaluation goes beyond the criteria specified in the bid documents, the IE should note the criteria and comment on the evaluation process.
- Do the IOU bid documents clearly define the type and characteristics of products desired and what information the bidder should provide to ensure that the utility can conduct its evaluation?
- Was the bid evaluation and selection process and criteria reasonably transparent such that Participants would have a reasonable indication as to how they would be evaluated and selected?
- Was the bid evaluation methodology consistent with CPUC direction?
- Was PG&E's bid evaluation based on and consistent with the information requested in the RFO to be submitted by Participants in their proposal documents?
- Does the evaluation methodology reasonably identify how the quantitative and qualitative criteria would be used to qualify and rank offers?
- Were the bid evaluation criteria consistently applied to all offers?
- Does the quantitative evaluation methodology allow for consistent evaluation of bids of different sizes and in-service dates? Are there differences in the evaluation method for different technologies that cannot be explained in a technology-neutral manner (e.g. evaluation metric should be ability to ramp 10 MW/minute rather than, must be a hydro storage facility)?
- Did the bid evaluation criteria and evaluation process contain any undue or unreasonable bias that might influence project ranking and selection results or in any way favor affiliate bids?
- Was the RFO clear and concise to ensure that the information required by PG&E to conduct its evaluation was provided by project sponsors?
- Did the IOU bid evaluation criteria change after the bids were received? Explain the rationale for the changes.

To address these issues, Merrimack Energy will first present a detailed description of the bid evaluation methodology and process implemented by PG&E to undertake the evaluation. This includes both the quantitative and qualitative criteria used in the evaluation. Next, the bid evaluation results and short list selection process are described. Subsequently, the IE then discusses the strengths and weaknesses of the methodology

relative to the issues identified above. The final section addresses potential improvements related to the bid evaluation methodology and process as identified by the IE for consideration in implementing the next solicitation process under the CHP Program.

B. Overview Description of PG&E’s Least Cost Best Fit (“LCBF”) Evaluation Methodology

This section of the report provides an overall description of PG&E’s LCBF bid evaluation methodology, procedures and criteria applicable to the third CHP RFO.¹⁴ The methodology selected is designed to generally conform to the Least Cost Best Fit (“LCBF”) procedures applied in other solicitations but also needs to address the unique nature of CHP resources and Settlement requirements. This includes an assessment of both the value of an offer relative to CHP MWs provided as well as GHG Emission reductions. The CHP RFO bid evaluation procedure also includes evaluation of both quantitative and qualitative attributes of each proposal to assess its value to PG&E’s customers and relative value in comparison to other proposals. PG&E evaluates the offers based on a number of evaluation criteria which are discussed in this section.¹⁵

For evaluation of offers received in response to its CHP RFO’s, PG&E stated in the 2013 CHP RFO Protocol (CHP RFO 3) that it will primarily use a Portfolio Adjusted Value (“PAV”) methodology to evaluate and rank Offers received. PG&E will also evaluate and consider the following criteria:

- Market Valuation (i.e. Net Market Value or NMV);
- GHG Emission Reductions;
- Credit;
- Project Viability and Project Technical Reliability;
- Adherence to applicable form PPA; and
- Supplier Diversity.

The CHP RFO 3 Protocol also provided a description of each of the criteria to be applied in the evaluation. In addition, the Protocol document clearly identified the MW target for this solicitation and identified PG&E’s objectives for procuring both CHP MW and GHG emission reductions.

[REDACTED]

¹⁴ The IE Template also addresses the issue whether the IOUs bid evaluation criteria changed after the bids were received and explain the rationale.

¹⁵ PG&E has developed Internal Evaluation Protocol for each of the evaluation criteria listed in this section for CHP RFO 3, similar to what was done for the other two CHP RFO’s. The Evaluation Protocol have been approved by PG&E’s Steering Committee and are used as the basis for the evaluation process. The information contained in the Evaluation Procedures are summarized in the write-up in this section of the report.

[REDACTED]

[REDACTED]

16

PAV is intended to represent the value of a resource or Offer in the context of PG&E's portfolio and contrasts with Market Valuation, which is intended to represent the value of a resource or Offer regardless of PG&E's portfolio.

Actually, for presenting the results of the evaluation and ranking of offers for the CHP RFO processes, PG&E presents three metrics for consideration:

- PAV/CHPkW-year, with CHPkW-year based on how many MWs PG&E can count toward the QF Settlement CHP targets;
- PAV/metric ton of GHG reductions [REDACTED];
- [REDACTED].

In the Solicitation Protocol for CHP RFO 3 it is stated that "PG&E will primarily use PAV to evaluate and rank Offers received in the CHP RFO." Augmenting measures are also considered [REDACTED]

[REDACTED]

Portfolio Adjusted Value is determined by making adjustments to Market Valuation. PAV is intended to represent the value of a resource or offer in the context of PG&E's portfolio. [REDACTED]

[REDACTED]

16

[REDACTED]

[REDACTED]

In determining the final shortlist the other criteria previously listed are considered for purposes of (1) changing rankings for offers tied on a PAVCHP-kW year basis; (2) dropping offers from the shortlist and (3) including offers on the shortlist.

C. Detailed Description of the Evaluation Process

The following section of the report provides a more in-depth discussion of the components of the evaluation process and describes how each eligible product in the CHP RFO 3 process is evaluated. In addition, this section includes a description of the input assumptions utilized for evaluation purposes.

1. Market Valuation

Market Valuation assessment is the starting point for PG&E's bid evaluation methodology for the CHP RFO process, although as will be discussed in this section of the report, PG&E has evolved to Portfolio Adjusted Value or PAV as the basis of the quantitative evaluation methodology and offer ranking process. PAV represents adjustments to Market Value and as a result this assessment starts with a description of Market Valuation.

Market Valuation considers how an Offer's (or contract's) costs compare to its benefits, from a market perspective. [REDACTED]

[REDACTED]

Costs and Benefits are each quantified and expressed in terms of present value (2014 dollars) per kW-year. Net Market Value is Benefits minus Costs. Positive values reflect a situation where benefits exceed costs while a negative value reflects a case where costs exceed benefits. The majority of the Offers received through this solicitation have market values that are negative reflecting a situation where the costs of the offer exceed the benefits attributed to the Offer.

[REDACTED]

¹⁷ [REDACTED]

PG&E uses distinct methodologies for each of the following types of Offers eligible for this CHP solicitation:

- a. Pro Forma PPA Offers (Non-Dispatchable) – These offers are treated as must-take offers and are required to provide expected generation profiles in the Offer Form as twelve months by twenty-four hour expected generation profile defined separately for weekday and weekends. Net Market Value will be calculated using PG&E’s CHP Valuation Model. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

b. Utility Pre-scheduled Offers – [REDACTED]

[REDACTED]¹⁸ [REDACTED]
[REDACTED]¹⁹ [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

c. Offers that involve termination of an existing QF contract – These are Offers associated with existing QFs that bid into the CHP RFO that have existing contractual obligations with PG&E which would need to be terminated as part of the Offer. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

d. Hybrid Offers: part pro forma, part utility pre-scheduled offer – Hybrid Offers are offers which include part of the capacity as must-take and part as utility pre-

¹⁸ [REDACTED]
[REDACTED]
¹⁹ [REDACTED]
[REDACTED]
[REDACTED]

scheduled. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

2. Input Assumptions

The input assumptions are integral to the evaluation of the offers received since the input assumptions are used not only to model the offer structures proposed but also the benefits associated with each project for purposes of assessing the costs and benefits of each offer.

The input assumptions used in the evaluation include:

- [REDACTED]
- [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]
[REDACTED]
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[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

3. Portfolio Adjusted Value (PAV)

PG&E now uses a bid evaluation methodology referred to as Portfolio-Adjusted Value (“PAV”). Portfolio-Adjusted Value is intended to represent the value of a resource or offer in the context of PG&E’s portfolio. This approach contrasts with Market Valuation, which is intended to represent the value of a resource or offer independent of PG&E’s portfolio.

To calculate PAV, adjustments are made to Market Valuation calculations, components, and/or resulting values. To develop the PAV of each Offer, PG&E first calculated the [REDACTED] Net Market Value (“NMV”) in dollars per kilowatt (“kW”) of contract capacity per year. The components of PAV are Net Market Value (including the effect of Greenhouse Gas (“GHG”) allowances), preference for project location, energy firmness, curtailment, transmission network upgrade costs, contribution of the offer to meet PG&E’s RPS energy requirements and CHP MWs eligible to count towards the CHP MW goals under the CHP Program Settlement. The adjustments are described in this section of the report. The adjustments described in this section are intended to be performed in the order listed. Changing the order of the adjustments may impact the results. The description of PAV included in this section of the Report applies to PG&E’s CHP RFO 3 only. Different adjustments may be appropriate as PG&E’s portfolio changes over time.

As noted above, the starting point for PAV is Market Valuation. Market Valuation

[REDACTED]

[REDACTED]

1. **Location** – The energy and capacity value for offers in SP15 or outside of CAISO will be adjusted to reflect their location.

a. **SP15**

Energy – [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

20

Capacity – [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

20 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[Redacted text block]

[Redacted text block]

b. Other Locations within CAISO Footprint

Energy – [Redacted text]

Capacity – [Redacted text]

2. Energy Firmness

Energy – [Redacted text]

Capacity – [Redacted text]

[Redacted text block]

3. RPS Portfolio Need Adjustments

[Redacted text block]

4. Curtailment

- [Redacted text block]
- [Redacted text block]
- [Redacted text block]
- [Redacted text block]
- [Redacted text block]

[Redacted text block]

[Redacted text block]

5. Adjusted Transmission Cost Adder

²¹ [Redacted footnote text]

- a) [Redacted]
- b) [Redacted]

6. PAV per kW-yr

[Redacted]	²²	[Redacted]
+		[Redacted]
+		[Redacted]
+		[Redacted]
+		[Redacted]
-		[Redacted]
-		[Redacted]
-		[Redacted]
+		[Redacted]
+		[Redacted]
+		[Redacted]

7. Final PAV Based on CHP MW

²² [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[REDACTED]

8. Final PAV Based on MT

[REDACTED]

[REDACTED]

GHG Emission Protocol

This protocol specifies how each offer received in response to CHP RFO 3 will be evaluated in terms of GHG emissions.

The GHG emission evaluation protocol measures how an Offer contributes toward the GHG Emissions Reduction Targets specified in the CHP Settlement. One objective of the CHP Program is GHG emissions reductions. GHG emissions reductions are measured in metric tons, per the Settlement Term Sheet.

An Offer's contribution towards the GHG Emission Reduction Targets will be calculated as described in the CHP Settlement Term Sheet. For a new CHP facility or an existing facility with physical changes but no change in operations, the amount of GHG emissions reductions is compared against the Double Benchmark.²³ For an existing CHP facility with a change in operations or conversion to a Utility Tolling Offer, the GHG emissions reduction is determined from the expected emission reduction at the facility and the emissions associated with replacing the reduced generation with conventional resources at a time differentiated heat rate. For an existing CHP facility with no change in operations, GHG emissions reduction is zero. The GHG emission reduction methodology, consistent with the CHP Settlement Term Sheet, is described in the internal protocol document for the CHP RFO entitled CHP RFO GHG Emission Protocol. The formulas required to assess the GHG emission reductions are specified in the GHG Emission Protocol document, with the formulas presented for new CHP facilities, for an existing CHP with a physical change, and for an existing CHP with operational change. Much of the data required by PG&E to evaluate the GHG emission reductions associated

²³ The CHP Settlement specifies the Double Benchmark as an alternative configuration whereby the CHP steam requirements and Utility power deliveries are replaced with a package boiler and conventional electrical generation at administratively-determined efficiencies. For the Double Benchmark, electricity is based on heat rate of 8.3 MMBtu per MWh and thermal energy is based on 80% efficient boiler.

with specific offers is provided in the Offer Form submitted by the Participant. [REDACTED]

Technical Reliability and Project Viability

This evaluation protocol specifies how PG&E will govern the evaluation process for Technical Reliability and Project Viability. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Redacted]

Compliance With Non-Price Terms and Conditions

This criterion considers how closely an Offer complies with the terms and conditions set forth in the CHP PPA and Utility Tolling PPA, [Redacted]

[Redacted]

Credit

An Offer’s credit evaluation score will be based on the Participant’s willingness to post collateral as required under the CHP RFO solicitation. PG&E is interested in executing agreements with creditworthy participants or participants that are willing to post the required credit support to mitigate the financial risk of non-performance under the contracts. [Redacted]

[Redacted]

Supplier Diversity

Supplier Diversity addresses how an offer assists PG&E in reaching its enterprise-wide diversity spending goals for Woman, Minority or Service Disabled Veteran Business Enterprise (WMDVBE). The evaluation methodology will use the information provided by the Participant. [Redacted]

[Redacted]

²⁴ [Redacted]

D. Evaluation of the Strengths and Weaknesses of PG&E’s Methodology in This Solicitation

PG&E has implemented a methodology for evaluating offers received in response to CHP RFO 3 (and previous) CHP RFOs that includes methodologies and models used in previous solicitations as well as revisions to the criteria that apply to this CHP solicitation. [REDACTED]

[REDACTED]

Strengths of Evaluation and Ranking Methodology

The following represents the IEs perspective regarding the strengths associated with the evaluation and ranking methodology implemented by PG&E for assessing CHP Offers submitted into the CHP RFO processes. These include:

- The methodology used by PG&E takes into consideration all reasonable costs and benefits associated with the various types of offers submitted;
- This methodology is capable of effectively and consistently evaluating a range of different types of resources, project structures with different terms, product sizes, and starting dates, different generation profiles and operating parameters. The IE does not view this methodology as having a bias toward any product solicited in this RFO with respect to technology, operating characteristics, etc.;
- The models used by PG&E for undertaking the evaluation of both CHP options as well as dispatchable options have been used in several other PG&E solicitations and have undergone testing and evaluation in previous CHP RFO processes as well as other solicitations such as the ITRFO’s undertaken by PG&E using the same or similar option pricing model as used for dispatchable offers in this solicitation;
- PG&E has developed and maintained detailed documentation for each of the models used to evaluate CHP projects and provided the documentation to the IE;
- PG&E uses consistent input assumptions for undertaking the evaluation of all offers;
- [REDACTED];

- The use of Portfolio Adjusted Value (PAV) as the basis for undertaking this evaluation represents a reasonable step in the evolution of PG&E’s evaluation methodology since the methodology is intended to represent the value of a resource or Offer in the context of PG&E’s portfolio. PG&E has evolved toward a PAV methodology for other solicitations including RPS solicitations as well;
- PG&E’s methodology is consistent with Least Cost Best Fit principles by incorporating quantitative and qualitative factors to determine a shortlist of projects. [REDACTED];
- The ranking and presentation of bid evaluation results was provided to the IE, PRG and CAM groups by resource type or product to allow for a more effective comparison of offers;
- [REDACTED];
- The key inputs and assumptions [REDACTED] were locked down prior to receipt of offers, which serves to minimize any potential evaluation bias;
- For CHP RFO 3, PG&E revised its Offer Forms to streamline the forms and facilitate the ability of the Participants to complete the forms. In addition, PG&E added a Term Sheet to the Offer Forms that Participants were required to complete. This added more information to allow PG&E and the IE to assess any inconsistencies with regard to the information submitted by the Participant.

Weaknesses of the Evaluation and Ranking Methodology

The following reflects the views of the IE with regard to the weaknesses of the bid evaluation and ranking methodology.

- [REDACTED] These adjustors need to be reassessed over time as new information becomes available;

- [REDACTED];
- Given the nature of the QF/CHP Settlement, including the specific targets specified, the evaluation methodology is effective for evaluating and ranking similar resources or product types through a specific solicitation process but may not fully assess the system-wide impacts of a resource or portfolio of resources on PG&E's overall system resource portfolio. [REDACTED];
- [REDACTED].

E. Bid Evaluation Results and Selection of the Short List

The offers received were evaluated based on the above methodology. [REDACTED]

While the bid evaluation output results prepared by PG&E included all eligible offer alternatives (including the required alternatives where the bidder absorbs the GHG risk and the case where the GHG risk is flowed through to PG&E), for purposes of presenting the results, [REDACTED]²⁵

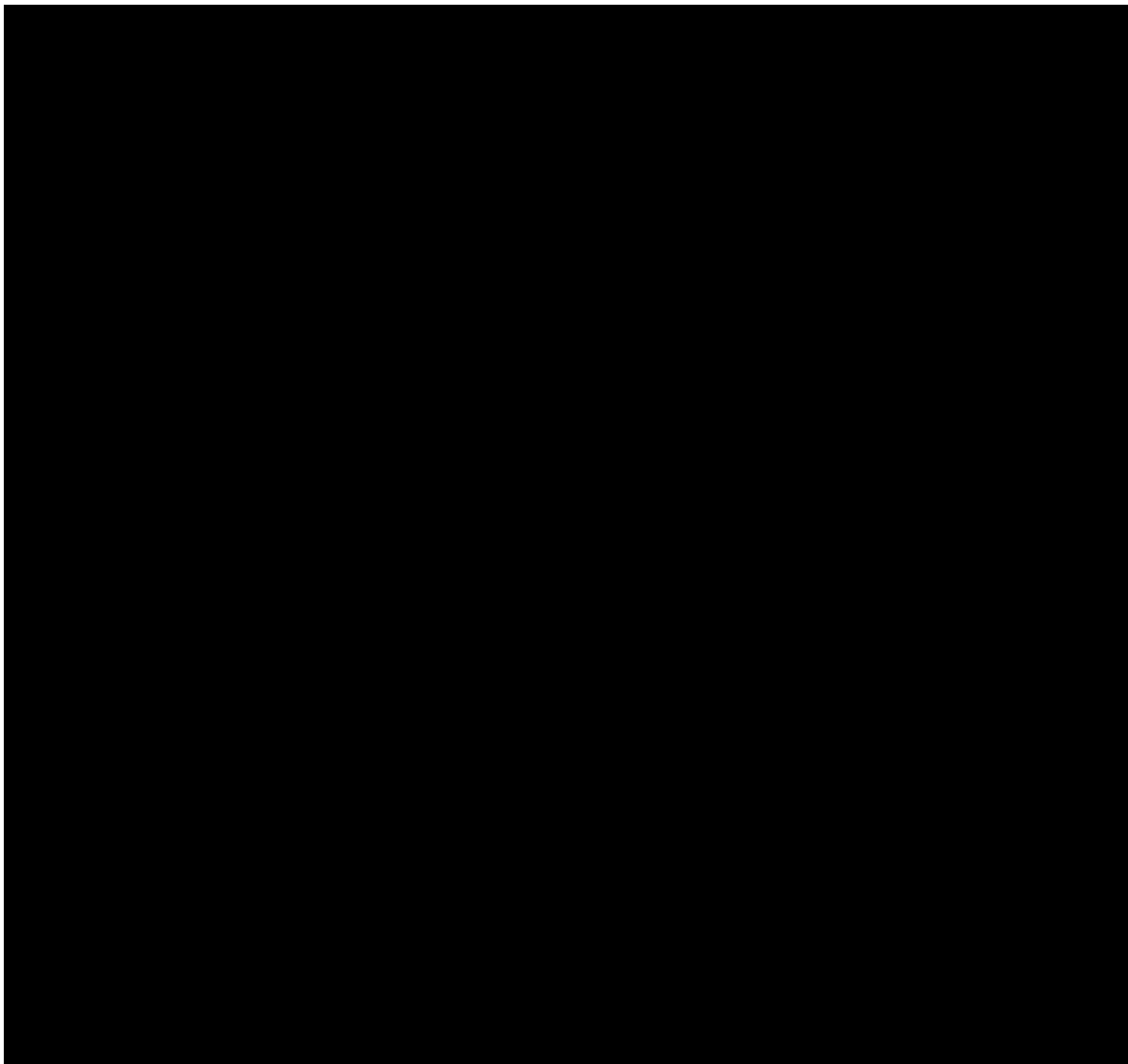
In addition, for Participants which offered a hybrid option (i.e. a combination of units which are traditional CHP units and those which are converted to utility dispatchable

²⁵ [REDACTED]

resources), [REDACTED]
[REDACTED].

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Exhibit 5: Summary of Bid Evaluation Results



[REDACTED]

[REDACTED]

26

[REDACTED]

- [REDACTED];
- [REDACTED];
- [REDACTED].

[REDACTED]

Based on the ranking of the Offers, PG&E selected a short list of Offers. PG&E presented its proposed short list to the PRG and CAM Group on April 18, 2014.²⁷

²⁶ [REDACTED]

²⁷ [REDACTED]

[REDACTED]

The short list selected by PG&E is presented in Exhibit 6 below. [REDACTED]

[REDACTED]

The IE was in general agreement with the short list. [REDACTED]

[REDACTED]

Exhibit 6: PG&E Proposed Short List

[REDACTED]

28

A brief summary of the shortlisted projects is included in Appendix E.

[REDACTED]

28

E. Recommended Future Improvements in the Evaluation and Ranking Process

There are several issues that should be considered as potential future improvements in the evaluation and ranking process. These include:

- [REDACTED];
- Conduct an assessment of the options and costs for meeting the remaining GHG emission reduction targets for the Second Program Period.
- [REDACTED].

F. Additional Information or Observations Regarding PG&E's Evaluation Methodology

No additional information or observations are provided.

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

A. Principles and Guidelines Used to Determine Fairness of Process

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

- Identify the principles you used to assess the fairness of the LCBF evaluation process including the following:
 - What qualitative and quantitative factors were used to evaluate bids?
 - If applicable, were affiliate bids treated the same as non-affiliate bids?
 - Were economic evaluations consistent across bids?

- Was there a reasonable justification for any fixed parameters that enter into the methodology?
- Were all Participants treated the same regardless of the identity of the Participants?
- Were Participants questions answered fairly and consistently and the answers made available to all?
- Describe the IE methodology used to evaluate administration of the IOU LCBF process.
- How did the IOU identify non-conforming bids?
- For those parts of the process conducted by the utility, how were the parameters and inputs used and were they reasonable? What quality controls were in place?
- Did the quantitative and qualitative methodologies result in a fair and equitable evaluation and selection process?
- Did the bid evaluation team maintain consistent scoring and evaluation among and across projects, including different products and price structures?
- Were the requirements listed in the RFO Protocol applied in the same manner to all proposals?
- Was there evidence of any undue bias regarding the evaluation and selection of different type of product, project structures, or bid sizes that cannot be reasonably explained?
- Did PG&E ask for “clarifications” in a manner that provided the bidder an unfair advantage over others?
- Did all bidders have access to the same information?
- Did PG&E consistently apply the requirements, procedures and criteria of the evaluation process as identified in the RFO documents to different bids and types of projects?
- Was the evaluation and selection process based on complete information about each proposal and a thorough investigation by PG&E’s project team?

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

As previously discussed, the IE was actively involved in all phases of the process. The IE was copied on all emails exchanged between PG&E and Participants including receiving copies of all offers, supporting documents, and contracts. The IE also compiled summaries of all offers and the results of the bid evaluation and was fully engaged in the progress of the process throughout. In addition, the IE and PG&E's Project Manager had regular conference calls to discuss the progress of the solicitation process and any issues that arose during the process. Also, during the bid evaluation and selection process the IE held several meetings with PG&E's quantitative and qualitative evaluation teams. With regard to the quantitative evaluation team, the IE met on several occasions to discuss the bid evaluation methodology prior to submission of bids. The IE also held several conference calls with the quantitative team to discuss the rationale underlying the interpretation and evaluation of each offer, to discuss the results generated by the team, and follow-up questions.

[REDACTED]

After review of the bid evaluation methodology and testing of the results, the IE concluded that the evaluation methodology is reasonable for this type of analysis and effectively evaluates offers with different products, terms, and contract structures. The IE found no evidence of bias in the evaluation methodology as a result of review of the model operation and results.

Based on the IE's involvement, Merrimack Energy concludes that PG&E reasonably followed the criteria outlined in the CHP RFO. Any revisions to the process were fully vetted between the IE and PG&E's Project Manager and in the IE's view did not negatively affect the final evaluation and selection process. In addition, the evaluation was consistent and equitable with regard to all offers. PG&E's overall approach for this initial solicitation was to be more inclusive and attempt to work with Participants to ensure they could conform, if reasonably possible.

C. Results Analysis

Identify instances where the IE and the IOU disagreed in the evaluation process

Since this was the third solicitation under the QF/CHP Settlement Agreement, the IE and PG&E team have had the opportunity to address any differences which occurred in prior solicitations PG&E has been very responsive to the IE suggestions throughout the solicitation processes including the following:

- Eliminating the exclusivity provisions in the RFO;
- [REDACTED];
- Engaging Participants after submission of offers to ensure that PG&E has a full understanding of the offer prior to initiating the evaluation of each offer;

The IE did raise an issue on several occasions with regard to assessment of the cost of achieving GHG emission reductions based on incremental MW requirements as part of PG&E's assessment of the cost of achieving GHG emission reduction targets. [REDACTED]

D. Administration of the Bid Evaluation Process

The IE has concluded that the bid evaluation process was fairly administered with respect to all Offers. [REDACTED]

[REDACTED] The IE felt that PG&E's project team performed their function in communicating with Participants in an exemplary manner, particularly with regard to follow-up conference calls with Participants that were not selected for a contract. PG&E generally provided thorough and informative responses to Participant questions and did so in a timely manner.

E. Any Other Relevant Information

None at this time.

VI. Project Specific Contract Negotiations

For reviewing and evaluating the performance of the utility with regard to specific contract negotiations, the IE has addressed the issues raised in the CPUC Independent Evaluator Report Template. These include:

- Identify the principles the IE used to evaluate negotiations.
- Using the principles, evaluate the project specific negotiations. Highlight any issues of interest/concern including unique terms and conditions.
- Was similar information/options made available to other bidders when appropriate (i.e. if a bidder was told to reduce its price, was the same information made available to others?)
- Describe and explain any differences of opinion between the IE and utility. If resolved, describe the reasonableness of the outcome.
- Any other information relevant to negotiations not asked above but important to understanding the IOU's process.

The general principles followed by the IE in evaluating contract negotiations include assurance that the risk allocation provisions in the contract are reasonably balanced between the counterparties and that the utility customers are not placed at undue risk as a

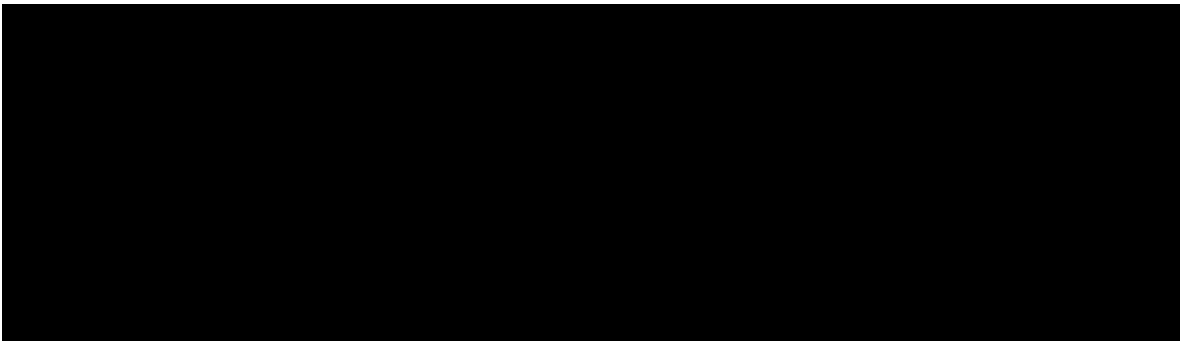
result of the contracting process. The IE generally “monitors” but does not actively participate in the contract negotiation process but will identify issues to the utility transactors if negotiations are moving off track or there are potential biases or inconsistencies in the process. It has been the IE’s experience in monitoring a number of negotiation processes that contract negotiations can divert off course but eventually return to a balance after contested provisions are resolved. We also attempt to ensure that similarly situated counterparties are treated the same or similarly and that all counterparties are provided with the same message. For example, PG&E has generally provided a clear message to counterparties to the CHP solicitations that the process is a very competitive process with more projects shortlisted than PG&E intends to execute contracts for. As a result, counterparties should sharpen their pencils and price as competitively as possible. This message was clearly sent to all shortlisted Participants.

The other issues above will be addressed in the discussion of contract negotiations with Martinez Cogeneration subject to this Advice Letter filing.

The Agreement with Tesoro Martinez is for as-available capacity from the 99.9 MW nameplate facility at the Golden Eagle Refinery for a term of 82 months beginning on July 1, 2015. The Agreement with Martinez was executed on August 25, 2014. Martinez has an existing contract with PG&E which expires on June 30, 2015. As noted in Exhibit 6, [REDACTED].

Exhibit 7 summarizes the key pricing and other provisions submitted by Martinez in its proposal to PG&E, which has been maintained through contract negotiations and is included in the final Agreement.

Exhibit 7: Pricing Provisions in Original Proposals



As part of its process to contact all Participants who submitted offers shortly after receipt of offers, PG&E held a conference call with Martinez to discuss the offer.



[REDACTED]

After notifying Tesoro Martinez in late April that its project had been shortlisted, PG&E and Martinez executed a non-disclosure agreement on May 2, 2014. PG&E then initiated a call with Martinez to discuss the shortlisted offer and the next steps in the process.

[REDACTED]

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED]

[REDACTED]

- [REDACTED];
- [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Exhibit 8: Updated Evaluation Results Provided to July 17, 2014 PRG Meeting

[REDACTED]

29

[REDACTED]

Exhibit 9: Revised Evaluation Results [REDACTED]

[REDACTED]

[REDACTED]

On August 25, 2014 the parties executed the final agreement.

The key provisions of the final executed Agreement are summarized in Exhibit 10.

Exhibit 10: Final Contract Provisions

Contract Provisions	Inclusion in Final Contract
Form of Agreement	CHP Proforma PPA
Contract Start Date – Section 1.01(a)	July 1, 2015
Contract Term – Section 1.01	82 months from the Start Date or April 30, 2022.

[REDACTED]

29 [REDACTED]

CHP Facility – Section 1.02	The facility is an existing CHP facility. The Generating Facility is a topping-cycle cogeneration facility as defined in 18 CFR Part 292, Section 292.202(d).
Contract Capacity-Section 1.02(d)	As-Available Contract Capacity of 99,900 kW per month.
Expected Term Year Energy Production Section 1.02€	The Expected Term Year Energy Production for each Term Year equals 220,000,000 kWh. The Expected Term Year Energy Production may be revised in accordance with Section 3.07(c) or based on changes in the Site Host thermal requirements.

[REDACTED]

In addition to the contract provisions described above, the Agreement also includes Appendix II which provides a description of the facility, unit and operational limitations. The information from Appendix II combined with information provided with the offer is summarized in Exhibit 11.

Exhibit 11: Summary of PPA Appendix II for Martinez

Facility Name	Martinez Cogen Limited Partnership (MCLP)
Facility Address	550 Solano Way, Martinez CA in Contra Costa County
[REDACTED]	
Technology	Gas-fired Combined Cycle
In Service Date	8/1/1987
Design Capacity	99.9 MW
[REDACTED]	
Congestion Zone	NP-15
Delivery Point	PG&E Tidewater Sub – CAISO PNode: FOSTERW-7-N004
[REDACTED]	
Existing Contract Expiration Date	6/30/2015
[REDACTED]	
Steam Host	Golden Eagle Refinery

The IE and PG&E’s negotiation team did not have any differences of opinion or issues associated with the negotiations. [REDACTED]

VII. Treatment of Affiliate Bids

[REDACTED]

VIII. Assessment of the PPA Relative to Energy Division Criteria

The CPUC has issued Resolutions approving several contracts between the IOU's in California and CHP facilities under the QF/CHP Settlement. The Resolutions have addressed the criteria used by the Energy Division to assess and evaluate the PPAs. The criteria include:

- Consistency with D.10-12-035, which approved the QF/CHP Program Settlement including:
 - Consistency with the Definition of CHP Facility and Qualifying Cogeneration Facility;
 - Consistency with CHP Request for Offers (“RFO”);
 - Consistency with MW Counting Rules;
 - Consistency with GHG Accounting Methodology;
 - Consistency with Cost Recovery Requirements.
- Need for Procurement;
- Contract Pricing/Cost Reasonableness;
- Public Safety;
- Project Viability;
 - Technology
 - Bidder Experience
 - Credit and collateral
 - Permitting, site control and other site-related matters
 - Fuel Status
 - Transmission upgrades
- Consistency with Emissions Performance Standard;
- Consistency with D.02-08-071 and D.07-12-052 which require Procurement Review Group (“PRG”) and Cost Allocation Mechanism (“CAM”) Group participation.

In this section of the Report, the IE addresses the relevant criteria identified in the IE Template relative to the Martinez contract as submitted in this Advice Letter filing.

A. Consistency with D.10-12-035 which approved the QF/CHP Program Settlement

The Martinez Cogeneration Limited Partnership project underlying the contract which is the subject of this Advice Letter filing has operated as a qualifying facility since 1987. The facility has provided steam and electric power to Tesoro's Golden Eagle Refinery. The facility has operated as a Qualifying Cogeneration Facilities and has met the definition of “cogeneration” under the Public Utilities Code Section 216.6 as of September 20, 2007. The project has a nameplate power rating greater than 5 MW and is therefore qualified to bid into the CHP RFOs.

Based on Section 5.2.3.1 of the Settlement, since this contract is referenced in PG&E's July 2010 Cogeneration and Small Power Production Report (July 2010 Semi-Annual Report) as having 99.9 MW nameplate, the Martinez Cogeneration project counts as providing 99.9 MW towards PG&E's CHP MW target.

Under the Tesoro Agreement, operations at the Facility will continue as they are under the Transition PPA. Term Sheet Section 7.3.3.1 states that an Existing CHP facility with no change in operations such as Tesoro Martinez “is neutral for GHG accounting purposes”. As an existing CHP facility with no change in operations, Martinez will provide PG&E with neither a GHG credit or debit under the Settlement Agreement.

The Settlement Agreement (Section 4.10.1) allows the IOUs to utilize a Tier 2 Advice Letter for existing CHP facilities that execute the CHP RFO Pro Forma without material modification. As noted, the changes made by PG&E to the CHP RFO Pro Forma are largely related to eliminating sections of the agreement that are not applicable to this type of transaction. In addition, PG&E proposed revisions to reflect changes in CAISO procedures and processes. These collective changes would not appear to reflect “material modifications” to the agreement but modifications designed to reflect the current state of the market and to eliminate extraneous sections of the PPA that do not apply to this transaction.

B. Need for Procurement

[REDACTED]
[REDACTED]
[REDACTED]³⁰ The execution of the Martinez contract will provide an additional 99.9 CHP MW toward the procurement target. If the Agreement is approved along with the ArcLight and Midway Sunset Agreements, PG&E will have met its’ CHPMW target of 1,387 MW for the Initial Program Period.³¹ Since there are no GHG emission reductions associated with the Agreement because there is no change in operations or physical construct, PG&E will have a Net Open Position for Phase 2 of .83 MMT.³²

C. Cost Reasonableness

The pricing agreed to by the parties is contained in the PPA which is the subject of this Advice Letter filing. [REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

³⁰ The net open position estimated by PG&E assumes approval of the five ArcLight contracts (240.45 MW) and the Midway Sunset Cogeneration Company contract (79 MW) selected and executed from CHP RFO 2. The ArcLight contracts have been approved while the Midway Sunset contract is currently pending a Commission decision.

³¹ The Initial Program Period commenced on the Settlement Effective Date of November 23, 2011 and shall conclude 48 months thereafter, or November 23, 2015.

³² According to Section 6.1.1.4 of the Settlement, utilities are required to achieve the GHG Emission Reduction Targets by December 31, 2020 or by the end of the Second Program Period.

[REDACTED]

[REDACTED]

D. Project Viability

The Martinez Cogeneration Limited Partnership project is an existing project with a PPA with PG&E. The project went into service in 1987, is fully permitted, has site control and has a refinery as a steam host. Under this Agreement, Tesoro is offering as-available power to PG&E beyond the needs of Tesoro’s Golden Eagle Refinery. [REDACTED]

[REDACTED]

[REDACTED]

IX. Bid Selection Recommendation

The IE is in general agreement with PG&E’s overall shortlist selection. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Approval of the contract (assuming other outstanding contracts are approved) would mean that PG&E will meet its Initial Program Period CHP MW targets and is more than 61% of the way toward meeting its GHG emission targets.

X. Conclusions and Recommendations

A. Conclusions and Observations

Merrimack Energy has the following conclusions and observations about the CHP RFO 3 solicitation process based on its role of IE in this process:

- The contract with Martinez Limited Cogeneration Partnership [REDACTED] provides relative value for PG&E and its customers. [REDACTED]
[REDACTED]
[REDACTED] Based on the totality of project value relative to other projects on the short list, the IE therefore concludes that the contract warrants CPUC approval;
- The experiences from recent CHP RFO solicitations undertaken by PG&E clearly illustrate that there are fewer CHP projects being offered into each subsequent solicitation. Furthermore, the amount of GHG emission reductions being offered from existing projects either converting to a dispatchable resource or a possible physical change or change in operations are significantly less than required by PG&E to meet its remaining GHG emission reduction targets. [REDACTED]
[REDACTED];

33 [REDACTED]

- The parties negotiated reasonably and diligently and methodically to complete the contract that is favorable to both parties. Both parties desired to complete an agreement that was consistent with the CHP Proforma agreement and to file the contract through a Tier 2 Advice Letter. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] the parties were able to address revisions and reach an agreement on the contract.
- The Martinez Cogeneration facility is an operating facility that has been in operation since the late 1980's. The project is a traditional cogeneration facility which provides both power and steam to a refinery in California. The facility is interconnected to the CAISO grid, has a generally reliable record of operations, and is a viable project based on site control, status of permits, and access to fuel supply. [REDACTED]
[REDACTED];
- The RFO process was conducted consistent with the requirements outlined in the QF/CHP Settlement Agreement. PG&E was very diligent in ensuring that the provisions of the Settlement were adequately addressed and included in the design and implementation of the solicitation process. As IE, one of Merrimack Energy's objectives was to ensure the solicitation requirements conformed to the directives in the Settlement. The IE concludes that PG&E's solicitation process does conform to Settlement requirements as reasonably interpreted;
- Based on our assessment of the evaluation process relative to the criteria outlined, it is our opinion that all Participants were treated equitably, consistently and fairly in the process. All Participants had access to the same amount and quality of information at the same time via PG&E's website dedicated to the CHP RFO process. PG&E posted all RFO information and Questions and Answers on PG&E's CHP RFO website. We also observed no difference in the treatment of Participants regarding clarification questions for Participants, correspondence and communications with Participants, follow-up contacts, and contract negotiations;

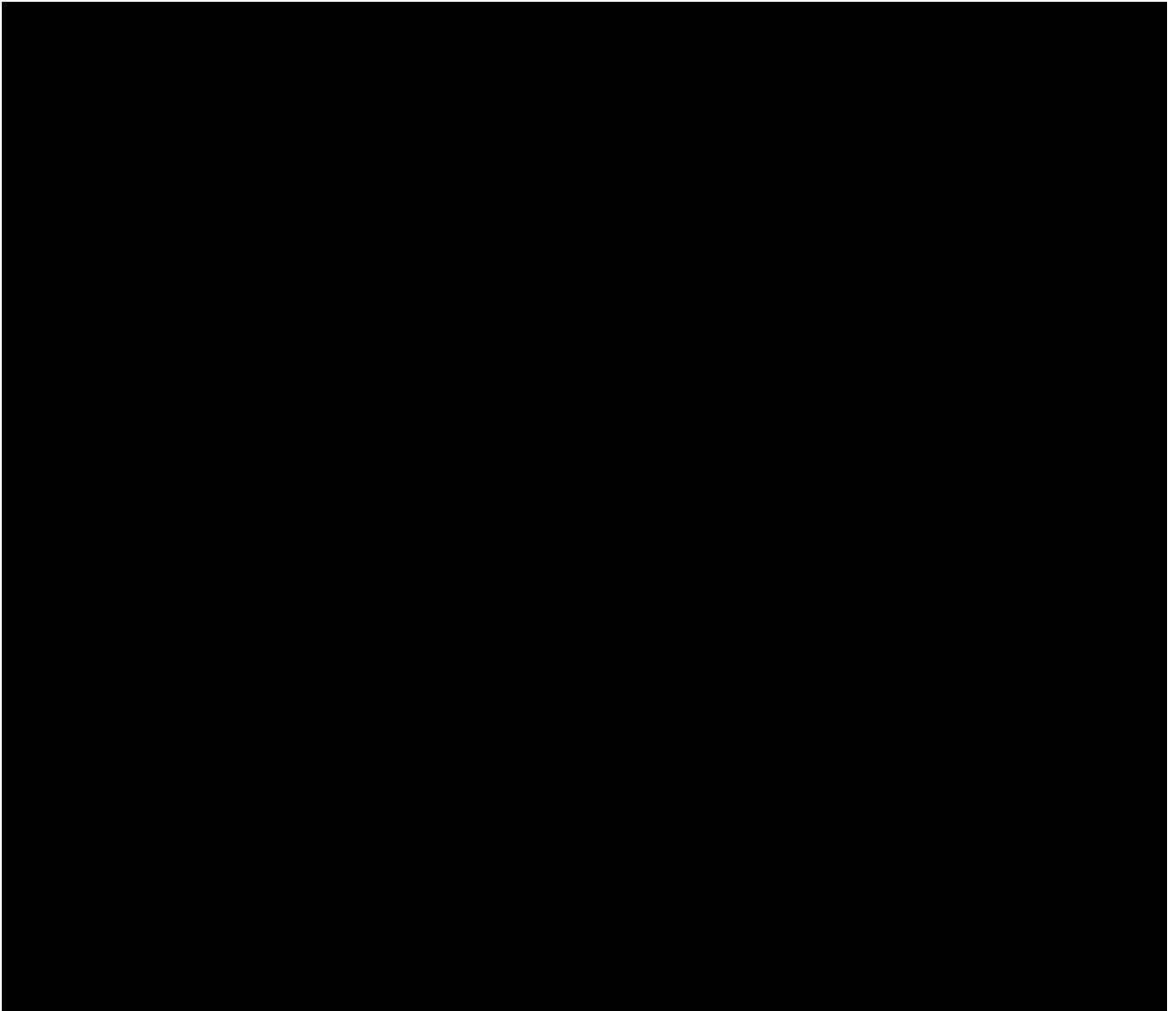
PG&E's outreach process was a very active and inclusive process. Not only did PG&E actively inform prospective bidders of the status of the RFO and requirements for participating but PG&E also held several forums for Participants to communicate with PG&E and ask questions to clarify any issues about the process. This included the Participants Conference and the Participants Offer Form Conference call to review and explain how to complete the Offer Form. In addition, prior to undertaking this solicitation process PG&E's project team contacted [REDACTED] CHP RFO participants, CHP trade organizations and industry groups expressing an interest in receiving offers into

CHP RFO 3 that are low GHG emitting (such as bottoming cycle CHP) or provide GHG emission reductions. PG&E also continued its outreach efforts to Participants in the process by contacting all Participants subsequent to submission of offers to discuss the details of the offer and to ensure PG&E had a clear understanding of the offer for purposes of accurately accounting for all required offer information prior to beginning the evaluation process. PG&E also debriefed the Participants who did not make the shortlist and were interested in participating in a debriefing session;

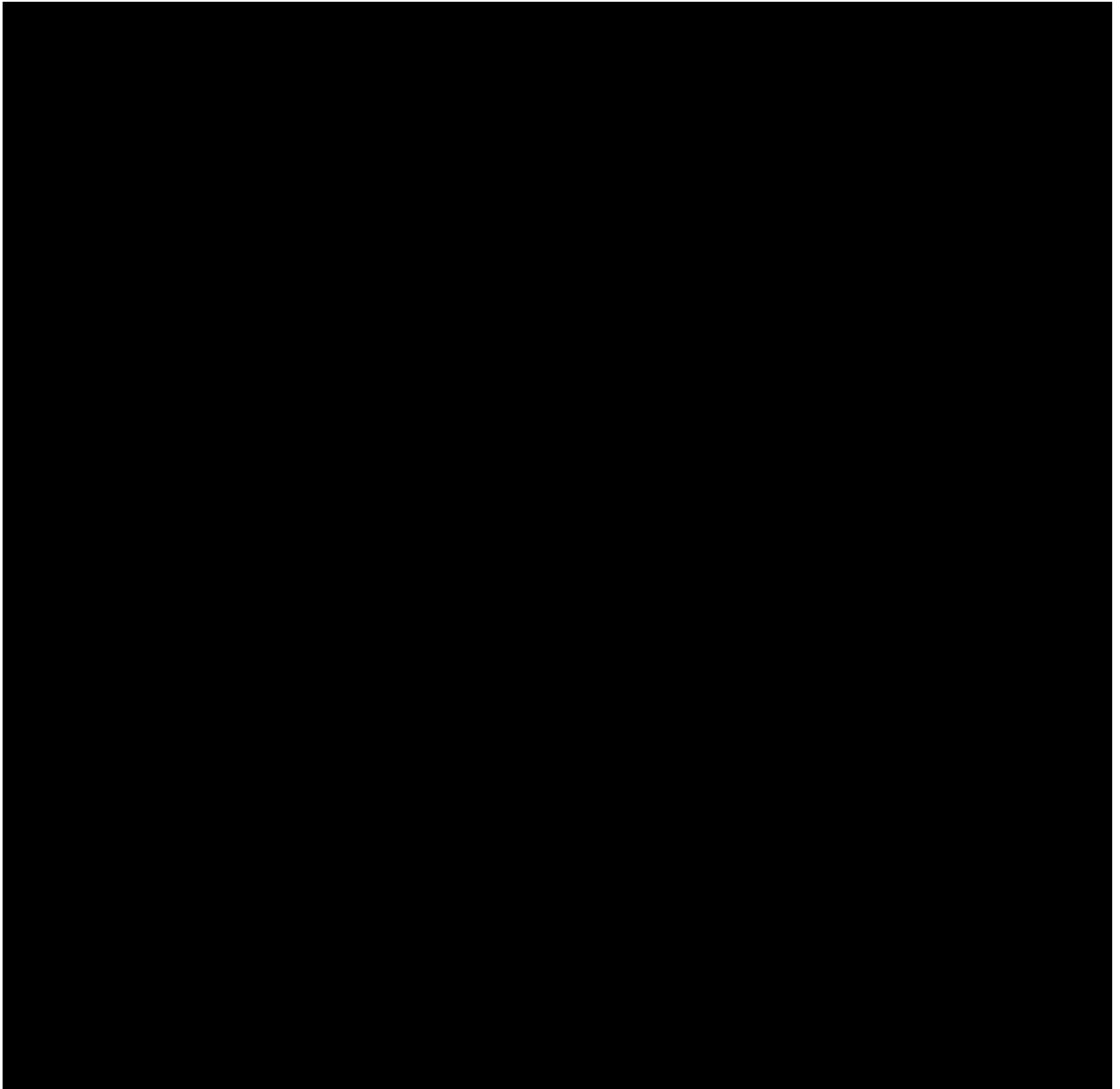
- The CHP RFO Protocol and associated documents were generally clear and concise and were not overly burdensome. In the IE’s view, the solicitation materials were sufficiently clear to communicate to perspective Participants what was required by PG&E to conduct its evaluation. Furthermore, the information required of Participants was linked to the evaluation criteria. Participants who were not short listed provided input to PG&E and the IE that the documentation was reasonable and clear;
- Overall, the IE viewed the evaluation and ranking of offers by PG&E as being reasonable, consistent and fair to all Participants and consistent with the evaluation protocols. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Based on the results of the evaluation, the IE also concludes that the evaluation methodology treats all types of products/resources fairly with no undue benefit to one type of product or resource. PG&E did not reject any offers at the initial stage of the evaluation and instead contacted Participants to ensure that all offers were complete and provided the information necessary for evaluation. All offers were therefore evaluated using a consistent set of inputs and assumptions and reflected a complete offer;
- PG&E’s quantitative evaluation methodology was a reasonable methodology for evaluating the value of each offer by taking into consideration the benefits and costs over a consistent period based on a consistent set of inputs and assumptions. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED];
- From a qualitative perspective, all qualitative factors that would be used in the evaluation process were clearly identified and described in the CHP RFO protocol;

- The PRG and CAM Group were actively involved in the CHP RFO process via several meetings with PG&E's Project Team;
- The IE's overall assessment is that PG&E's evaluation and ranking of the offers and its decisions on offer ranking and short list selection were fair, reasonable, and consistent. PG&E exhibited considerable care and diligence in the evaluation process.

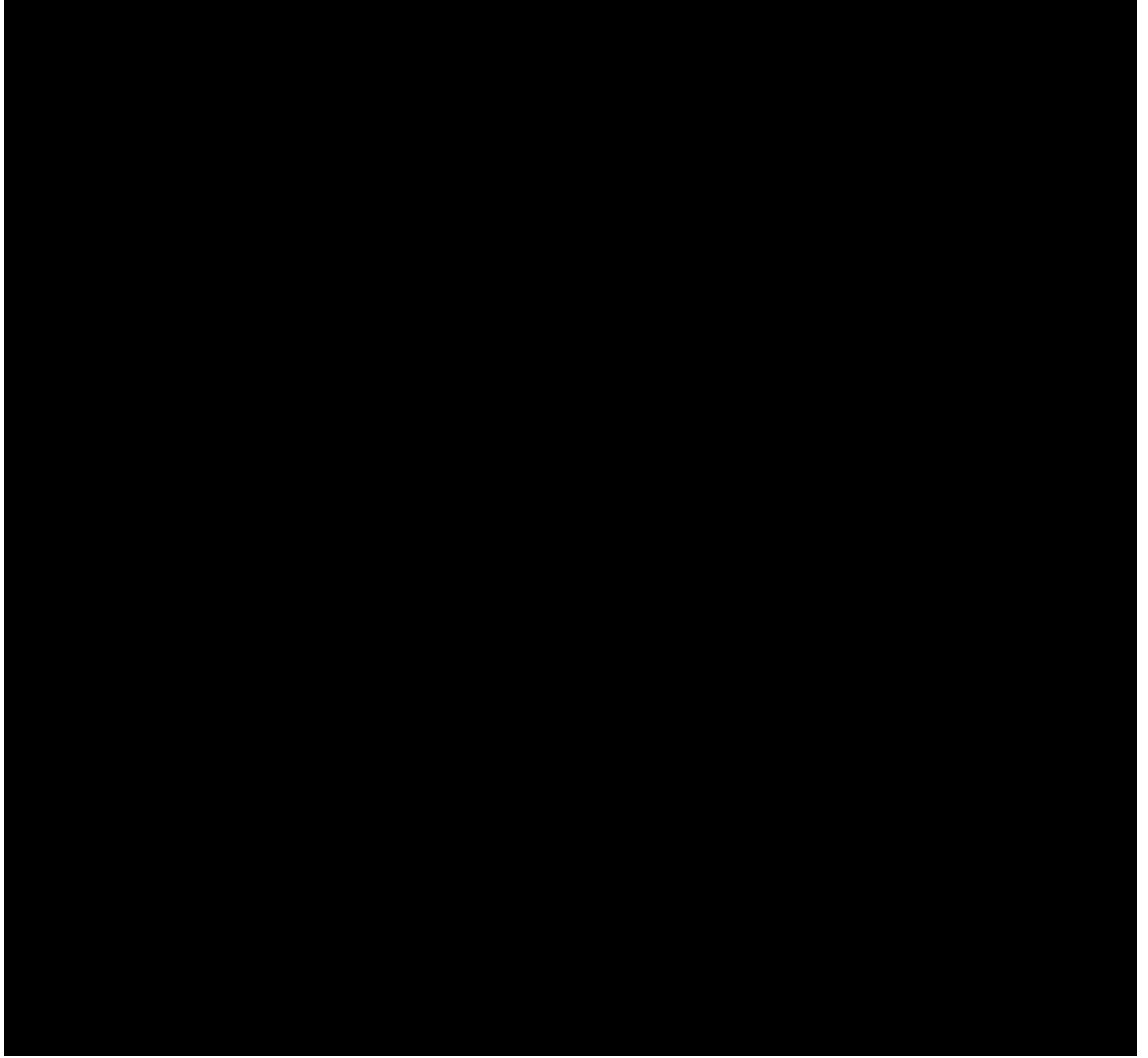
Appendix A: Summary Information for the Offers Received



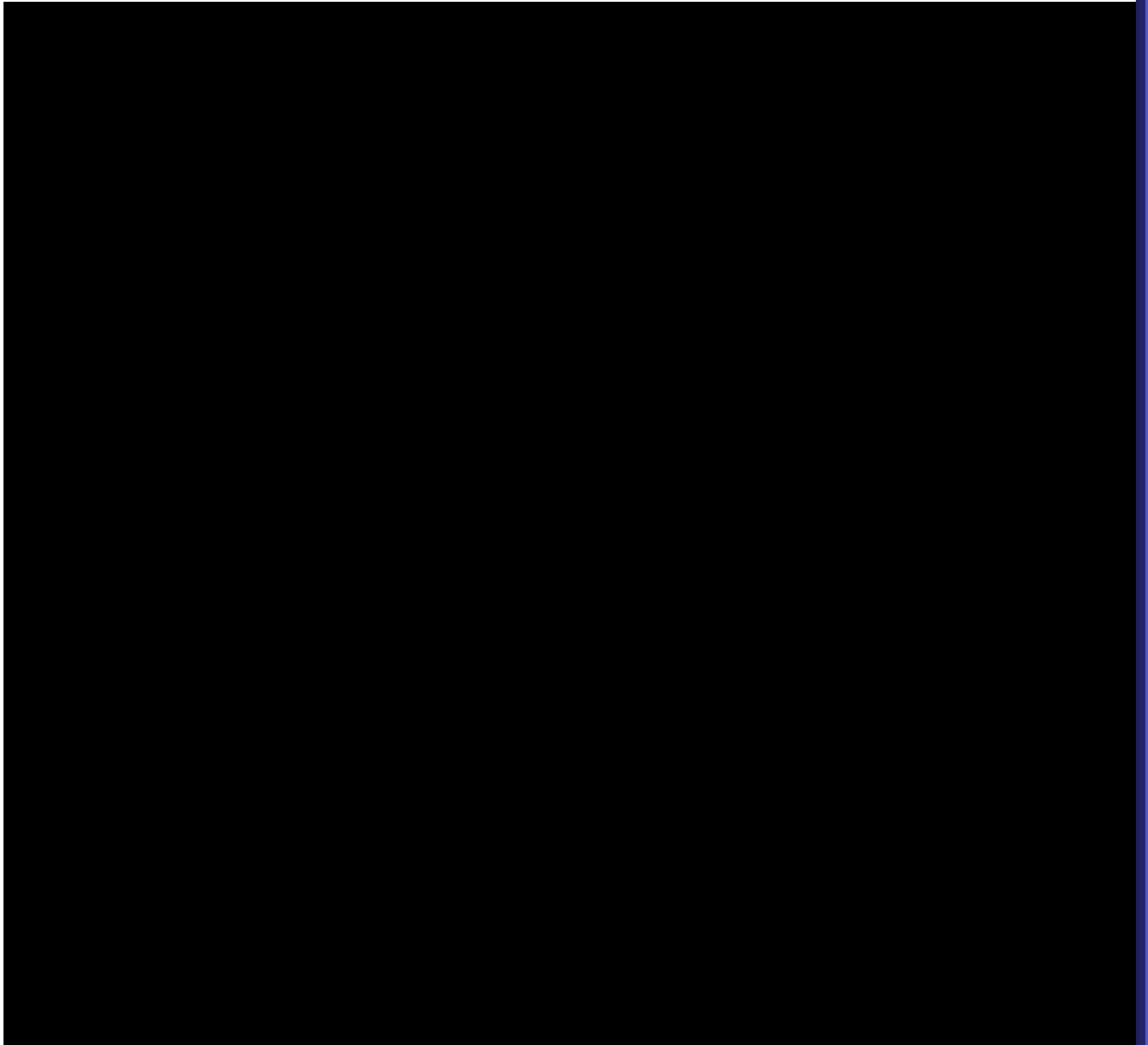
Appendix B: Additional Summary Information for the Offers Received



Appendix C: Bid Price Information- Buyer Assumes GHG Risk



Appendix D: Bid Price Information- Seller Assumes GHG Risk



Appendix E: Summary of Shortlisted Offers

[Redacted text block]

[Redacted text block]

[Redacted text block]

Appendix 2

Declaration of Hugh M. Merriam Seeking Confidential Treatment and the IOU Matrix

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

I, Hugh M. Merriam, declare:

1. I am a principal in the Energy Procurement department at Pacific Gas and Electric Company ("PG&E"). I am responsible for aspects of PG&E's third Combined Heat and Power Request for Offers ("CHP RFO") solicitation and negotiating power purchase agreements with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with numerous counterparties and have also gained knowledge of the operations of electric sellers in general. Through this experience, I have become familiar with the type of information that would affect the negotiating position of electric sellers with respect to price and other terms, as well as with the type of information that such sellers consider confidential and proprietary. I can also identify information that buyers and sellers of capacity would consider to be "market sensitive information" as defined by California Public Utilities Commission ("CPUC") Decision ("D.") 06-06-066 and D.09-12-020, that is, information that has the potential to materially impact a procuring party's market price for capacity if released to market participants.

2. I was responsible for the Tesoro Agreement Advice Letter resulting from PG&E's third CHP RFO. Based on my knowledge and experience, I make this declaration seeking confidential treatment of Appendices A, B, C, D, and E to PG&E's Advice Letter ("Confidential Information").

3. The Appendices are as follows:

Confidential Appendix A: Project Evaluation and Consistency With Commission Decisions and Rules

- Confidential Appendix B: Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014 of Merrimack Energy Group, Inc.
- Confidential Appendix C: Contract Summary
- Confidential Appendix D: Comparison of the Tesoro Agreement with PG&E’s CHP Pro Forma PPA
- Confidential Appendix E: Tesoro Agreement

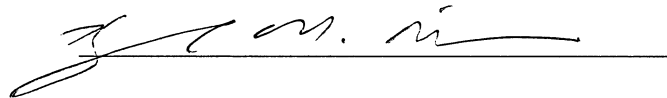
4. Attached to this declaration is a matrix that describes the Confidential Information for which PG&E seeks continued protection against public disclosure, states whether PG&E seeks to protect the confidentiality of the Confidential Information pursuant to D.06-06-066 and/or other authority; and where PG&E seeks protection under D.06-06-066, the category of market sensitive information in D.06-06-066 Appendix 1 Matrix (“Matrix”) to which the Confidential Information corresponds.

5. The attached matrix demonstrates that the Confidential Information: (1) constitutes a particular type of confidentiality-protected data listed in the Matrix; (2) corresponds to a category or categories of market sensitive information listed in the Matrix; (3) may be treated as confidential consistent with the limitations on confidentiality specified in the Matrix for that type of data; (4) is not already public; and (5) cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. In the column labeled, “PG&E’s Justification for Confidential Treatment”, PG&E explains why the Confidential Information is not subject to public disclosure under either or both D.06-06-066 and General Order 66-C. The confidentiality protection period is stated in the column labeled, “Length of Time.”

6. 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 to the best of my knowledge, the foregoing is true and correct.

Executed on September 11, 2014, at San Francisco, California.

A handwritten signature in black ink, appearing to read "H. M. Merriam", is written over a solid horizontal line.

HUGH M. MERRIAM

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
TESORO AGREEMENT ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix A – Project Evaluation and Consistency With Commission Decisions and Rules							
Entire document	Y	Items VIII.B –Specific quantitative analysis involved in scoring and evaluation of participating bids and VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's Combined Heat and Power (CHP) Request for Offers (RFO). This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected. It also describes terms and conditions from the Tesoro Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first. Now that the Tesoro Agreement has been signed, the 3 year protection period begins when deliveries begin under the Agreement.	3 years from the commencement of deliveries under the Agreement

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
TESORO AGREEMENT ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix B – Independent Evaluator Report on Bid Evaluation and Selection Process Tesoro Martinez Power Purchase Agreement – September, 2014 of Merrimack Energy Group, Inc.							
Redacted portion	Y Also constitutes data protected by GO 66-C, Exclusion 2.8.	Items VIII.A – Bid Information, VIII.B – Specific quantitative analysis involved in scoring and evaluation of participating bids and VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This is the confidential Independent Evaluator Report for the Tesoro Agreement. The redacted portion of this confidential appendix provides the participating bids in PG&E's Combined Heat and Power (CHP) Request for Offers, of which the participating bids, counter-party names, prices and quantities offered are confidential. In addition, the redacted portion of this confidential appendix describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's CHP RFO. This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected. It also describes the terms and conditions of the Tesoro Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries are to begin; or until one year following expiration, whichever comes first. The negotiations between Tesoro and PG&E constitute information obtained by PG&E in confidence from a party that is not regulated by the CPUC, the disclosure of which would harm the public interest. The exchange of information during contract negotiation is subject to a confidentiality agreement between the counterparties and PG&E. Its disclosure would violate the contract, discourage counterparties from executing confidentiality agreements to protect the confidentiality of subsequent negotiations, and impair the contract formation process. Now that the Tesoro Agreement has been signed, the 3 year protection period begins when deliveries begin under the Agreement.	3 years from the commencement of deliveries under the Agreement

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
TESORO AGREEMENT ADVICE LETTER**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

Redaction Reference	1) Constitutes data listed in Appendix 1 to D.06-06-066 (Y/N)	2) Data correspond to category in Appendix 1:	3) Complies with limitations of D.06-06-066 (Y/N)	4) Data not already public (Y/N)	5) Lead to partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
Document: Confidential Appendix C – Contract Summary							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS), VIII.B – Specific quantitative analysis involved in scoring and evaluation of participating bids	Y	Y	Y	This confidential appendix is a contract summary that describes terms and conditions from the Tesoro Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first. It also describes in detail the evaluation methodology and criteria used to evaluate and rank bids in PG&E's third CHP RFO. This information is confidential under Item VIII.B of the D.06-06-066 Appendix 1 matrix for 3 years after the winning bidders are selected.	3 years from the commencement of deliveries under the Agreement
Document: Confidential Appendix D – Comparison of the Tesoro Agreement with PG&E's CHP Pro Forma PPA							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix is a redline of the Tesoro Agreement against PG&E's CHP RFO Pro Forma Agreement that was issued with the solicitation. It contains the terms and conditions from the Tesoro Agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first.	3 years from the commencement of deliveries under the Agreement
Document: Confidential Appendix E – Tesoro Agreement							
Entire document	Y	Item VII.B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)	Y	Y	Y	This confidential appendix is the Tesoro Agreement which contains the terms and conditions of the agreement, which are confidential under Item VII.B of the D.06-06-066 Appendix 1 matrix for 3 years from date contract states deliveries to begin; or until one year following expiration, whichever comes first.	3 years from the commencement of deliveries under the Agreement

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

AT&T	Douglass & Liddell	Occidental Energy Marketing, Inc.
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BART	G. A. Krause & Assoc.	Praxair
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California Cotton Ginners & Growers Assn	Hanna & Morton	SPURR
California Energy Commission	In House Energy	San Francisco Public Utilities Commission
California Public Utilities Commission	International Power Technology	Seattle City Light
California State Association of Counties	Intestate Gas Services, Inc.	Sempra Utilities
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City of Palo Alto	Los Angeles County Integrated Waste Management Task Force	Sun Light & Power
City of San Jose	Los Angeles Dept of Water & Power	Sunshine Design
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Commercial Energy	Marin Energy Authority	TransCanada
Cool Earth Solar, Inc.	McKenna Long & Aldridge LLP	Utility Cost Management
County of Tehama - Department of Public Works	McKenzie & Associates	Utility Power Solutions
Crossborder Energy	Modesto Irrigation District	Utility Specialists
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Day Carter Murphy	NLine Energy, Inc.	Water and Energy Consulting
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