

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



August 22, 2011

Advice Letter 3877-E

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

**Subject: Advice Letter Filing of Photovoltaic (PV) Power Purchase
Agreements in Accordance with the PG&E PV Program**

Dear Mr. Cherry:

Advice Letter 3877-E is effective August 19, 2011. Pacific Gas and Electric's selection of the power purchase agreements (PPAs) pursuant to the 2011 Photovoltaic (PV) Program PPA Solicitation was consistent with Decision 10-04-052 and Resolution E-4368. In addition, each of the PPAs executed pursuant to the PV Program PPA Solicitation is approved and payments made by Pacific Gas and Electric Company under the contracts are fully recoverable in rates over the life of the agreements, subject to Commission review of Pacific Gas and Electric Company's administration of the agreements. Lastly, procurement pursuant to the contracts is procurement from an eligible renewable energy resource for purposes of determining Pacific Gas and Electric Company's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision 03-06-071 and Decision 06-10-050, or other applicable law.

Sincerely,

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

Julie A. Fitch, Director
Energy Division

July 20, 2011

Advice 3877-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Advice Letter Filing of Photovoltaic (PV) Power Purchase Agreements in Accordance With the PG&E PV Program
I. INTRODUCTION
A. Purpose of the Advice Letter

Pursuant to Decision (“D.”) 10-04-052 and Resolution (“R.”) E-4368, Pacific Gas and Electric Company (“PG&E”) hereby submits this Advice Letter, seeking approval of three power purchase agreements (“PPAs”) between PG&E and three sellers. These three Renewables Portfolio Standard (“RPS”)-eligible PPAs (the “2011 PV Program PPAs”) were executed as a result of PG&E’s 2011 Photovoltaic (“PV”) Program PPA solicitation (the “2011 PV Program PPA Solicitation”).

The 2011 PV Program PPAs are summarized in the following table:

Seller	Generation Type	Capacity (MW)	Estimated Average Annual Energy (MWh)	Expected Commercial Operation Date¹	Term of Agreement (Years)
Recurrent Energy	PV	20	48,223	2/19/2013	20
Westlands Solar Farms	PV	18	36,541	2/19/2013	20
Fotowatio Renewable Ventures	PV	12	28,415	2/19/2013	20

¹ Per D.10-04-052 and R.E-4368, the Expected Commercial Operation Date for the 2011 PV Program PPAs is calculated as 18 months from date of CPUC approval of the PPAs. PG&E requests CPUC approval to be within 30 days of the filing this Advice Letter (by August 19, 2011); February 19, 2013 is 18 months from August 19, 2011.

The California Public Utilities Commission (“Commission” or “CPUC”) instructed PG&E to use the Tier 2 advice letter process for PV Program PPAs implemented pursuant to D.10-04-052 and R.E-4368. Accordingly, this Advice Letter is being submitted through the Tier 2 process, and PG&E requests that the Commission approve the PV PPAs through an Energy Division disposition within 30 days of the filing of this Advice Letter (by August 19, 2011).

In accordance with General Order (“GO”) 96-B, the confidential information included in this Advice Letter is described below, and is described in greater detail in the Confidentiality Declaration. This Advice Letter contains both confidential and public appendices as listed below:

Confidential Appendix A: 2011 PV Program PPA Solicitation Overview

Confidential Appendix B: Confidential PPAs

Confidential Appendix B-1: PV PPA – Recurrent Energy

Confidential Appendix B-2: PV PPA – Westlands Solar Farms

Confidential Appendix B-3: PV PPA – Fotowatio Renewable Ventures

Confidential Appendix C: AMF Calculators for the PV PPAs

Appendix D: Public Independent Evaluator Report

Confidential Appendix E: Confidential Independent Evaluator Report

B. General Program Description

On February 2, 2009, PG&E filed Application (“A.”) 09-02-019, seeking authorization for a five-year, 500 megawatt (“MW”) solar PV program designed to promote the development of distributed solar PV in PG&E’s service territory and to help the State meet its aggressive RPS goals. On April 22, 2010, the Commission adopted D.10-04-052, which authorized PG&E to own and operate 250 MW of primarily ground-mounted solar PV facilities of 20 MW or less and to enter into long-term PPAs for 250 MW of similar facilities.

Given the intent of the PV program to promote development of distributed solar PV, the Commission adopted non-negotiable standard contracts for Large Projects (three to 20 MW) and Small Projects (one to less than three MW) to streamline the procurement process. The Commission concluded this would be in “ratepayers’ interest because it will expedite the negotiation and commission approval of PPAs and could attract more sellers to participate in the solicitation.”² The adoption of the standard contracts also allowed PG&E to simplify the evaluation of bids. After meeting the threshold requirements for participation in the 2011 PV PPA Solicitation, offers were evaluated on

² D.10-04-052, p. 60.

price, supplier diversity and location.³ D.10-04-052, R.E-4368, and the approved AL 3786-E include the requirement that projects must begin operation within 18 months following Commission approval of the PPA.

Upon evaluation of the proposals received, PG&E executed PPAs (using the standard Large Project contract as approved by the Commission) with the following counterparties:

- Recurrent Energy, for its 20 MW Kansas South project;
- Westlands Solar Farms, for its 18 MW PV1 project; and
- Fotowatio Renewable Ventures, for its 12 MW Orion project.

C. Summary of 2011 PV Program PPA Solicitation

PG&E launched the 2011 PV Program PPA Solicitation on February 2, 2011 and sought PPAs for a total of up to 50 MW from new PV facilities ranging in size from one to 20 MW.

The Bidders' Conference was held February 8, 2011 and was well attended, with approximately 270 people attending in person and another 200 people attending via the internet and/or by phone. The Bidders' Conference materials and an audio file of the conference are posted on PG&E's PV Program website:

<http://www.pge.com/b2b/energysupply/wholesaleelectricssuppliersolicitation/PVRFO/>.

The Bidders' Conference covered the following major subjects: (1) an overview of the commercial process used in the solicitation; (2) the evaluation methodology used to select winning Offers; (3) the map of PG&E's distribution system showing areas with a higher likelihood for successful interconnection to PG&E's system; (4) the interconnection process and the implications for projects' ability to compete in this first 2011 PV Program PPA Solicitation; (5) the documents required to be included with Offers; (6) the details of the Excel Offer form; (7) questions from conference attendees; and (8) the steps for completing a generation interconnection application. As the presentation on the generation interconnection application was cut short unexpectedly, PG&E hosted an internet-based presentation of the generation interconnection application portion of the program on February 16, 2011. Over 100 people participated in this presentation.

PG&E maintains a Question and Answer section on the 2011 PV Program PPA Solicitation website for questions of general interest. Participants are also encouraged to send questions to a PG&E PV PPA Program electronic mail address:

PVProgram@pge.com.

³ R.E-4368 instructed PG&E to give a tie-breaking credit to offers for projects located in a California Independent System Operator designated Local Capacity Requirement ("LCR") area, p 32 and OP 7.

D. Consistency with Approved Form PV PPA

The Recurrent Energy, Westlands Solar Farms, and Fotowatio Renewable Ventures PPAs are entirely consistent with the pre-approved pro forma Large PV PPA adopted by the Commission.⁴ Accordingly, PG&E requests that the Commission issue a resolution within 30 days of the filing of this Advice Letter (by August 19, 2011), approving the 2011 PV Program PPAs.

E. RPS Statutory Goals

Senate Bill ("SB") 1078 established the California RPS Program, requiring an electrical corporation to increase its use of eligible renewable energy resources to 20 percent of total retail sales no later than December 31, 2017. The legislature subsequently accelerated the RPS goal to reach 20 percent by the end of 2010. On April 12, 2011, Governor Brown approved Senate Bill 2 in the First Extraordinary Session of the 2011 Legislative Session ("SBX1 2") increasing California's RPS target to 33 percent of delivered energy from RPS-eligible facilities by 2020. SBX1 2 also includes incremental goals between 2010 and 2020 to meet California's 33 percent target by 2020.

The three projects that are the subject of this Advice Letter are scheduled to become operational by early 2013. These PPAs will contribute to PG&E achieving both the incremental targets and the 33 percent RPS goal by 2020. PG&E reserves the right to earmark deliveries from the PPAs pursuant to the existing 20% RPS Program rules and pursuant to the new 33% RPS Program (once that Program is in effect and implemented, to the extent earmarking remains applicable).

F. Confidentiality

PG&E is requesting confidential treatment of Appendices A, B, C, and E. This information is being submitted in the manner directed by D.08-04-023 and the August 22, 2006, Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with D.06-06-066 to demonstrate the confidentiality of material and to invoke the protection of confidential utility information provided under either the terms of the IOU Matrix, Appendix 1 of D.06-06-066 and Appendix C of D.08-04-023, or General Order 66-C.

G. PG&E's Evaluation Methodology for the 2011 PV Program PPA Solicitation

PG&E launched the 2011 PV Program PPA Solicitation on February 2, 2011, and followed the schedule set forth in the table below. In accordance with the Commission's decision and resolution authorizing the PV Program, PG&E sought PPAs for a total of up to 50 MW from new PV facilities sized in the one to 20 MW range located in PG&E's service territory.

⁴ Advice Letter 3786-E and R. E-4368, p. 20.

Date/Time	Event
February 2, 2011	PG&E issues 2011 PV Program PPA Solicitation.
February 8, 2011	Bidders' conference.
March 2, 2011 1:00 P.M.	Deadline for participants to submit offers and to submit applications for interconnection. Offer evaluation begins.
March 22, 2011	Participants provide proof that interconnection applications have been deemed complete and that the project has received a queue position.
March 31, 2011	Deadline for requesting full capacity deliverability status. ⁵
April 15, 2011	PG&E notifies participants of selected offers.
April 19, 2011	Participants with selected offers accept selection and continued participation in the 2011 PV Program PPA Solicitation.
June 3, 2011	Participants with selected offers provide proof that interconnection screens have been passed or studies completed.
June 10, 2011 5:00 P.M.	Participants with selected offers submit signed PPAs.
June 24, 2011	PG&E executes PPAs.
July 20, 2011	Advice letter filing for executed PPAs.

PG&E considered all timely offers submitted to the 2011 PV Program PPA Solicitation if the offers met the eligibility requirements: (1) the generating facility was a new PV electric generation facility; (2) the generating facility was located within PG&E's service territory; (3) the nameplate capacity of the offer was no less than one MW and no greater than 20 MW; and (4) the pre-time of delivery contract price was no greater than \$246/MWh.

PG&E used the following CPUC-approved⁶ evaluation criteria to rank the offers:

⁵ Additional time was provided (beyond the original deadline provided to Participants) to accommodate the logistics of submitting full deliverability assessment study requests. Also, projects utilizing the Fast Track interconnection process were allowed to wait until 2012 to make full deliverability assessment study request as the Fast Track interconnection process historically has not included full deliverability assessment study requests (but is expected to do so beginning in 2012).

Pricing. PG&E considered the contract price offered as the primary ranking criterion.

Supplier Diversity. It is the policy of PG&E that Women-, Minority-, and Disabled Veteran-owned Business Enterprises (“WMDVBEs”) shall be given the opportunity to participate in this solicitation through the development of the selected projects. PG&E evaluated whether an offer contributed to PG&E’s supplier diversity goals. The Supplier Diversity evaluation considered the Participant’s status as a WMDVBE and/or the Participant’s plan or policy regarding subcontracting with WMDVBEs.

Local Capacity Requirements. Consistent with R. E-4368, if needed as a tie-breaker criterion when selecting offers, PG&E was prepared to favor offers located in CAISO-identified LCR areas as capacity installed in those areas should provide greater customer value than capacity installed elsewhere in the PG&E system.

H. Market Price Referent (“MPR”) and Above-Market Funds (“AMFs”)

The actual price of each of the three PPAs is confidential, market sensitive information. Each of the three PPA prices is below the 2009 MPR for the 20-year delivery terms of the contracts beginning in 2013.

The AMF Calculators for the 2011 PV Program PPAs are provided in Confidential Appendix C.

I. Compliance with the Interim Emissions Performance Standard

In D.07-01-039, the Commission adopted an Emissions Performance Standard (“EPS”) that applies to contracts for a term of five or more years for baseload generation with an annualized plant capacity factor of at least 60 percent. The EPS does not apply to the 2011 PV Program PPAs because all three generating facilities have a forecast annualized capacity factor of less than 60 percent and therefore are not baseload generation under paragraphs 1(a)(ii) and 3(2)(a) of the Adopted Interim EPS Rules.

Notification of compliance with D.07-01-039 is provided through this Advice Letter, which has been served on the service lists A.09-02-019 and R.11-05-005.

J. Procurement Review Group (“PRG”) Participation

1. PRG Participants

PG&E’s PRG is composed of non-market participants, and currently includes representatives from the Commission’s Energy and Legal Divisions, the Division of Ratepayer Advocates, The Utility Reform Network, California Utility Employees, the Union of Concerned Scientists, Coast Economic Consulting, and the California

⁶ On February 1, 2011, the CPUC approved Advice Letter 3786-E, which contained PG&E’s final 2011 PV Program Solicitation Protocol. The Protocol contained the same evaluation criteria listed here and conformed to the Commission’s prior orders regarding the PV Program.

Department of Water Resources.

2. Date Information Provided to PRG

Prior to selecting offers in the 2011 PV Program PPA Solicitation, PG&E consulted with its PRG at the April 12, 2011 PRG meeting. PG&E informed the PRG of the offers received in the 2011 PV Program PPA Solicitation, offers eliminated as non-conforming (and the reasons for elimination), the evaluation process, and the recommended Primary and Backup offers PG&E proposed to select to fill the 2011 PV Program PPA Solicitation target of 50 MW.

On June 17, 2011, PG&E provided the PRG with an update on the status of the selected Primary and Backup offers, and PG&E's plan for execution of the PPAs.

K. Independent Evaluator ("IE")

As required by the Commission's Decision adopting the PV Program, an IE reviewed PG&E's conduct and evaluation of the 2011 PV Program PPA Solicitation. The public IE report is provided in Appendix D and the confidential IE report is provided in Appendix E.

II. REQUEST FOR COMMISSION APPROVAL

PG&E requests the Commission approve the 2011 PV Program PPAs through an Energy Division disposition within 30 days of the filing of this Advice Letter (by August 19, 2011), including adoption of the following findings of fact and conclusions of law:⁷

1. Each of the 2011 PV Program PPAs should be approved in its entirety, including payments to be made by PG&E pursuant to each PPA, subject to the Commission's review of PG&E's administration of the PPA;
2. A finding that the selection of the 2011 PV Program PPAs was consistent with PG&E's approved 2011 PV Program PPA Solicitation protocol, and that the terms of each PPA, including the price of delivered energy, are reasonable and prudent;
3. A finding that any procurement pursuant to the 2011 PV Program PPAs constitutes procurement from an eligible renewable energy resource for purposes of determining PG&E's compliance with any obligation or target that it may have to procure eligible renewable energy resources pursuant to the California RPS (Public Utilities Code Section 399.11 et seq.), D.03-06-071, D.06-10-050, D.10-04-052, R.E-4368, or other applicable law;
4. A finding that all procurement and administrative costs, as provided by Public Utilities Code section 399.14(g), associated with the 2011 PV Program PPAs shall be recovered in rates and all of the utility's costs under the PV PPAs shall

⁷ PG&E requests that any summary disposition by Energy Division approving the content of this advice letter be deemed to have adopted the requested findings and conclusions.

- be recovered through PG&E's Energy Resource Recovery Account;
5. A finding that each of the 2011 PV Program PPAs is not covered procurement subject to the EPS because each of the respective generating facilities has a forecast capacity factor of less than 60 percent and, therefore, is not baseload generation under paragraphs 1(a)(ii) and 3(2)(a) of the Adopted Interim EPS Rules;
 6. A finding that PG&E has provided the notice of procurement required by D.06-01-038 in this Advice Letter filing;
 7. A finding for purposes of implementation of SBX1 2 that each of the 2011 PV Program PPAs provides for generation within PG&E's service territory that will be interconnected to a California Balancing Authority; and
 8. A finding that any stranded costs that may arise from the PPA are subject to the provisions of D.04-12-048 that authorize recovery of stranded renewables procurement costs over the life of the contract. The implementation of the D.04-12-048 stranded cost recovery mechanism is addressed in D.08-09-012.

III. TIER DESIGNATION

Pursuant to D. 10-04-052 and R. E-4368, PG&E submits this Advice Letter with a Tier 2 designation.

IV. EFFECTIVE DATE

PG&E is designating this as a Tier 2 Advice Letter, in accordance with D.10-04-052. Accordingly PG&E requests that the Energy Division issue a disposition approving the 2011 PV Program PPAs within the initial review period, which will expire within 30 days of the filing of this Advice Letter (by August 19, 2011). Pursuant to General Order 96-B, the advice letter will be effective upon approval.

V. NOTICE

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than **August 9, 2011**, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

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

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

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

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

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

In accordance with General Order 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 (A.) 09-02-019 and Rulemaking 11-05-005. Address changes to the General Order 96-B service list and all electronic approvals should be directed to e-mail PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.

Handwritten signature of Brian Cherry in cursive script.

Vice President - Regulations and Rates

cc: Service List A.09-02-019 and Rulemaking 11-05-005
Paul Douglas – Energy Division
Sean Simon – Energy Division
Jaclyn Marks – Energy Division

Attachments

Confidential Attachments:

Confidential Appendix A: 2011 PV Program PPA Solicitation Overview

Confidential Appendix B: Confidential PPAs

Confidential Appendix B-1: PV PPA – Recurrent Energy

Confidential Appendix B-2: PV PPA – Westlands Solar Farms

Confidential Appendix B-3: PV PPA – Fotowatio Renewable Ventures

Confidential Appendix C: AMF Calculators for the PV PPAs

Confidential Appendix E: Confidential Independent Evaluator Report

Public Attachments:

Appendix D: Public Independent Evaluator Report

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

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

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 M)**

Utility type:

ELC GAS

PLC HEAT WATER

Contact Person: David Poster and Conor Doyle

Phone #: (415) 973-1082 and (415) 973-7817

E-mail: dxpu@pge.com and jcdt@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) #: **3877-E**

Tier: 2

Subject of AL: **Advice Letter Filing of Photovoltaic (PV) Power Purchase Agreements in Accordance With the PG&E PV Program**

Keywords (choose from CPUC listing): Procurement

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: **Decision 10-04-052, Resolution E-4368**

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

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

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

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

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: **Dennis L. Sullivan (415) 973-4666**

Resolution Required? Yes No

Requested effective date: **August 19, 2011**

No. of tariff sheets: NA

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: NA

Service affected and changes proposed:

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

CPUC, Energy Division

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

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

Pacific Gas and Electric Company

Attn: Brian Cherry, Vice President, Regulation and Rates

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**DECLARATION OF DENNIS L. SULLIVAN
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION CONTAINED IN
ADVICE LETTER 3877-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Dennis L. Sullivan, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"). I am the manager of new resource procurement in PG&E's Energy Procurement organization. In this position, my responsibilities include project management of PG&E's Photovoltaic Program ("PV Program") Power Purchase Agreements Request for Offers and finalization of the Power Purchase Agreements submitted for approval in this Advice Letter. In carrying out these responsibilities, I have acquired confidential information related to offers received in this solicitation, the evaluation process used to select offers, and the development of the final set of Power Purchase Agreements. Through this experience, I have become familiar with the type of information that would affect the negotiating positions of electricity sellers with respect to price and other terms, as well as with the type of information that such sellers consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with Decision ("D") 08-04-023 and the August 22, 2006 "Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066," I make this declaration seeking confidential treatment of Appendix A, B-1, B2, B-3, C, and the confidential version of Appendix D to PG&E's Advice Letter 3877-E, submitted on July 20, 2011.

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

D.06-06-066 and Appendix C of D.08-04-023 (the "IOU Matrix"), or constitutes information that should be protected under General Order 66-C. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, if applicable, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information, if applicable; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix.

I declare under penalty of perjury, under the laws of the State of California, that to the best of my knowledge, the foregoing is true and correct.

Executed on July 20, 2011, San Francisco, California.



DENNIS L. SULLIVAN

PACIFIC GAS AND ELECTRIC COMPANY
Advice Letter 3877-E
Confidentiality Declaration
July 20, 2011

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

Redaction Reference	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time	
1	Document: Advice Letter 3877-E							
2	Appendix A: 2011 PV PPA Solicitation Overview	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluations from the 2011 Photovoltaic (PV) Program Solicitation; contains confidential price information; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparties.	For information covered under Item VII (un-numbered category following VII G), remain confidential for three years. For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected. For information covered under General Order 66-C, remain confidential.
2	Appendix A: Summary Table	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluations from the 2011 Photovoltaic (PV) Program Solicitation; discusses, analyzes and evaluates the Projects; contains confidential price information; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparties.	For information covered under Item VII (un-numbered category following VII G), remain confidential for three years. For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected. For information covered under General Order 66-C, remain confidential.

PACIFIC GAS AND ELECTRIC COMPANY
Advice Letter 3877-E
Confidentiality Declaration
July 20, 2011

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

	Redaction Reference	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
3	Appendices B: Confidential PPA Summary B-1: PV PPA - Recurrent Energy B-2: PV PPA - Westlands Solar Farms LLC B-3: PV PPA - Fotowatio Renewable Ventures, Inc.	Y	Item VII G) Renewable Resource Contracts under RPS program - Contracts without Supplemental Energy Payments (SEPs)	Y	Y	Y	This Appendix contains confidential price information from the 2011 PV Program Solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential.	For information covered under Item VII G), remain confidential for three years, or until one year following expiration, whichever comes first.
4	Appendix C: AMF Calculators for the PV PPAs	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and evaluation from the 2011 PV Program Solicitation; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Release of this information would be damaging to negotiations, could harm the counterparties and could adversely affect project viability. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparties.	For information covered under Item VII (un-numbered category following VII G), remain confidential for three years. For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected.

PACIFIC GAS AND ELECTRIC COMPANY
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July 20, 2011

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

	Redaction Reference	1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 and Appendix C to D.08-04-023 (Y/N)	2) Which category or categories in the Matrix the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
5	Appendix E - Confidential Independent Evaluator Report	Y	Item VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects. Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. General Order 66-C.	Y	Y	Y	This Appendix contains bid information and evaluation from the 2011 PV Program Solicitation; and contains confidential information of the counterparties. Disclosure of this information would provide valuable market sensitive information to competitors. Release of this information would be damaging to negotiations, could harm the counterparties and could adversely affect project viability. Finally, this information has been obtained in confidence from the counterparty under an expectation of confidentiality. It is in the public interest to treat such information as confidential because if such information were made public, it would put the counterparty at a business disadvantage, could create a disincentive to do business with PG&E and other regulated utilities, and could have a damaging effect on current and future negotiations with other counterparties.	For information covered under Item VII (un-numbered category following VII G), remain confidential for three years. For information covered under Item VIII A), remain confidential until after final contracts submitted to CPUC for approval. For information covered under Item VIII B), remain confidential for three years after winning bidders selected. For information covered under General Order 66-C, remain confidential.

Appendix D

Public Independent Evaluator Report

Pacific Gas and Electric Company
Solar Photovoltaic Program – Power Purchase
Agreements (PV Program PPA)
2011 Request for Offers

Independent Evaluator
Bid Evaluation and Selection Process
Final Report

July, 2011

Prepared by
Merrimack Energy Group, Inc.



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Confidential IE Report

I. Introduction

A. Overview

Pacific Gas and Electric Company (“PG&E”) is seeking approval of 3 power purchase agreements (“PPAs”) for the purchase of approximately 50 MW of installed capacity from solar photovoltaic projects under PG&E’s Solar Photovoltaic Program.

On February 2, 2011, PG&E issued its Solar Photovoltaic Program – Power Purchase Agreements 2011 Request for Offers (“2011 PV Program PPA RFO”; “RFO”; or “Solicitation”).¹ PG&E solicited offers from owners of eligible solar photovoltaic generating facilities to supply the requested product. The product requested via the RFO means the electricity generated by a project (the eligible renewable energy resource described in an Offer) together with all capacity and ancillary products and services associated with the Project, and any other attributes required by the California Public Utilities Commission (“CPUC” or “Commission”) and/or the California Energy Commission (“CEC”) to count the electricity toward PG&E’s Renewable Portfolio Standard (“RPS”) requirements.

PG&E’s goal with respect to the Power Purchase Agreement (“PPA”) portion of its Solar PV Program is to procure, over a five (5) year period, PPAs for 250 MW of solar PV products as authorized by CPUC Decision (“D.”) 10-04-052 adopted on April 22, 2010. PG&E is seeking Offers from PV facilities that are 1 to 20 MW (AC) in size for a contract term of 20 years. The generating facility producing the Product must be a new PV facility located in PG&E’s service territory and interconnected to PG&E’s electric system. The generating facility must be commercially operable within 18 months following CPUC approval of an executed Solar PV Program PPA.

PG&E’s goal with regard to the 2011 PV Program PPA RFO is to procure 50 MW. However, if less than 50 MW of Offers are selected, then the remaining MW will be added to future years’s solicitation, if any, along with the MW of any projects that were selected via the RFO but which do not come online.

Pursuant to regulatory requirements of the CPUC, PG&E retained Merrimack Energy Group, Inc. (“Merrimack Energy”) as the Independent Evaluator (“IE”) for the PPA portion of the Solar PV program procurement process.²

This IE report is submitted in conformance to the requirements of the CPUC and is designed to be consistent with the requirements outlined in the CPUC’s IE Report

¹ PG&E’s Solar PV Program consists of two components: (1) 250 MW AC owned and maintained by PG&E (“UOG”) and (2) 250 MW AC owned and maintained by Independent Power Producers (“IPPs”) under a power purchase agreement structure.

² The CPUC authorized that the program include both a utility-owned generation (UOG) component and a power purchase agreement component that will be administered by PG&E through a competitive procurement process. Merrimack Energy is serving as IE for both portions of the program.

Template, subject to adjustments in requirements to reflect the unique nature of this solicitation.

B. Program Background

On February 2, 2009, PG&E filed an application with the CPUC seeking approval of its Solar Photovoltaic Program (“Solar PV Program”) and authorization to recover the associated revenue requirements for the Solar PV Program in rates. PG&E’s proposed Solar PV Program consists of the installation and operation of up to 500 MW of 1 to 20 MW of PV generation facilities in PG&E’s service territory over a five-year period. Up to 250 MW of the Solar PV Program capacity will be utility-owned generation (“UOG”) and PG&E will procure up to 250 MW through PPAs with independent power producers (IPPs).

In its application, PG&E requests that the PPA portion of the proposed Solar PV Program includes an annual solicitation for projects 1 to 20 MWs. PG&E anticipates selecting projects based on viability and energy delivery criteria. Selected projects will be required to achieve commercial operation within 18 months after the PPA is executed.

PG&E requested that the Commission adopt a standard contract form, including a non-negotiable standard price for these projects. The price for the PPAs would be based on PG&E’s estimated levelized cost of energy (LCOE) for the UOG portion of the PV Program. PG&E requests that it be allowed to update both the PPA forms and the price through an advice letter filing.

PG&E sought approval to recover the costs of the PV PPAs through PG&E’s Energy Resource Recovery Account (ERRA), which was established to record, among other things, costs of PG&E’s procured power.

C. Regulatory Decisions

As noted above, on February 2, 2009, PG&E filed Application (A.) 09-02-019 seeking authorization for a five-year, 500 MW solar photovoltaic (PV) program. On April 22, 2010, the Commission adopted Decision (D.) 10-04-052 authorizing PG&E to own and operate 250 MW of primarily ground-mounted solar PV facilities in the one to 20 MW range and to enter into long-term power purchase agreements (PPA) for 250 MW of similarly configured facilities.

D.10-04-052 authorized PG&E to expend up to \$1.454 billion for the capital costs associated with the UOG portion of PG&E’s Solar PV program based on an average capital cost of \$4,312 per kilowatt (AC) inclusive of a 10% contingency amount. D.10-04-052 also authorized PG&E to hold solicitations for 20-year PPAs with solar PV developers, which will result in PG&E ratepayer costs that were considered, but not explicitly stated in the decision. The maximum estimated cost of the PPA program is \$2.85 billion, assuming that the program is fully subscribed at the maximum allowable

price and assuming a 24% system capacity factor and an annual degradation factor of .89%.

Pursuant to D. 10-04-052, PG&E filed advice letter (AL) 3674-E on May 24, 2010. In AL 3674-E, which concerns the PPA portion of the program, PG&E sought approval of: (1) a PPA solicitation process, including protocols and eligibility criteria; (2) a generation system interconnection application process and protocols; (3) a process for identifying preferred locations for PPA projects that optimize the locational value of project sites; and (4) a standard contract for projects between one to less than three MW in size and a standard contract for projects three MW and up to 20 MW.

Resolution E-4368, issued on December 16, 2010, approved (with modifications)³ and implemented PG&E's Solar Photovoltaic Program. The Resolution adopts (1) a competitive solicitation process, program protocols and eligibility criteria, (2) standard power purchase agreements, and (3) annual compliance reporting requirements. Resolution E-4368 also describes the background to the regulatory decisions and Advice Letter filings leading up to program implementation.

D. Procurement Protocol

On February 2, 2011 PG&E launched the Solar PV Program PPA RFO and posted the 2011 RFO Protocol document on its website. In the RFO document (i.e. "RFO" or "Procurement Protocol"), PG&E listed a number of requirements and preferences to inform prospective Participants of the requirements for competing in the procurement process. These included:

- The generating facility must be a new photovoltaic electric energy generating facility;
- While the program was focused primarily on ground-mounted systems, rooftop systems were also eligible;
- The nameplate capacity of the generating facility must be no less than 1 MW and no greater than 20 MW in size;

³ Modifications included (among others) the following:

1. Identification of specific action related to the program forum after the completion of the solicitation;
2. Removal of the provision in the protocol that limits the number of bids allowed by a single participant;
3. PG&E shall revise its eligibility protocols so that:
 - a. A single project may be comprised of the aggregation of multiple sites if each site is at least 500 kW;
 - b. A project comprised of aggregated sites interconnects within a single p-node;
 - c. A minimum level of developer experience is required for participation in the RFO.
4. PG&E shall modify its solicitation protocols so that a Local Capacity Requirement designation will be used as a tie-breaker criterion
5. PG&E shall remove delivery term security provisions in its standard PPA for facilities less than 3 MW.

- Participants may offer different size options for their project to enhance their opportunity for resource selection within the 50 MW target;
- The contract term is 20 years;
- The generating facility must be located within PG&E's service territory;
- Aggregation of facilities to meet the minimum 1 MW size requirement is not allowed, unless each aggregated facility is no less than 500 kW and the project comprised of the aggregated facilities interconnects within a single PNode and is owned by a single Participant;
- The generating facility must be interconnected to PG&E's electric distribution or transmission system. The delivery point for a generating facility will be the PNode for the generating facility;
- The generating facility must be commercially operable within 18 months following CPUC approval of an executed PV Program PPA;
- The contract price must be no greater than \$246/MWh (prior to adjustment for time of delivery);
- Participants must submit with their offer their best and final price. Participants will not be given another opportunity to update their pricing;
- The price submitted must be a single value in \$/MWh which will remain constant for the term of the agreement;
- Proof that the facility owner has submitted an interconnection application must be included with the initial Offer submission;
- By June 3, 2011 selected Participants will be required to provide confirmation the applicable interconnection studies are completed;
- Participants must attest to site control when their Offers are submitted to PG&E. Evidence of site control and attestation to site control for the term of the PPA must be demonstrated by the participant;
- A minimum level of developer experience is required for participation. Specifically, the Seller and/or member of Seller's project development team must have either completed or begun construction of a solar project that is at least 500 kW;
- Offers submitted to this program may not participate in the California Solar Initiative or net energy metering programs;

- The Offeror is required to post development security equal to \$15/kW upon execution of the PPA. This will increase to \$20/kW for projects with contract capacity less than 10 MW and \$35/kW for projects with contract capacity 10 MW or greater.

In addition to the above information, Participants are required to submit a completed Offer Form (Appendix A), which contained information about the offer, including the proposed price, project size, output (MWh), project name and location, interconnection point, and commercial operation date. The Offer Form also asks Participants if they are willing to reduce the offer size at the same price.⁴

In addition, the RFO document provides a reference to PG&E's PV program website. The website includes a Google map⁵ of its service area as a tool to help renewable energy developers identify potential project sites but a disclaimer that it is not a guarantee that generation can interconnect at any particular time and place. In addition, the website included the questions and answers received from participants, a Code of Conduct, RFO documents, Distribution and Transmission Interconnection information, and Bidder conference presentations on general procurement and interconnection. The website also includes links to detailed information on interconnection requirements and references to tariffs and other documents.

The schedule identified for the process includes a slightly more than four month process from issuance of the RFO to submission of signed PPAs.

E. Issues Addressed in This Report

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

1. Describe the role of the IE.
2. Evaluate the fairness of the investor-owned utility's ("IOU's") bidding 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.).
3. How did the IOU conduct outreach to bidders? Was the solicitation robust?

⁴ The Offer Form asks for the following information: (1) contract capacity decrease option; (2) Step down increment (MW); and (3) Lowered contract capacity (MW). In addition, the Offer Form includes a list of definitions or submittal requirements for each cell in the Offer Form.

⁵ In the Bidders Conference presentation PG&E indicated that it is going to replace the existing PV Program map with a new map which will conform with the CPUC's December 2010 decision in the Renewable Auction Mechanism (RAM) proceeding. PG&E will use the same map and associated information for both the PV Program and the RAM.

4. Describe the IOU's Least Cost Best Fit ("LCBF") methodology (or provide the IOU's own description). Evaluate the strengths and weaknesses of the IOU's LCBF methodology.⁶
5. Describe project specific negotiations. Highlight any areas of concern including unique terms and conditions.
6. If applicable, describe safeguards and methodologies employed by the IOU to compare affiliate bids or utility-owned generation ownership offers.
7. Do you agree with the IOU that the contract(s) merit CPUC approval? Explain.

All these issues are addressed in this report.

⁶ The nature of this process was designed to rank offers based primarily on the fixed price of the offer (adjusted for time-of-day (TOD) factors and a supplier diversity score) subject to a price cap established in the Protocol. The traditional IOU Least Cost Best Fit methodology was therefore not applicable. However, the IE will draft a description of the methodology used to evaluate and rank offers as well as the strengths and weaknesses of the methodology.

II. Description of the Role of the IE

A. Regulatory Requirements For the IE

The requirements for participation by an IE in RPS 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, and D.09-06-050.

In D.04-12-048 (December 16, 2004), the CPUC required the use of an IE by investor-owned utilities (IOUs) in resource solicitations where there is an affiliated bidder or bidders, or where the utility proposed to build a project or where a bidder proposed to sell a project or build a project under a turnkey contract that would ultimately be owned by a utility. The CPUC generally endorsed the guidelines issued by the Federal Energy Regulatory Commission (“FERC”) for independent evaluation where an affiliate of the purchaser is a bidder in a competitive solicitation, but stated that the role of the IE would not be to make binding decisions on behalf of the utilities or administer the entire process.⁷ 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. 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 D.09-06-050 issued on June 18, 2009 in Rulemaking 08-08-009, Order Instituting Rulemaking to Continue Implementation and Administration of California Renewables Portfolio Standard Program,⁸ the CPUC required that bilateral contracts should be reviewed according to the same processes and standards as contracts that come through a

⁷ 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).

⁸ Decision Establishing Price Benchmarks and Contract Review Processes for Short-Term and Bilateral Procurement Contracts for Compliance With the California Renewable Portfolio Standard.

solicitation. This includes review by the utility's PRG and its IE, including a report filed by the IE.

In Decision 10-04-052, Decision Adopting a Solar Photovoltaic Program for Pacific Gas and Electric Company, April 22, 2010, the Commission required PG&E to enlist the services of an independent evaluator to oversee the solicitation process and provide an assessment of the fairness and robustness of each of the solicitations it conducts pursuant to this program, for both utility-owned generation projects and power purchase agreement projects, and the degree to which these solicitations conform to the solicitation protocols.

B. Description of Key IE Roles

In compliance with D.10-04-052 issued April 22, 2010, PG&E selected Merrimack Energy to serve as IE for the Solar Photovoltaic Program Request for Offers in April, 2010. The objective of the role of the IE is to ensure that the solicitation process is undertaken in a fair, consistent, unbiased, and objective manner and that the best resources are selected and acquired consistent with the solicitation requirements.

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 draft RFO Protocol document and associated appendices, with a focus on the design of the evaluation and selection process, definition of the products sought, evaluation criteria and selection protocols;
- Participate in PRG meetings prior to and during the solicitation process;
- Review and summarize offers received to ensure the IE and Company identify and assess the same list of offers;
- Review and assess PG&E's evaluation of the offers received for purposes of selecting the offers that will be awarded contracts. Ensure all bidders are fairly treated in the evaluation and selection process;
- Monitor email traffic between PG&E and the bidders to ensure the process is fair and equitable and all bidders have access to the same information;
- Monitor contract negotiations (if necessary);
- Prepare the IE reports for inclusion in any Advice Letter filings and also as part of PG&E's annual compliance reports with the Energy Division;
- Participate in the program forum required by the CPUC to identify program solicitation components that may need refinement.

With regard to the role of the IE, our 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. This role generally involves a detailed review and assessment of the evaluation process and the results of the quantitative and project viability analysis.

This report provides an assessment of PG&E's Solar PV Program procurement process from development of the process through selection of the projects subject to contract approval. It is organized based on the template provided by the CPUC's Energy Division. This report addresses Merrimack Energy's assessment and conclusions with regard to the following questions:

1. Did PG&E initiate adequate outreach to potential bidders and was the solicitation robust?
2. Was PG&E's methodology designed such that all bids were fairly and reasonably evaluated?⁹
3. Was PG&E's bid evaluation and selection process fairly administered?
4. Did PG&E make reasonable and consistent choices regarding which offers were selected?

C. Description of IE Oversight Activities

In performing its oversight role, the IE participated in and undertook a number of activities in connection with the solicitation including providing comments on the protocol documents, reviewing internal RFO Evaluation Protocol, 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, monitoring communications with bidders, communicating with PG&E's Project Manager on a regular basis to discuss RFO issues, and participating in meetings with the PRG. 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 process. A list of the activities of the IE during the procurement process is described below.

Submitted Comments on RFO Protocol Design

Merrimack Energy submitted multiple rounds of comments on the design of the RFO protocol, with an emphasis on issues such as interconnection requirements, site control and resource adequacy based on prior experience serving as IE on similar processes. The

⁹ While the IE Report Template prepared by the Division generally requests that the IE evaluate whether the Company's "Least Cost Best Fit" methodology was appropriately applied, the evaluation methodology in this solicitation was focused on levelized cost plus basic threshold or minimum requirements that Participants were required to meet rather than a "full-blown" least cost best fit assessment.

IE also discussed the evaluation criteria and evaluation and selection methodology with PG&E's Project Manager.

Attendance at the Bidders Conference

The IE attended the Solar PV Program Bidders Conference held by PG&E on February 8 2011. The IE also coordinated with PG&E's Project Manager on the issues to address at the Bidders Conference and provided comments on the presentation material. For example, based on previous experience, the IE suggested that PG&E conduct a separate session on transmission and distribution interconnection requirements and processes. For the Bidders Conference, PG&E included a morning session that focused on the RFO protocol and bidder requirements. The afternoon session focused on the interconnection process and related issues. The afternoon session was led by a representative from PG&E's Interconnection group. At the time of the Bidders conference, prospective bidders were informed by a representative of PG&E's Generation Interconnection Services team that the interconnection study process (excluding the fast track process) should be underway already to meet milestones in the 2011 round of the PV RFO. Both sessions were extremely well attended. PG&E estimates that 270 people attended in person and another 200 people attended over the phone.

Monitored Communication with Bidders

Prospective Participants had the opportunity to submit questions to PG&E regarding the RFO via PG&E's Solar PV Program website. The RFO required that the IE should be copied on all correspondence between PG&E and the prospective Participant. The IE reviewed the substantial amount of email traffic between PG&E and Participants to assess if any issues were emerging and whether all Participants were treated fairly and equitably. Throughout the solicitation process there were hundreds of emails exchanged between the PG&E project team and the Participants. In addition, PG&E posted questions and answers on its website received from Participants as well as through the Bidders Conference.

Meeting with PG&E's Project Team to Discuss the Bid Evaluation Protocol

Prior to the Bidders Conference, the IE met with PG&E's project team to discuss eligibility criteria, criteria for evaluating conforming bids, generation interconnection requirements and other requirements for the RFO process as well as the internal protocols developed by PG&E for the Offer Scoring and Supplier Diversity criteria.

Receipt of Offers

All offers were submitted by electronic mail to PG&E and the IE on or before March 2, 2011. The IE summarized the offers received and established a spreadsheet matrix of key information on each offer (e.g. price, expected generation, nameplate capacity, location and in-service date) designed to track and summarize the offers received. The matrix also

allowed PG&E and the IE to ensure that all offers were accounted for.¹⁰ In addition to the Offer Form, Participants were required to submit the following documents:

- A completed PV PPA;
- A site control questionnaire and attestation;
- Demonstration of Interconnection Application submission;
- Acknowledgement and commitment of site owner letter;
- Supplier diversity questionnaire.

Follow-up Discussions Regarding Bid Eligibility

PG&E and the IE conducted follow-up calls to discuss the eligibility of offers subsequent to bid submittal. In particular, the discussions generally focused around the failure of bidders to demonstrate they had filed a complete interconnection application by the time of offer submission. Other issues also focused around the interconnection process including the ability of the participants to provide proof that interconnection applications had been deemed complete and that the project had received a queue position. Also, a few offers were scrutinized for the likelihood they would be able to meet the June 3, 2011 requirement that interconnection screens would be passed or studies completed. As part of this task, the IE reviewed the information provided by the Participant to support its position whether the interconnection applications have been deemed complete. An offer from one Participant was deemed non-conforming because it did not offer a qualifying solar resource.

Also, on March 15, 2011 PG&E notified bidders that it recently made an amendment to the Wholesale Distribution Tariff (WDT) and filed at FERC on March 2, 2011 requesting approval. The amended WDT included provisions for interconnection customers to obtain a Full Capacity Deliverability Assessment. In its email to bidders, PG&E identified the options for bidders to request full capacity deliverability status.¹¹

Offer Selection Process

PG&E and the IE had discussions about the options for short listing the offers received, including maintaining both a primary list and back-up list of offers in case offers did not meet the bid evaluation criteria or requirements of PG&E. The IE also conducted assessment of several portfolios of offers in an attempt to assess if offers could be combined in different combinations to minimize portfolio costs.

Also, in late March 2011 prior to completion of the primary and back-up offer lists, PG&E sent a letter to those Participants asking them to affirm the accuracy of the information received and the statements made in the Supplier Diversity Questionnaire.

¹⁰ After review of the offers received, Merrimack Energy had a record of a few offers that PG&E had not received or accounted for. After comparing the list of offers received, PG&E and Merrimack Energy were able to reconcile the lists and confirm all offers received.

¹¹ PG&E noted that for this first solicitation bidders only have to pursue deliverability if it is applicable and available but there is no price adjustment for having or not having Resource Adequacy.

Through this letter, PG&E was seeking to get a firm commitment from Participants that the information they submitted was accurate and supportable. The IE agreed to this request due to the importance of this criteria in the evaluation process and the need for a firm commitment from suppliers.

Procurement Review Group (“PRG) Meeting – April 12, 2011

On April 12, 2011, PG&E conducted a presentation for the PRG outlining the overall response to the RFO, describing the Solar PV Program PPA Request for Offers, and informing the PRG of offers it intends to select as finalists in the Solar PV Program process. As identified in the RFO, PG&E indicated that it intended to select a group of primary offers that meet the RFO requirements and which are the most competitive offers that best fill the 50 MW need. PG&E also indicated it will select a group of backup offers that would utilize or replace any of the primary offers that fail to result in an executed PPA. PG&E indicated that consistent with the RFO, it will select offers according to the evaluation criteria until the next-best offer would cumulatively exceed 50 MW. Some of the next best offers beyond those selected would be placed on a waiting list or backup list to be selected in order of priority should any selected offers fail to complete the RFO process. PG&E identified offers that it selected to the primary group of offers.¹² PG&E indicated that participants of selected offers will be notified on April 15, 2011. Participants whose offers have been selected were required to notify PG&E of their intent to accept by April 19, 2011 of their selection and continued participation in the RFO.

Follow-up Calls with Participants

Shortly after selection of the primary and backup offers, on or around April 15, 2011, PG&E sent letters to notify applicable participants that their specific offers were not selected. In the letter, PG&E stated “if you would like to discuss this outcome further, please submit an email via the Photovoltaic PPA RFO mailbox to schedule some time to speak with a member of our team”. Based on this offer, a large number of the participants not selected did request a debriefing of their offer. The IE participated in a number of the calls including those with participants that were most “vocal” or active during the process. While it appeared a few participants may have had some issues with the process, no participant was negative toward the process and all were generally accepting regarding the reason for not being selected.

Monitored Responses from Selected Offers Regarding Submission of Proof that Interconnection Screens Have Been Passed or Studies Completed

Selected offers were required to provide evidence by June 3, 2011 that they had completed a system impact study or initial review, as applicable. The IE monitored the response from participants and discussed the responses and outcomes with PG&E’s Project Manager for purposes of assessing the options remaining to PG&E.

¹² PG&E requested that bidders offer to step down their capacity. This allowed for flexibility in crafting the portfolio.

Review Any Comments Raised by Participants with Regard to Submission of Signed PPAs

The IE monitored the email traffic between PG&E and the Participants regarding contract execution. Since the non-price terms and conditions of the form PPAs were non-negotiable, PG&E indicated that under no circumstances would PG&E accept any Offer that makes changes to the terms and conditions of the form PV PPAs. While there were a few clarifying questions and proposed revisions from Participants, primarily related to clarification of the total amount of security and the milestone schedule to reflect an expected CPUC approval date, there were no other non-price revisions requested or accepted. The PPAs with the selected offers were finalized on June 24, 2011.

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

A. Were the Solicitation Materials Clear and Concise to Ensure that the Information Required by the Utility to Conduct its Evaluation Was Provided by the Bidders?

The IE had the opportunity to review the solicitation documents and materials prior to completion and provided comments. Our comments were designed to ensure the information was consistent and clear to Participants. The IE believes that all primary comments were addressed in the completion of the RFO document. While the information on the interconnection process can be confusing and challenging for some bidders, particularly newer entrants, the combination of the information presented in the RFO document along with the section of the Bidders Conference specifically devoted to the interconnection process provided bidders with an excellent background on the interconnection process and requirements prior to submitting their offers. Also, Participants had the opportunity to ask follow-up questions to seek clarification and participate in the Bidders Conference at which the above issues were addressed. Overall, the IE was of the opinion that the documents and follow-up information were reasonably clear and concise for Participants to decide if they wanted to participate and to understand the requirements for competing.

In addition, PG&E established a website for the program and provided a significant base of information which described the program and allowed the Participant the opportunity to craft an effective and conforming proposal. The website contained the following documents:

- Solar PV RFO Protocol Document and all Appendices
 - Appendix A – Offer Sheet
 - Appendix B1 – Small PV PPA – projects 1- less than 3 MW
 - Appendix B2 – Large PV PPA – projects 3 – 20 MW
 - Appendix C – Site Control Questionnaire and Attestation
 - Appendix D – Demonstration of Interconnection Application Submission
 - Appendix E – Acknowledgement and Commitment of Site Owner
 - Appendix F – Supplier Diversity Questionnaire
- General Questions and Answers
- Code of Conduct
- Contact Information
- Contact Person and website reference for Distribution and Interconnection information
- Project Schedule
- CPUC Decisions and Resolutions regarding the Solar PV Program
- Google-based Map of PG&E’s Service Territory to assist in identifying potential sites

- Bidders Conference Presentations including a general presentation as well as the presentation at the Interconnection session
- List of Attendees at Bidders Conference
- RFO Participant/Bidder Registration
- Bidders Conference Questions and Answers
- Webex follow-up presentation on Interconnection

As noted, PG&E held a 2011 Photovoltaic Program Power Purchase Agreements Request for Offers Bidders Conference on February 8, 2011, within one week after launching the solicitation. The Bidders Conference was scheduled for an entire day, with the morning session devoted to a general overview of the solicitation including review of the Offer requirements, overview of commercial process, evaluation methodology, Google Map of PG&E's distribution system showing areas with a higher likelihood for successful interconnection to the PG&E system, interconnection process and implications for a project's ability to compete in this first round of the RFO, solicitation documents, and offer forms that must be included with the Offer. The afternoon session was devoted to a detailed review of the Interconnection process. However, the afternoon session was cut short based on the requirement to evacuate the building in which the conference was being held. As a result, PG&E rescheduled the Conference session on Interconnection to February 16, 2011 as a webex presentation.

The IE also found that PG&E's project team was particularly responsive to the needs of prospective bidders throughout the process and also responded very quickly and thoroughly to bidder questions. The performance of the team in the communication function with Participants was exemplary.

In addition, PG&E also provided the opportunity for Participants to participate in individual one-on-one conference calls to discuss their offers. Many Participants contacted PG&E asking for a debriefing with regard to their Offers. The IE participated in a number of conference calls, particularly with those Participants who were thought to potentially offer resistance. PG&E's Project Manager provided consistent information to every Participant, including identifying upcoming opportunities for bidders, providing a general discussion of the issues or shortcomings associated with the offer, and responding to specific questions. The Project Manager was very careful in providing the same information to all bidders and did not provide any competitive intelligence regarding other offers or specific rankings for the offer in question.

B. Identify Guidelines Used to Determine Whether the IOU Did Adequate Outreach. Did the IOU Do Adequate Outreach? If Not, Explain How 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 bidders?

- 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?

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 significant role in the very robust response in terms of number of Participants and specific offers or projects.

PG&E maintains a detailed list of potential Participants with over 1,500 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 RFO process and the issuance of the Solicitation Protocol Document on February 2, 2011. In addition, PG&E posted a Contract Opportunity Announcement on its webpage with the information necessary for prospective bidders to gain access to the appropriate information about the solicitation. Finally, PG&E also maintains a database of Diverse Suppliers as well, and outreach was made to those suppliers.

Prospective Participants would also be informed of the RFO through the public nature of the process via CPUC decisions and Resolutions, PG&E Advice Letter filings, and comments of Participants.

As noted above, PG&E also established a section on its website for distribution of information to prospective Participants. The website contained all the pertinent solicitation documents, time tables, and a list of questions and answers related to the solicitation. A total of 12 questions and answers submitted to the website as well as 89 questions and answers from the Bidders Conference were posted on the website. The IE found the website easy to access and navigate. All documents associated with the Solar PV Program RFO were included on the website and were easy to identify, access, and download.

C. Identify Guidelines Used to Determine Adequate Robustness of a Solicitation. Was the Solicitation Adequately Robust?

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, megawatts (“MW”) offered and amount of megawatt-hours (“MWh”) bid?

The overall result of this outreach activity was a very robust response from Participants. Offers were also received from a diverse set of Sellers (i.e. experienced well-financed Sellers as well as new market entrants) involving several photovoltaic technology options. Information regarding the offers, MW and MWh quantities offered, project location, and evaluation results are contained in the Confidential IE Report.

In conclusion, the outstanding response of the market to PG&E’s Solar PV Program RFO is 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.

D. 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 with offers that were not selected about the general reasons for non-selection. In our view, the debriefing sessions were very well handled by the Project Manager, who provided consistent information to all bidders without unduly providing additional information to certain bidders. The impression of the IE was that the participants were very appreciative of PG&E’s efforts to provide information about their project as well as upcoming procurement opportunities. As a result, PG&E staff and prospective Participants were actively engaged throughout the process.

Lastly, CPUC Resolution E-4299 requires PG&E to convene a Program Forum within 60 days of each solicitation’s closing date to identify Program components that may need refinement as experience is gained with the program. The IE views this Forum as an important vehicle to solicit feedback from Participants on their experiences with the positive and negative aspects of the program in an attempt to improve program components for the next solicitation.

E. Any Other Relevant Information or Observations

The Solar PV Program and solicitation was one of the first of its kind undertaken in California and elsewhere. As a first initiative, the process drew a range of sophisticated project developers and new firms looking to get into the industry. As a result, we found that several bidders were unsure of the requirements of the protocol, the requirements of the interconnection process, and what they needed to do to compete. The IE found PG&E staff to be unbiased and fair to all bidders, whether the bidder was a well-known and successful project developer or a start-up. All bidders had equal access to information as well as PG&E staff to seek or clarify information about their projects.

IV. Fairness and Appropriateness of the Solar PV Program RFO Bid Evaluation and Selection Methodology and Design

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

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

- Were the procurement targets, products solicited, principles and objectives clearly defined in PG&E's RFO and other materials?
- Were the bid evaluation and selection process and criteria reasonably transparent such that bidders would have a reasonable indication as to how they would be evaluated and selected?
- Was PG&E's bid evaluation based on and consistent with the information requested in the RFO to be submitted by bidders in their proposal documents?
- Did the evaluation methodology reasonably identify the quantitative and qualitative criteria and describe how they would be used to qualify and rank offers?
- Were the bid evaluation criteria consistently applied to all offers?
- Does the price evaluation methodology allow for consistent evaluation of bids of different sizes and in-service dates?
- 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?

B. Description of PG&E's Evaluation Methodology¹³

This section of the report provides an overall description of PG&E's evaluation methodology and criteria applicable to the 2011 Solar PV Program RFO. Based on the nature of the program, PG&E has used a process that includes identification of minimum eligibility requirements that participants have to meet to be eligible to participate in the

¹³ As previously noted, the traditional least cost best fit methodology used by PG&E for other renewable solicitations was not applicable to the Solar PV process, which was designed largely to facilitate the development of smaller-scale solar PV projects.

selection process combined primarily with a price-related scoring methodology. Once Participants have met the minimum requirements for site control, interconnection and participant experience, PG&E will use the price-related scoring methodology as the primary factor in selecting offers. The other selection criteria will be Supplier Diversity and Local Capacity Requirements.¹⁴

With regard to price, Participants are required to submit a fixed product price (in \$/MWh) which will remain constant for the full term of the contract. Pricing will not be indexed or escalated over the term of the agreement. In addition, PG&E will not consider any offer whose pre-time of delivery (“TOD”) cost of energy exceeds \$246/MWh, the cost cap imposed by D.10-04-052.¹⁵

Participants were also informed in the RFO that the pricing submitted by the Participant for an offer must include:

1. All awards, subsidies, tax credits with respect to the project;
2. All other benefits that the Participant expects to apply;
3. Any costs incurred by the Participant, including any interconnection cost;
4. The acceptance of the non-price terms and conditions as-is in the form PV PPA including the security amounts included in each PPA and;
5. The assumption that the product price will be adjusted in each hour of delivery by the energy payment allocation factors set forth in the PPAs.

For evaluation purposes, PG&E’s price evaluation protocol is based on calculating the post-TOD price from the price submitted by the Participant (i.e. pre-TOD price). As described below, the Supplier Diversity score is then combined with the Post-TOD price to arrive at a metric which serves as the basis for ranking the offers.

The second component of the evaluation is Supplier Diversity. It is a policy of PG&E that Women-, Minority-, and Disabled Veteran-owned Business Enterprises (“WMDVBES”) shall have the maximum practicable opportunity to participate in the performance of Agreements resulting from this Solicitation. In its evaluation, PG&E will evaluate whether an offer will contribute to PG&E’s supplier diversity goals. The Supplier Diversity evaluation will take into account the Participant’s status as a WMDVBE and/or an intent or policy of subcontracting with WMDVBES.¹⁶ PG&E calculated a numerical score for offers based on the level of total planned spending on WMDVBE’s.

The last component of the evaluation is Local Capacity Requirements. This criterion will be used as a tie-breaker criterion when selecting offers, if needed. PG&E will favor offers that will be located in CAISO-identified local capacity requirement (“LCR”) areas

¹⁴ While the methodology is generally described in the RFO and Bidders Conference materials, the specific scoring methodology and the basis for determining supplier diversity scores are part of the internal evaluation methodology.

¹⁵ None of the offers submitted exceeded the price cap although a few offers priced right at the cap.

¹⁶ Participants must complete the Questionnaire which requires the Participant to describe its status, if applicable, as a WMDVBE and its plans, if any, to engage in activities that support PG&E’s supplier diversity goals.

because capacity installed in those areas should provide greater customer value than capacity installed elsewhere in the PG&E system.

In the Bidders' Conference presentation, PG&E stated that it will combine the pricing and supplier diversity evaluations into an overall score for each offer and rank them from best to worst.

At the Bidders' Conference, PG&E described the methodology options PG&E was considering to fill the 50 MW solicitation. Since that time, PG&E refined the selection methodology for getting within the 50 MW limit.

1. Request that an offer or combination of offers reduce its size while holding its \$/MWh price. This option is requested in the Offer Form; or
2. Drop the last offer, and add the shortfall to the 2012 RFO; or
3. Drop the last offer, and pick the next most attractive small offer that results in a total of 50 MW or less.

As will be discussed in more detail in the Confidential IE Report, PG&E was able to reach the 50 MW goal by relying on offers that proposed the option of reducing its size while maintaining its bid price.

In the offer evaluation and ranking only the price and supplier diversity criteria had an effect on project ranking. LCR was to be used as a tie-breaker criterion. Because there were no ties in the ranking of selected offers, the LCR criterion was not applied as a tie-breaker.

C. Evaluation of the Strengths and Weaknesses of PG&E's Methodology in This Solicitation

Strengths of Evaluation and Ranking Methodology

As described, if an offer meets the eligibility criteria at each stage of the process, the key selection criterion is then price. PG&E's price ranking and offer scoring or evaluation methodology is generally designed to be relatively simple and straightforward. Offers are ranked based on the combination of post-TOD price and the Supplier Diversity score. PG&E developed a reasonable methodology to combine these two criteria into a consistent metric that could be used to rank offers. An Offer Scoring sub-committee of the Solar PV Program PPA RFO Evaluation Committee was responsible for developing the Offer Scoring Methodology, overseeing the implementation of this methodology, and ruling on any issues of clarification of the above protocol and the basis for developing the value of the supplier diversity criteria.

In combination with a straightforward ranking and offer scoring or evaluation methodology (which is appropriate for this type of solicitation with a specific term and technology and the presence of a price cap), the Offer Form provided by PG&E for Participants to complete was straightforward and provided all the information necessary

to conduct the evaluation. Participants appeared to have little or no difficulty with the Offer Form.

With regard to the other evaluation criteria and minimum requirements, PG&E has included reasonable criteria to ensure the offers submitted are not merely “concepts” but at least are generally somewhat mature projects with identified sites proposed by Participants who have to demonstrate site control and a development team with experience to complete such projects. Identification of interconnection status at different milestone dates was also an important criterion for such a process. In our view, the evaluation process was effective in “weeding” out immature offers at the eligibility stage of the process as well as at other key milestones. A review of the actual application of this process to the offers received is presented in Confidential IE Report.

The minimal requirements and straightforward price evaluation is designed to ease the financial and time requirements normally placed on larger projects competing through the RPS solicitations. The more limited requirements should therefore encourage a larger number of smaller projects to compete in a solicitation designed to encourage such projects.

Weaknesses of the Evaluation and Ranking Methodology

The fixed price requirement for the term of the contract does not provide flexibility to Participants who may prefer to apply a fixed escalation rate to its pricing formula. However, while we have seen a number of Participants in other solicitations propose a pricing formula with a fixed escalation, there were no complaints or criticisms from Participants that the fixed price requirement negatively affected their offer.

A potential weakness is that the lowest cost portfolio of offers may not be selected due to the application of the supplier diversity. However, PG&E is committed to including a large role for supplier diversity in its solicitation processes and maintained that requirement in this process as well.

One of the challenging aspects of any solicitation process of this nature is the uncertainty associated with the interconnection process and project status. While the Bidders Conference presentation on the interconnection process and requirements of PG&E provided detailed information to bidders, there remained some level of uncertainty and anxiety associated with the status of interconnection applications, the timing of studies, and the need to conduct full capacity deliverability assessments, particularly for newer market entrants and those project sponsors targeting the first year of the Solar PV Program.

D. Recommended Future Improvements in the Evaluation and Ranking Process

The comments of the IE with regard to future improvements in the evaluation and ranking process are primarily related to a reconsideration of the development of the criteria used for the ranking and evaluation of the offers based on the experiences from

this solicitation. For example, PG&E may want to assess the magnitude of the supplier diversity score and its impact on project ranking. Also, PG&E may want to consider if Local Capacity Requirement should remain as a tie-breaker criterion, and if so, how will it be applied.

Merrimack Energy also suggests that for future solicitations, PG&E either include a provision in the PPA requiring participants to guarantee a certain level of spending on WMDVBE's along with penalties for failing to meet targets or alternatively require Participants to confirm and attest to the level of spending at the time they submit their proposals.

E. 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 2011 Solar PV Program solicitation process, Merrimack Energy has applied a number of principles and factors, which incorporate those suggested by the Commission's Energy Division as well as additional principles that Merrimack Energy has used in its oversight of other competitive bidding processes. These include:

- Were 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?
- Was the economic evaluation of the bids fair and consistent?
- 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?

B. Description of IE Methodology Used to Evaluate Administration of PG&E's Solar PV Program 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 was able to follow 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.

Based on our involvement, we conclude that PG&E reasonably followed the criteria outlined in the 2011 Request for Offers. 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.

Based on our assessment of the evaluation process relative to the above criteria, it is our opinion that all Participants were treated fairly and consistently and all generally had access to the same amount and quality of information. The IE did make a few suggestions to provide specific information to Participants based on previous experience with a similar process, such as suggesting that PG&E devote a reasonable amount of time at the Bidders Conference addressing interconnection related issues since this was an issue that had a major influence on the solicitation and created the most consternation for Participants.

PG&E maintained a website dedicated to the 2011 Solar PV Program and posted all documents and questions submitted by Participants both at the Bidders Conference as well as separately during the solicitation process. The Bidders Conference held by PG&E provided detailed information to all bidders with regard to the solicitation process (i.e. evaluation methodology and the requirements for Participants to provide the information requested) as well as detailed information on the interconnection process. We also observed no difference in the treatment of Participants regarding clarification questions, correspondence and communications with Participants, and follow-up contacts with Participants that were not selected. Finally, PG&E implemented the evaluation criteria and methodologies as outlined in the RFO and the internal RFO Evaluation Protocols.

PG&E also included a PV Program Confidentiality Protocol and Code of Conduct as part of the RFO documents. The Confidentiality Protocol and Code of Conduct applies to all PG&E employees, contractors, or consultants engaged in PG&E's Solar PV Program. Importantly, the Confidentiality Protocol and Code of Conduct prohibits the disclosure of confidential information associated with employees working on PPA portion of the Solar PV program and employees working in the Renewable Resource Development Division who are responsible for the Utility-Owned Generation ("UOG") portion of the program.

C. Results Analysis

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

While the IE did raise a few issues that differed from the approach suggested by PG&E, the parties ultimately agreed on issues associated with the evaluation process. For example, both the IE and PG&E prepared summaries of the offers received. The lists of both parties had some inconsistencies. However, the parties were able to reconcile the differences. Also, the IE was initially concerned about PG&E's decision to exclude an Offer from the primary or backup list of projects based on uncertainty regarding the ability of the Participant to have its interconnection studies completed on time. The IE was concerned that there was a chance the Participant could have the studies completed on time, while PG&E's assessment was that there was a high unlikelihood of this happening. PG&E was correct in its assessment and the follow-up meeting with the Participant confirmed that the Participant could not get the studies completed on time to

qualify for a PPA. Finally, PG&E requested that offers selected for the Primary or backup lists provide PG&E with a six month exclusivity provision. The IE felt that six months was too long, particularly since Participants would know by early June if they have been awarded a contract. However, only one Participant asked for clarification. PG&E responded that with the six month exclusivity provision, the project could be bid to other PG&E solicitations but could not be offered to another party.

D. Administration of the Bid Evaluation Process

The IE has concluded that the proposal evaluation process was fairly administered with respect to all proposals. Since there were no affiliate offers, issues associated with affiliate offers were not a factor in the assessment. 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

As previously noted, the IE participated in follow-up calls with a number of Participants subsequent to selection of the Primary and backup offers. One of the focuses of the IE was to participate in conference calls with Participants that may challenge the selection process or results of the solicitation based on review of the email traffic. However, in no case did a Participant complain or criticize the process either during or after the conference call.

VI. Project Specific Contract Negotiations

All three contracts filed by PG&E for approval through this solicitation were based on the Large PV PPA (i.e. 3 - 20 MW). The IE reviewed the email traffic associated with the PPA execution process. However, as noted, the issues associated with execution of the PPA primarily involved insertion of project specific information including the appropriate security levels and project schedule. All PPAs were finalized on or before June 24, 2011.

VI. Conclusions and Recommendations

A. Conclusions

For the reasons stated herein, Merrimack Energy concludes that the offer selection decisions by PG&E in the 2011 Solar PV Program process were reasonable and based on the requirements, evaluation criteria and stated preferences set forth in the RFO. Furthermore, the offers and PPAs were selected through a competitive solicitation process with a robust response. In implementing the process, the IE found that PG&E was fair and reasonable to all Participants, provided consistent and thorough information to Participants, and was unbiased in the treatment of any Participant, whether that Participant was a highly ranked or lower ranked offer. Furthermore, we also found that PG&E's project team was very responsive to the requirements of Participants and treated all Participants equally. The offers selected were the highest ranked remaining offers based on the established evaluation and selection criteria. PG&E effectively used the flexibility included in the process to develop a portfolio that was low cost and meets the annual procurement target at a competitive market price. Merrimack Energy therefore recommends approval of the contracts.

B. Observations

There were several observations which can be gleaned from the solicitation process:

- The response to the solicitation was robust, with participation from both established firms and new entrants;
- PG&E followed its protocols throughout the process;
- Significant attention was paid in the process to informing Participants as much as possible on interconnection requirements;
- The option afforded Participants to offer a lower quantity at the same price was effective in allowing PG&E to develop a more cost effective portfolio that matched its stated requirements;
- PG&E was inclusive in keeping Participants in the process and not unduly eliminating offers;
- Overall, the process was a very transparent process.

C. Recommendations

While the IE does not recommend wholesale changes for the next Solar PV Program solicitation, we feel there are a few issues that should be reassessed in addition to the recommendations listed on pages 22 and 23, including the following:

- PG&E's Project Manager has discussed the possibility of delaying the issuance of the RFO for the second year of the program to provide the opportunity for Participants to complete the Transmission Interconnection Cluster Study process. This would appear to be a reasonable decision to enhance the competitiveness of the process by allowing for the opportunity for more competition and more mature offers.
- PG&E's policy in this process was to not award PPAs for more than 20 MW from any one seller in each annual solicitation. However, there was no reference in the RFO to this counterparty limit. PG&E indicated to the IE that the reference was inadvertently deleted when the compliance advice letter was being prepared. This issue was addressed in a Question and Answer response from the Bidders' Conference Q&A posted on the website. The IE recommends that any policy associated with concentration risk should be included in the RFO document for future solicitations.
- PG&E may want to consider whether the level of concentration risk adopted for this solicitation is reasonable or should be increased. This would involve a trade-off between the level of concentration risk and pricing.

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

AT&T	Department of Water Resources	North Coast SolarResources
Alcantar & Kahl LLP	Dept of General Services	Northern California Power Association
Ameresco	Douglass & Liddell	Occidental Energy Marketing, Inc.
Anderson & Poole	Downey & Brand	OnGrid Solar
Arizona Public Service Company	Duke Energy	Praxair
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CA Bldg Industry Association	Hanna & Morton	Seattle City Light
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CSC Energy Services	In House Energy	Sierra Pacific Power Company
California Cotton Ginners & Growers Assn	International Power Technology	Silicon Valley Power
California Energy Commission	Intestate Gas Services, Inc.	Silo Energy LLC
California League of Food Processors	Lawrence Berkeley National Lab	Southern California Edison Company
California Public Utilities Commission	Los Angeles Dept of Water & Power	Spark Energy, L.P.
Calpine	Luce, Forward, Hamilton & Scripps LLP	Sun Light & Power
Cardinal Cogen	MAC Lighting Consulting	Sunshine Design
Casner, Steve	MBMC, Inc.	Sutherland, Asbill & Brennan
Chris, King	MRW & Associates	Tabors Caramanis & Associates
City of Palo Alto	Manatt Phelps Phillips	Tecogen, Inc.
City of Palo Alto Utilities	McKenzie & Associates	Tiger Natural Gas, Inc.
City of San Jose	Merced Irrigation District	TransCanada
Clean Energy Fuels	Modesto Irrigation District	Turlock Irrigation District
Coast Economic Consulting	Morgan Stanley	United Cogen
Commercial Energy	Morrison & Foerster	Utility Cost Management
Consumer Federation of California	NLine Energy, Inc.	Utility Specialists
Crossborder Energy	NRG West	Verizon
Davis Wright Tremaine LLP	Navigant Consulting	Wellhead Electric Company
Day Carter Murphy	Norris & Wong Associates	Western Manufactured Housing Communities Association (WMA)
Defense Energy Support Center	North America Power Partners	eMeter Corporation