STATE OF CALIFORNIA

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

ARNOLD SCHWARZENEGGER, *Governor*

October 28, 2008

Advice Letter 3181-E

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

Subject: Contract Between Finavera Renewables, Inc. and PG&E for Procurement of Renewable Energy Resources Resulting from PG&E's 2006 Renewables Portfolio Standard Solicitation

Dear Mr. Cherry:

Advice Letter 3181-E is rejected per Resolution E-4196.

Sincerely,

Kenneth Lewis, Acting Director
Energy Division

Pacific Gas and Electric Company™

Brian K. Cherry
Vice President
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

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Mail Code B10C
Pacific Gas and Electric Company
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Fax: 415.973.7226

December 18, 2007

Advice 3181-E
(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

Subject: Contract between Finavera Renewables, Inc. and PG&E for Procurement of Renewable Energy Resources Resulting from PG&E's 2006 Renewables Portfolio Standard Solicitation

I. INTRODUCTION

Pacific Gas and Electric Company ("PG&E") seeks the California Public Utilities Commission's ("Commission" or "CPUC") approval of a power purchase agreement ("PPA") that PG&E has executed with Finavera Renewables, Inc. ("Finavera") as a result of PG&E's 2006 Renewables Portfolio Standard ("RPS") solicitation. The Commission should grant CPUC Approval, as that term is defined by Commission decision ("D.") 07-11-025, and confirm PG&E's ability to recover the cost of power purchased under the PPA through its Energy Resource Recovery Account ("ERRA").

The Finavera project will be a new 2 megawatt ("MW") wave energy project located in Humboldt County, California ("Project"). The Project is expected to commence deliveries in late 2012 and achieve energy deliveries of approximately 4 gigawatt-hours ("GWh") per year for a delivery term of 15 years. The Project is being developed and constructed by Finavera, a publicly traded company located in Vancouver, Canada.

Although the Project will nominally contribute towards helping PG&E meet its RPS goals, it will further the development of a source of renewable energy that has tremendous potential in California, given the state's expansive coastline. Wave energy is currently in a nascent stage, and is often compared to the wind power industry of 20 years ago. Through actions such as entering into wave energy power purchase agreements, PG&E can assist in accelerating the commercialization of this industry, potentially resulting in increased supply and lower costs over time. The Project will also add to the diversity of technologies in PG&E's renewables portfolio.

The PPA resulted from PG&E's June 30, 2006 solicitation for renewable bids, which was authorized by D.06-05-039, and is the fifth RPS contract executed as a result of the 2006 RPS solicitation. The PPA incorporates the standard terms and conditions for RPS contracts adopted by D.04-06-014 and D.07-02-011, as modified by D.07-05-057, and by D.07-11-025. The Project has been pre-certified as an RPS-eligible facility by the California Energy Commission ("CEC"), and the PPA includes the standard representation and warranty that the Project constitutes an eligible renewable energy resource certified by the CEC.

Deliveries under the PPA are priced above the 2006 market price referent ("MPR"). Under Senate Bill ("SB") 1036, which eliminates the CEC's authority to award supplemental energy payments ("SEPs"), SEPs will no longer be available as of January 1, 2008. Instead, SB 1036 establishes a public goods charge ("PGC")-based procurement cap equal to the funds that would have been collected under the SEP program. The above-MPR costs of approved long-term RPS contracts with new or repowered facilities resulting from RPS solicitations may be counted toward this PGC-based procurement cap. Because the PPA is a long-term contract with a new facility that resulted from the 2006 RPS solicitation and is priced above the 2006 MPR, the above-MPR portion of the cost of procurement under the PPA is eligible to count against this cap.

PG&E requests that the Commission issue a resolution no later than June 12, 2008, containing the findings required by the definition of "CPUC Approval" in Attachment A of D.07-11-025 and incorporated in the PPA, so that PG&E's contract for this renewable resource can remain in effect.[1] The requested approval is described in more detail below under the heading "Request for Commission Approval."

In support of this request, PG&E has provided Confidential Appendices A through H, which address the reasonableness of the PPA. As is discussed below under the heading "Request for Confidential Treatment," PG&E is seeking confidential treatment of the information contained in these appendices.

II. Detailed Description of the Project

The Project involves the development of a new wave energy facility in Humboldt County, California. The following table summarizes the substantive features of the PPA:

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[1] As provided by D.07-11-025, the Commission must approve the PPA and payments to be made thereunder, and find that the procurement will count toward PG&E's RPS procurement obligations, for the executed PPA to be binding on the parties.

Generating Facility	Type	Term Years	MW Capacity	Annual Deliveries	Commercial Operating Date	Project Location
Finavera	Wave	15	2 MW	~4 GWh	December 1, 2012	Humboldt County, California

A copy of the PPA is provided in Confidential Appendix G and an explanation of the contract, including confidential terms, is provided in Confidential Appendix D.

The Project will serve as a demonstration for a specific type of wave technology, the hydraulic pump buoy system. Energy transfer takes place by converting the vertical component of wave kinetic energy into pressurized seawater by means of two-stroke hose pumps. Pressurized seawater is directed into a conversion system consisting of a turbine driving an electrical generator. The power is transmitted to shore by means of a secure, undersea transmission line.

III. PRG PARTICIPATION AND FEEDBACK

PG&E provided the PRG with reports on this transaction on five occasions: September 25, 2006, October 26, 2006, December 14, 2006, March 30, 2007, and May 30, 2007.

IV. THE FINAVERA PPA IS CONSISTENT WITH THE COMMISSION'S RPS-RELATED DECISIONS

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

A PPA between PG&E and an eligible renewable energy resource for the purpose of meeting the utility's RPS obligation should be approved if it is consistent with PG&E's current approved renewable procurement plan.[2] The Finavera PPA meets this standard and should be approved.

1. Consistency with PG&E's Identified Renewable Resource Need

PG&E's 2006 RPS plan was approved on May 25, 2006 by D.06-05-039. As required by statute, the plan includes an assessment of supply and demand to determine the optimal mix of renewable generation resources, consideration of compliance flexibility mechanisms established by the Commission, and a bid

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[2] Public Utilities Code (Pub. Util. Code) § 399.14(c).

solicitation protocol setting forth the need for renewable generation of various operational characteristics.[3]

The goal of PG&E's 2006 RPS plan was to procure approximately 1 to 2 percent of PG&E's retail sales volume, or between 727 GWh and 1,454 GWh per year, with delivery terms of 10, 15, or 20 years. Offers for four specific products – as-available, baseload, peaking, and dispatchable resources – were solicited by the 2006 plan. The Project offers approximately 4 GWh per year of as-available wave generation for a period of 15 years. This generation fits the approved 2006 RPS criteria.

2. Consistency with RPS Solicitation Protocol

The PPA was solicited, negotiated, and executed through PG&E's adherence to its Solicitation Protocol, which is the primary component of the 2006 RPS plan. The report of the Independent Evaluator, contained in public Appendix I to this Advice Letter, provides a narrative description of how PG&E conducted its 2006 solicitation.

PG&E generally followed the RPS solicitation schedule set forth in its Solicitation Protocol, but the schedule for concluding negotiations was extended. The resulting 2006 solicitation schedule is shown below:

[3] Pub. Util. Code § 399.14(a)(3).

Date	**Event**
June 30, 2006	PG&E issued Solicitation
July 10, 2006	Participants filed Notice of Intent to bid
July 20, 2006	Pre-Bid Conference
September 8, 2006	Deadline for Participants to submit offers
September 25, 2006	PG&E presented initial list of offers to the PRG
October 26, 2006	PG&E presented preliminary Shortlist to the PRG
November 6, 2006	PG&E distributed a revised and finalized Shortlist to the PRG
December 14, 2006 January 26, 2007 March 30, 2007 May 30, 2007	PG&E updated the PRG on the status of negotiations with shortlisted bidders
June 27, 2007	PG&E submitted first tranche of PPAs for Commission Approval
July 20, 2007	PG&E submitted PPA with Klondike III Wind Power LLC for Commission Approval
December 18, 2007	PG&E submits PPA with Finavera for Commission Approval

Using its CPUC-approved bid solicitation protocol and forms of power purchase agreements, PG&E commenced its solicitation on June 30, 2006. PG&E accepted bids until September 8, 2006, consistent with the published schedule. PG&E evaluated and scored the bids in the manner prescribed in the Solicitation Protocol. In particular, evaluation of the offer price took into account PG&E's published Time of Delivery factors and imputed the potential cost of transmission adders. PG&E scored the offers pursuant to a methodology that attributed the proper weight to market valuation, portfolio fit, credit and other non-price factors of the Solicitation Protocol.

PG&E ranked the bids according to the protocols, placed them on PG&E's Shortlist and presented them to PG&E's PRG on October 26, 2006. PG&E notified short-listed bidders and commenced negotiations with short-listed bidders once they submitted the required bid deposit. PG&E presented the interim results of negotiations to the PRG on several occasions between December 14, 2006 and May 30, 2007.

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

PG&E's 2004 long-term procurement plan stated that PG&E would aggressively pursue procurement of as-available, baseload, peaking, and dispatchable renewable resources. This same strategy was reflected in PG&E's 2006 long-term procurement plan. Deliveries from the Project will constitute part of PG&E's base of renewable energy supplies during the 15-year contract term, consistent with the long-term plans.

B. Consistency of PG&E's Bid Evaluation Process with Least-Cost Best-Fit Decision

The RPS statute requires procurement of the "least cost, best fit" ("LCBF") eligible renewable resources. In D.04-07-029, the Commission provided guidance on how bids received through an RPS solicitation should be evaluated and ranked to create a "shortlist" of bids with which to negotiate. The bid ranking process applies LCBF principles to the solicitation.

The renewables bid evaluation process focuses on four primary areas:

1. Determination of market value of bid,
2. Calculation of transmission adders and integration costs,
3. Evaluation of portfolio fit, and
4. Consideration of non-price factors.

Although the PPA is not highly competitive in pricing with other RPS opportunities, it has substantial potential to further the development of wave technology. By entering into wave energy power purchase agreements, PG&E can assist in accelerating the commercialization of this industry, potentially resulting in increased supply and lower costs over time.

1. Market Valuation

In its "mark-to-market analysis," PG&E compares the present value of the bidder's payment stream with the present value of the product's market value to determine the benefit (positive or negative) from the procurement of the resource, irrespective of PG&E's portfolio. PG&E evaluates the bid price and indirect costs, such as the costs the utility may incur to interconnect the resource to the transmission grid, or to integrate the generation into the system-wide electrical supply.[4]

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[4] PG&E's RPS Renewable Energy Procurement Plan, June 24, 2004, page 6, lines 4-18.

2. Portfolio Fit

Portfolio fit describes how well the features of an offer match PG&E's portfolio needs. The Project's delivery profile serves to diversify PG&E's renewable energy resource load during the 15-year delivery term.

3. Consistency with the Transmission Ranking Cost Decision

Under the transmission ranking cost decision, the potential customer cost of accepting energy deliveries from a project must be considered when determining the project's value. Since interconnection studies have not been completed for the Project, the cost estimates have been identified based on the Transmission Ranking Cost Report.

4. Qualitative Factors

PG&E considered the qualitative characteristics of the Project as required by D.04-07-029 and D.06-05-039.

C. Consistency with Adopted Standard Terms and Conditions

The Commission set forth standard terms and conditions to be incorporated into RPS contracts in D.04-06-014 and D.07-02-011, as modified by D.07-05-057, and in D.07-11-025. As shown in Confidential Appendix H, the PPA incorporates the non-modifiable terms identified in Attachment A of D.07-11-025.

Changes have been made to terms that the Commission has designated as modifiable in D.07-11-025. Confidential Appendix H identifies each modifiable standard term and condition that has been materially changed from its form in the 2006 Solicitation Protocol issued on June 30, 2006.

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

D. Consistency with Minimum Quantity Decision

The PPA is a long-term contract with a new facility. All of the RPS contracts that PG&E has signed this year are with new facilities and/or are long-term.

V. MPR AND SUPPLEMENTAL ENERGY PAYMENTS

The actual price under the PPA is confidential, market sensitive information. However, as stated previously, it does exceed the 2006 MPR adjusted for the year of initial deliveries. Confidential Appendix D presents a detailed analysis of the contract payments in relation to the MPR.

As discussed above, SB 1036 eliminates SEPs as of January 1, 2008 and establishes a PGC-based procurement cap against which above-MPR costs of approved long-term contracts with new or repowered facilities resulting from competitive solicitations may be counted. Because the PPA is a long-term contract with a new facility that resulted from the 2006 RPS solicitation and is priced above the 2006 MPR, the above-MPR portion of the cost of procurement under the PPA is eligible to count against this cap.

VI. PROJECT VIABILITY

The likelihood that the facility subject to the PPA will generate renewable power as described in the PPA is evaluated in Confidential Appendix E, “Project Viability.” Because project-specific information needed to demonstrate viability is commercially sensitive, proprietary business information, only certain viability criteria are discussed in the public portion of this Advice Letter.

A. Financing

There is a reasonable likelihood that the Project will be financed and completed as required by the PPA and will be available to deliver energy by the guaranteed commercial operation date.

B. Sponsor’s Creditworthiness and Experience

Finavera has provided appropriate credit-related information as part of the negotiations with PG&E. PG&E has reviewed this information and is satisfied that Finavera possesses the necessary credit to perform as required by the PPA.

C. Project Status

The PPA includes a guaranteed construction start date and a guaranteed commercial operation date. Finavera's obligation to meet these milestones is supported by a performance security.

VII. CONTINGENCIES AND PROJECT MILESTONES

The PPA identifies the project milestones. Other contingencies and milestones are addressed in Confidential Appendix D.

VIII. TERMS AND CONDITIONS OF DELIVERY

The point of delivery will be within NP-15. Transmission-related issues are addressed in Confidential Appendix D.

IX. REGULATORY PROCESS

A. Requested Effective Date

PG&E requests that the Commission issue a resolution approving the PPA no later than June 12, 2008.

B. Earmarking

PG&E is not proposing to earmark this contract.

C. RPS-Eligibility Certification

The PPA includes the standard representation and warranty that the Project is an eligible renewable energy resource certified by the CEC. The Project has been pre-certified as an RPS-eligible facility by the CEC.

D. Request for Confidential Treatment

In support of this Advice Letter, PG&E has provided the following confidential information, including the PPA and other information that more specifically describe the rights and obligations of the parties. This information is being submitted in the manner directed by the Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with D.06-06-066, issued August 22, 2006, to demonstrate the confidentiality of the material and to invoke the protection of confidential utility information provided by section 583 of the Public Utilities Code under either the terms of the IOU Matrix, Appendix 1 of D.06-06-066, or General Order 66-C. A separate Declaration Seeking Confidential Treatment is being filed concurrently with this Advice Letter.

Confidential Attachments:

Appendix A – Overview of 2004 – 2006 Solicitation Bids

Appendix B – 2006 Bid Evaluations

Appendix C – Independent Evaluator Report

Appendix D – Contract Terms and Conditions Explained

Appendix E – Project Viability

Appendix F – Project's Contribution Toward RPS Goals

Appendix G – Power Purchase Agreement

Appendix H1 – Standard Terms and Conditions Comparison – Modifiables

Appendix H2 – Standard Terms and Conditions Comparison – Non-modifiables

Non-Confidential Attachment:

Appendix I – Independent Evaluator Report, Public Version

E. Compliance with the Greenhouse Gas Emissions Performance Standard

The Commission has adopted an Emissions Performance Standard ("EPS") that limits covered procurement of certain baseload generation with an annualized plant capacity factor of at least 60 percent. Because the annualized plant capacity factor of the Project is designed and intended to be less than 60 percent, the Project is not subject to the EPS. PG&E has provided notice of the Project's exemption from the interim EPS requirements by serving this Advice Letter on the service list in the RPS rulemaking, R.06-05-027.

X. REQUEST FOR COMMISSION APPROVAL

The continued effectiveness of the PPA is conditioned on the occurrence of "CPUC Approval," as that term is defined in the PPA. Time is of the essence in the Commission's consideration and approval of this Advice Letter.

PG&E requests that the Commission issue a resolution no later than June 12, 2008, that:

1. Approves the PPA in its entirety, including payments to be made by PG&E pursuant to the PPA, subject to the Commission's review of PG&E's administration of the PPA.

2. Finds that any procurement pursuant to the PPA is procurement from an eligible renewable energy resource for purposes of determining PG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.) ("RPS"), Decision ("D.") 03-06-071 and D.06-10-050, or other applicable law.

3. Finds that all indirect costs, as provided by Public Utilities Code section 399.15(d), associated with procurement under the PPA shall be recovered in rates.

4. Adopts the following finding of fact and conclusion of law in support of CPUC Approval:

    a. The PPA is consistent with PG&E's approved 2006 RPS procurement plan.

    b. The terms of the PPA, including the price of delivered energy, are reasonable.

5. Adopts the following finding of fact and conclusion of law in support of PPA cost recovery:

    a. The utility's cost of procurement under the PPA shall be recovered through PG&E's Energy Resource Recovery Account.

    b. Any stranded costs that may arise from the PPA are subject to the provisions of D.04-12-048 that authorize recovery of stranded renewables procurement costs over the life of the contract. The implementation of the D.04-12-048 stranded cost recovery mechanism is being addressed in Rulemaking ("R.") 06-02-013.

6. Adopts the following findings with respect to resource compliance with the Emissions Performance Standard ("EPS") adopted in R.06-04-009:

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

7. Finds that the PPA meets the criteria specified by Public Utilities Code section 399.15(d)(2). Accordingly, the above-MPR portion of the cost of procurement under the PPA is eligible to count against the RPS procurement cap defined by Public Utilities Code section 399.15(d)(1).

Protests:

Anyone wishing to protest this filing may do so by sending a letter by January 7, 2008, which is **20** days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

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

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

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Honesto Gatchalian, Energy Division, at the address shown above.

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

Pacific Gas and Electric Company
Attention: Brian Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-Mail: PGETariffs@pge.com

Effective Date:

PG&E requests that this advice filing become effective on **June 12, 2008.** PG&E submits this as a Tier 3 filing.

Notice:

In accordance with General Order 96-B, Section IV, a copy of this Advice Letter excluding the confidential appendices is being sent electronically and via U.S. mail to parties shown on the attached list and the service lists for R.06-02-012, R.06-02-013 and R.06-05-027. Non-market participants who are members of PG&E's Procurement Review Group and have signed appropriate Non-Disclosure Certificates will also receive the Advice Letter and accompanying confidential attachments by overnight mail. Address changes should be directed to Rose De La Torre (415) 973-4716. Advice letter filings can also be accessed electronically at:

http://www.pge.com/tariffs

Brian K. Cherry
Vice President - Regulatory Relations

cc: Service List for R.06-02-012
Service List for R.06-02-013
Service List for R.06-05-027
Paul Douglas - Energy Division

Attachments

Limited Access to Confidential Material:

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

Confidential Attachments:

Appendix A – Overview of 2004 – 2006 Solicitation Bids

Appendix B – 2006 Bid Evaluations

Appendix C – Independent Evaluator Report

Appendix D – Contract Terms and Conditions Explained

Appendix E – Project Viability

Appendix F – Project's Contribution Toward RPS Goals

Appendix G – Power Purchase Agreement

Appendix H1 – Standard Terms and Conditions Comparison – Modifiables

Appendix H2 – Standard Terms and Conditions Comparison – Non-modifiables

Non-Confidential Attachment:

Appendix I – Independent Evaluator Report, Public Version

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

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

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

Utility type:

☑ ELC ☑ GAS

☐ PLC ☐ HEAT ☐ WATER

Contact Person: David Poster

Phone #: (415) 973-1082

E-mail: DXPU@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas

PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **3181-E** **Tier:** [3]

Subject of AL: Contract between Finavera Renewables, Inc. and PG&E for Procurement of Renewable Energy Resources Resulting from PG&E's 2006 Renewables Portfolio Standard Solicitation

Keywords (choose from CPUC listing): RPS

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☑ One-Time ☐ Other ________________

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

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

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

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

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

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: Won Park. (415)-973-4211.

Resolution Required? ☑Yes ☐ No

Requested effective date: **06/12/2008** No. of tariff sheets: N/A

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

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

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

Tariff schedules affected: N/A

Service affected and changes proposed[1]: N/A

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 K. Cherry, Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com

DECLARATION OF WON PARK SEEKING CONFIDENTIAL TREATMENT FOR CERTAIN DATA AND INFORMATION CONTAINED IN ADVICE LETTER 3181-E (PACIFIC GAS AND ELECTRIC COMPANY ID U 39 E)

I, Won Park, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 2006. My current title is Principal, Energy Supply in the Energy Procurement organization. In this position, my responsibilities include negotiating power purchase agreements with counterparties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with numerous counterparties, and have also gained knowledge of the operations of such sellers in general and, based on my experience in dealing with facility and contract owners, I am familiar with types of data and information about their contracts and operations that such parties would consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued August 22, 2006, I make this declaration seeking confidential treatment of "Appendices A, B, C, D, E, F, G, and H to Advice Letter 3181-E," submitted on December 18, 2007. By this Advice Letter, PG&E is seeking this Commission's approval of a PPA that PG&E has executed with Finavera Renewables, Inc.

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 (the "IOU Matrix") of D.06-06-066. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that

allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix that is pertinent to my testimony.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on December 18, 2007, at San Francisco, California.

WON PARK

PACIFIC GAS AND ELECTRIC COMPANY
Advice Letter 3181-E,
December 18, 2007

IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066

	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 (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 3181-E**							
2	Appendix A	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2004, 2005 and 2006 solicitations. This information would provide market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006 and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential 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
3	Appendix B	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2006 solicitation. This information would provide valuable market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006 and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential 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
4	Appendix C	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. Item VII G) Renewable Resource Contracts under RPS Program - Contracts without SEPs. Item VII (un-numbered category following VII G)) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This Appendix contains bid information and bid evaluations from the 2006 solicitation, information regarding the terms of executed PPAs, and analyses and evaluations of proposed RPS projects. This information would provide valuable market sensitive information to competitors and is therefore considered confidential. Furthermore, contracts from the 2005, 2006 and 2007 solicitations are still under negotiation, further substantiating why releasing this information would be damaging to the negotiation process.	For information covered under Item VIII A), remain confidential 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 Item VII G) and Item VII (un-numbered category following VII G)), remain confidential for three years
5	Appendix D	Y	Item VIII B) Specific quantitative analysis involved in scoring and evaluation of participating bids. Item VII G) Renewable Resource Contracts under RPS Program Contracts without SEPs. Item VII (un-numbered category following VII G)) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This Appendix contains bid evaluations from the 2006 solicitation, information regarding the terms of the PPA, and analyses and evaluations of the project. Disclosure of this information would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential. Release of this information would be damaging to negotiations. Furthermore, counterparties have an expectation that the terms of their PPAs will remain confidential under the provisions of PG&E's Commission-approved RPS Solicitation Protocol. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	For information covered under Item VIII B), remain confidential for three years after winning bidders selected For information covered under Item VII G) and Item VII (un-numbered category following VII G)), remain confidential for three years
6	Appendix E	Y	Item VII (un-numbered category following VII G)) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This Appendix contains information concerning and analyses and evaluations of project viability. If made public, this information could harm the counterparty and adversely affect project viability. Furthermore, counterparties have an expectation that this information remains confidential under the provisions of PG&E's Commission-approved RPS Protocol. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on project viability.	Remain confidential for three years
7	Appendix F	Y	Item VII (un-numbered category following VII G)) Score sheets, analyses, evaluations of proposed RPS projects. Item VI B) Utility Bundled Net Open Position for Energy (MWh).	Y	Y	Y	This Appendix contains information that, if disclosed, would provide valuable market sensitive information to competitors and allow them to see PG&E's remaining RPS net open energy position. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years.	Remain confidential for three years

IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066

	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 (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
8	Appendix G	Y	Item VII G) Renewable Resource Contracts under RPS Program - Contracts without SEPs.	Y	Y	Y	This Appendix contains the PPA. Disclosure of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years. Release of this information would be damaging to negotiations. Furthermore, counterparties have an expectation that the terms of their PPAs will remain confidential under the provisions of PG&E's Commission-approved RPS Solicitation Protocol. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	Remain confidential for three years
9	Appendix H	Y	Item VII G) Renewable Resource Contracts under RPS Program - Contracts without SEPs.	Y	Y	Y	This Appendix contains certain terms of the PPA. Disclosure of certain terms of the PPA would provide valuable market sensitive information to competitors. Since negotiations are still in progress with bidders from the 2005, 2006 and 2007 solicitations, this information should remain confidential for three years. Release of this information would be damaging to negotiations. Furthermore, counterparties have an expectation that the terms of their PPAs will remain confidential under the provisions of PG&E's Commission-approved RPS Solicitation Protocol. I am informed and believe that General Order 66-C provides a separate and independent basis for confidential treatment. General Order 66-C includes in its category of records not open to public inspection "Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest." (Paragraph 2.8). It is in the public interest to treat such information as confidential because if such information were made public, it could have a damaging effect on current and future negotiations with other offers.	Remain confidential for three years

Advice 3181-E

Appendix I – Independent Evaluator Report, Public Version

Sedway Consulting, Inc.

INDEPENDENT EVALUATION REPORT FOR PACIFIC GAS & ELECTRIC'S 2006 RENEWABLE RESOURCE SOLICITATION

Third Advice Letter Report

Submitted by:

Alan S. Taylor
Sedway Consulting, Inc.
Boulder, Colorado

December 18, 2007

Introduction and Background

On June 30, 2006, Pacific Gas & Electric Company (PG&E) issued a Solicitation Protocol for renewable energy supplies that could help the utility meet its Renewable Portfolio Standards (RPS) goal of having 20% of its sales supplied by renewable resources by 2010. The Solicitation Protocol sought approximately 700-1,400 GWh/year of renewable energy supplies or approximately 1%-2% of PG&E's expected retail sales volume.

Role of Independent Evaluator and Focus of Report

The California Public Utilities Commission (CPUC) has issued several decisions in the last several years that now require California's investor owned utilities to retain an Independent Evaluator (IE) in RPS solicitations.[1] In July, 2006, in compliance with these CPUC decisions, PG&E retained Sedway Consulting, Inc. (Sedway Consulting) as an IE to monitor PG&E's 2006 RPS solicitation, provide an independent evaluation of PG&E's process and the offers it may receive, and help the CPUC and PG&E's Procurement Review Group (PRG) participants by providing them with information and assessments to ensure that the solicitation was conducted fairly and that the best resources were acquired. Sedway Consulting issued its Independent Evaluation Shortlisting Report on December 21, 2006, providing an assessment of PG&E's RPS solicitation from the initial phase of the solicitation (i.e., the publicizing of the issuance of the Solicitation Protocol) through the development of a short list of offers/bidders with whom PG&E had commenced negotiations. Specifically, that report addressed Sedway Consulting's activities and conclusions regarding the following four areas/questions:

- **2006 RPS Solicitation Protocol issuance and outreach activities**
  Did PG&E do adequate outreach to potential bidders, and did its outreach activities result in an adequately robust solicitation to promote competition?

- **Evaluation process design**
  Was PG&E's methodology for RPS offer evaluation and selection designed fairly?

- **Evaluation process administration**
  Was PG&E's RPS offer evaluation and shortlist selection process fairly administered?

- **Selection and rejection decisions in shortlisting of proposals**
  Did PG&E make reasonable and consistent choices regarding which offers were rejected and which were shortlisted?

[1] D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8).

On June 25, 2007, Sedway Consulting's IE shortlisting report was amended and reissued as the First Advice Letter IE Report to describe all solicitation, evaluation, and negotiation activities and conclusions from the start of the 2006 RPS solicitation through PG&E's June, 2007 filing of three executed power purchase agreements (PPAs) for CPUC approval. On August 2, 2007, Sedway Consulting's First Advice Letter IE Report was amended and reissued as the Second Advice Letter IE Report to describe additional solicitation, evaluation, and negotiation activities and conclusions associated with one additional executed PPA that PG&E submitted for CPUC approval in August, 2007. This report (labeled as the Third Advice Letter IE Report) represents a further amendment of the Second Advice Letter IE Report. Note that Sedway Consulting has decided to reissue a complete report for each tranche of 2006 RPS contracts as they are filed. Thus, the initial shortlisting report's and First and Second Advice Letter IE Reports' discussions and conclusions have been retained in this Third Advice Letter IE Report, and this report has been supplemented with appropriate discussions surrounding the Finavera PPA that has been filed with PG&E's third advice letter. The additional information in this report will address the following two areas/questions:

- **Negotiation process administration**

  Were project-specific negotiations fair?

- **Submitted contract review**

  Is there any reason that the submitted contracts should not receive CPUC approval?

Overview of Independent Evaluator Activities

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel PG&E's process with its own evaluation of the offers, as documented in this Third Advice Letter IE Report. Sedway Consulting reviewed PG&E's Solicitation Protocol, outreach efforts, evaluation protocols, modeling methodologies, communications with bidders, and evaluation results. Members of the IE team attended PG&E's pre-bid conference, participated in the opening of offers (and retained Sedway Consulting's own copies of each offer for its own evaluation), participated in PG&E's Steering Committee meetings in which offer disqualification and shortlisting decisions were made, and attended all PRG meetings in which the RPS offers and evaluation results were discussed. Subsequent to the shortlisting of offers, Sedway Consulting monitored PG&E's communications with bidders – receiving copies of the back-and-forth email traffic, reviewing redlines of draft contracts, and listening in on many of the negotiation meetings and calls. Sedway Consulting continued to participate in PG&E's Steering Committee meetings where negotiation summaries were provided to management and decisions were made regarding proposal prioritization, negotiation positions, and procedural treatment of counterparties.

Overview of Conclusions

Sedway Consulting concluded that PG&E conducted a fair and effective evaluation of the offers that it received in response to its 2006 RPS RFO and made the correct selection decisions in its short list. All qualified offers were evaluated consistently, appropriately, and without bias. Sedway Consulting believes that PG&E has conducted negotiations fairly will all shortlisted bidders, treating all counterparties in a reasonably consistent fashion while recognizing and responding to understandable differences in individual bidders' circumstances. PG&E imposed appropriate controls and deadlines to ensure that those bidders who were motivated to execute contracts associated with strong well-developed proposals received the most attention. Those bidders who failed to meet deadlines, exhibit motivation, or provide necessary information to shore up less well-developed proposals were relegated to a lower priority negotiation status or dropped from the short list. Sedway Consulting concludes that PG&E made the appropriate selection and rejection decisions in developing its 2006 RPS short list, has negotiated fairly and in good faith with the shortlisted bidders, and has appropriately executed five 2006 RPS contracts (four associated with the utility's first two advice letters and the Finavera PPA with the third advice letter). In reviewing those five finalized contracts, Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of any of these PPAs/Agreements.

This Third Advice Letter IE Report has a confidential appendix that includes a description of each offer, an overview of the evaluation results, and confidential assessments of specific areas of the evaluation and negotiation processes. This material is being afforded confidential treatment for several reasons. First, it is important to protect participants from having their project pricing and operational information provided to their competitors. Second, PG&E's customers could be harmed if too much information was made publicly available, allowing some participants to focus on manipulating the negotiation process and/or gaming future solicitations rather than delivering the best renewable projects at the lowest possible prices. Third, negotiations are still underway with several 2006 RPS bidders. It is PG&E's hope that those negotiations can be concluded soon so that additional executed 2006 RPS PPAs can be submitted with subsequent advice letter filings in the near future.

PG&E's Outreach Activities

Sedway Consulting believes that PG&E pursued reasonable and adequate procedures for notifying potential interested parties. Specifically, PG&E dedicated a section of its company website to the solicitation, providing a means for interested parties to download the Solicitation Protocol and related materials, ask questions, and read posted responses. On June 29, 2006, PG&E issued a press release to publicize the imminent issuance of its Solicitation Protocol. Also, it notified approximately 700 contacts (compiled from previous power supply solicitations, regulatory service lists, etc.) of the solicitation issuance and invited them to participate.

Several weeks later, on July 20, 2006, PG&E held a pre-bid conference in its corporate auditorium. The conference provided interested parties an opportunity to learn more about the solicitation, hear presentations, and ask questions. Sedway Consulting attended the pre-bid conference.

In addition to PG&E's efforts, it is likely that California's RPS program is already well known in the renewable project development community. California's investor-owned utilities are in a well-publicized annual cycle of soliciting renewable projects; this serves to keep renewable resource developers continually interested and focused on opportunities for providing projects to meet California's needs. PG&E's solicitation website (http://www.pge.com/rfo) is a year-round site where interested parties may register at any time to receive notifications about PG&E's RPS and other solicitations.

Sedway Consulting concludes that PG&E did an adequate job of publicizing the 2006 RPS solicitation, as ultimately evidenced by the robust response that it received from the renewable development community.[2]

Design of PG&E's Evaluation and Selection Process

Prior to the opening of offers, Sedway Consulting reviewed drafts of PG&E's evaluation protocols and conducted interviews to ensure that it understood how PG&E's evaluation process would be performed. Sedway Consulting requested PG&E to provide as much information as possible prior to the receipt of offers. This, in essence, allowed Sedway Consulting to lock down and archive the evaluation's basic evaluation parameters. Such information included the evaluation protocols, inflation assumptions, cost of capital components, discount rate, transmission revenue requirement assumptions, call option results (for the evaluation of dispatchable resources), hourly market forward prices for four regions where projects were likely to be proposed, and locational marginal pricing multipliers for each time-of-delivery period for over two dozen subzones within the four larger regions. The last two sets of information formed the basis of the valuation modeling for non-dispatchable renewable resources (as available, baseload, or peaking) and were therefore particularly pertinent to the majority of offers that PG&E expected to (and ultimately did) receive.

Description of Evaluation Process

The initial stage of PG&E's process would entail screening all proposals for compliance with the Solicitation Protocol and general responsiveness to the RPS requirements. All proposals that passed the screening stage would be evaluated through one of two processes depending on whether the proposed resource was dispatchable or not.

[2] The number of proposals submitted and RPS energy proposed by technology will be made publicly available once the negotiations are concluded and final contracts have been submitted for CPUC approval, per section VIII(A) of the CPUC's Confidentiality Matrix in R.05-06-040.

Dispatchable resources were to be evaluated through a call option model. Non-dispatchable projects were evaluated relative to electricity market forward price curves. In either case, PG&E's evaluation process entailed a determination of each resource's $/MWh net market value. The net market value represented a levelized $/MWh value that was determined by subtracting a project's proposed energy payments and other costs (e.g., debt equivalence) from the expected market-related benefits (i.e., the energy and capacity revenues that might be received if the project's energy was sold into the market).

Prior to the opening of offers, Sedway Consulting incorporated all of the PG&E's locked-down evaluation information into its own proprietary Non-Dispatchable Response Surface Model (ND-RSM) and evaluated test cases through both the ND-RSM and PG&E's evaluation model. This allowed Sedway Consulting to study all of the components of PG&E's calculations and verify that all such components were being calculated correctly.

Two other quantifiable aspects (portfolio fit and a $/MWh transmission adder) were to be calculated for each offer. The portfolio fit metric was a dimensionless value that was generated by a complex analysis of a project's expected generation profile and its potential correlation with PG&E's hourly net open positions. The transmission adder was determined by assessing the likely costs of system-level transmission upgrades (or alternative commercial arrangements, whichever was less) that might be required to maintain a reliable transmission system with the incorporation of the new renewable project. The costs of these upgrades were developed from PG&E's (or surrounding utilities') publicly-filed Transmission Ranking Cost Report (TRCR) and were divided by the project's generation in the same fashion as to yield a levelized $/MWh value that could be subtracted directly from the net market value.[3]

The evaluation process was also designed to assess the strength or weakness of offers in four specific non-quantifiable categories:

- Credit and finance
- Project status
- Technology viability and participant experience
- Consistency with RPS goals.

In each of the non-quantifiable categories, all qualifying offers would be consistently reviewed by a specific team and scored on a scale of 1 to 5 (where 1 was poor and 5 reflected strength). The credit and finance category focused on a bidder's financial strength and its willingness/ability to post the required collateral by PG&E's power purchase agreement (PPA). The project status area involved an assessment of the bidder's current and proposed plans regarding site status, permitting, equipment procurement, transmission studies, and design/construction. The third category focused on the bidder's experience in developing similar renewable projects, degree of verifiable

[3] It was termed an "adder" in the sense that it was additive to an offer's costs; as an additional cost, it gets subtracted from an offer's pre-transmission market value to yield a final market value.

available renewable resource, and the maturity of the proposed technology. The final scoring area addressed the degree to which an offer advanced the goals of the RPS program (e.g., price stability, resource diversity, supplier diversity, environmental quality, impact on water supplies, socio-economic impacts, etc.).

With respect to all of the above quantitative metrics and qualitative scores, a higher value was better than a lower value – except for the transmission adder (where a lower value was better).

Description of Selection Process

PG&E designed its selection process around a partial ordering concept that incorporated the quantitative and qualitative factors in developing a ranking. This partial ordering process is described in PG&E's Least Cost Best Fit (LCBF) filing.[4] To summarize, this partial ordering process allowed PG&E to segregate all offers into a superior group (i.e., those whose metrics and scores were at least equal to other bids' values and better in at least one category), an inferior group (i.e., those whose metrics and scores were at best equal to other bids' values and worse in at least one category), and an indeterminate group where the metrics and scores were a mixture of better and worse values. PG&E indicated that it would use the partial ordering process to develop a ranking and select a sufficient number of offers for shortlisting that would allow it to meet its procurement target while recognizing a number of factors that might cause projects to drop off the short list. Such factors could include:

- a shortlisted bidder's failure to post the required bid deposit,
- the subsequent determination by PG&E (after additional due diligence) that a project would not be viable or would face insurmountable transmission complications,
- an inability to reach mutually-agreeable terms and conditions with PG&E for a PPA, and/or
- a failure of a bidder to reduce an offer price in the context of more competitively-priced offers.

Thus, the selection of offers would need to be sufficiently deep to allow for unforeseen project risks, future due diligence, and adequate counterparty diversity.

Assessment of Fairness of Evaluation Process Design

Sedway Consulting concluded that PG&E's evaluation design was rigorous and fair. It was consistent with evaluation approaches that Sedway Consulting has seen applied in

[4] Report on Evaluation Criteria and Selection: 2006 Renewable Portfolio Standard Request for Offers (2006 RPS RFO), filed September 29, 2006 in response to CPUC Rulemaking 06-05-027.

other utilities' solicitations. In evaluating the fairness of PG&E's process, Sedway Consulting employed the following principles:

1. Did the design inappropriately favor one technology over another?

2. Was the design inappropriately biased in favor of one type of bidder versus another?

3. Were the selection criteria flexible enough or structured in a way to facilitate PG&E acquiring enough renewable energy to meet its 20% RPS goal?

4. Were all components of a project's quantified metric calculated consistently so as to avoid introducing discontinuities that might distort the results and lead to incorrect project selection?

Sedway Consulting concluded that PG&E's evaluation process was designed to treat all technologies and types of bidders fairly, employing a consistent methodology that did not favor or disadvantage any technology or bidder – while obviously recognizing justifiable offer-specific differences (e.g., project location). In thinking about the strengths and weaknesses of PG&E's methodology, Sedway Consulting concluded that the process was quite rigorous but may be improved or simplified in some respects.

First, it is worth noting that it was PG&E's original intent (i.e., prior to the offers being opened) to use a market valuation adjustment calculation that would recognize the lower market value of nonfirm or uncertain generation patterns from intermittent resources relative to the value of firm deliveries from renewable resources that can provide scheduled baseload or peaking energy. Sedway Consulting concurred with this intent; however, Sedway Consulting's tests of PG&E's proposed methodology yielded some unexplainable results that indicated that the modeling theory or implementation needed further work. Thus, Sedway Consulting recommended that PG&E defer the implementation of this methodology to the 2007 RPS solicitation or such time as it could be fully explained, tested, and verified. PG&E agreed and removed this part of its modeling methodology from its 2006 RPS evaluation. It intends to continue refining this modeling methodology and may reintroduce an improved process in its 2007 RPS evaluation.

A second recommendation is that PG&E may want to consider eliminating its portfolio fit metric. Sedway Consulting reviewed the evaluation protocol document that described the portfolio fit calculation and duplicated the appropriate mathematics. However, the process seemed to be overly complicated, is difficult to explain, did not yield intuitive results, and ultimately provided values that did not significantly influence the selection process. In short, the portfolio fit calculation seems to entail a great deal of computational effort without much payback. To a large extent, for non-dispatchable renewable projects, the "best fit" part of the least-cost best fit (LCBF) concept is quantified in the time-differentiated analysis of PG&E's hourly forward prices and its net market value calculation. It is not clear what another metric contributes. "Best fit" is also captured in the transmission adder analysis and the consideration of where renewable resources may be located relative to existing available transmission capacity and/or new contemplated transmission lines or reinforcements. Sedway Consulting believes that PG&E's process adequately addresses the "best fit" concept without the addition of the portfolio fit metric – and may even be strengthened if the evaluation team's energies were refocused from performing less-important analytical work toward higher-value efforts.

Receipt and Evaluation of Offers

On September 8, 2006, PG&E received a significant number of offers in its RPS solicitation. One project was ultimately disqualified because its reliance on natural gas was too great a portion of its expected output to be considered for selection as an RPS resource. The details of this disqualification are provided in the Confidential Appendix A to this report. However, Sedway Consulting recommends that PG&E adopt a policy, either internally or in coordination with the CPUC and/or the California Energy Commission (CEC), to guide whether or to what extent gas/renewable hybrid projects will be considered in future RPS solicitations.

The results of PG&E's evaluation of the qualified bids were initially presented to PG&E's Steering Committee on October 19, 2006, revised and refined through email discussions, and presented to PG&E's PRG participants on October 26, 2006. The PRG participants provided valuable advice and recommendations during the process, as described further in the Confidential Appendix A. The short list was finalized and all bidders were notified of their status (shortlisted or rejected) during the first week of November.

Description of Sedway Consulting's Parallel Evaluation Process

Sedway Consulting conducted a parallel evaluation of the RPS offers, using its proprietary ND-RSM. The ND-RSM is a power supply evaluation tool that uses the following information for each offer:

- Capacity
- Commencement and expiration dates for power deliveries
- Energy pricing
- Expected Hourly Generation Profile.

The ND-RSM is a spreadsheet-based tool that was calibrated with PG&E's market price and locational information at the start of the project (prior to the opening of offers) so that Sedway Consulting could perform its own evaluation of all offers. The ND-RSM calculated each offer's monthly energy payments, debt equivalence costs, capacity value, and market revenues, and subtracted the first two from the latter two to yield a net revenue value. The ND-RSM developed a ranking of all offers based on the net levelized market value of each option, expressed in $/MWh. This metric was calculated by taking the present value of the stream of net revenues and dividing it by the present value of the MWhs of expected generation associated with an offer. The results of the ND-RSM analysis are provided in the Confidential Appendix A to this report.

Sedway Consulting reviewed PG&E's transmission assessment for each of the offers, calculated the portfolio fit metric, and conducted a review of the offers across the four qualitative categories discussed above (i.e., credit and finance, project status, technology viability and participant experience, and consistency with RPS goals). Several members of Sedway Consulting's team reviewed the evaluation protocols for these qualitative areas and performed a cursory analysis of many of the offers in each of these qualitative areas. However, Sedway Consulting did not attempt to replicate the level of effort or detail that PG&E employed in deriving each offer's score in each category. In fact, Sedway Consulting's efforts focused predominantly on those offers that were in the middle of the economic ranking, where non-price factors could have the greatest influence in determining which marginal offers should be included or excluded from the short list. Ultimately, though, Sedway Consulting scrutinized all qualitative scores that played a role in eliminating any offers from further consideration.

Although Sedway Consulting confirmed that PG&E appropriately and fairly administered the evaluation process that it had designed, the IE team took a more simplified approach in developing short list recommendations and testing the outcome of PG&E's process. Sedway Consulting ranked the offers based on their economic value (net market value minus transmission adder) and began selecting from the top-ranked offers on down the list, subject to project viability or counterparty concentration concerns and potential technology diversity benefits. Thus, if an offer had significant risks and/or was proposed by a counterparty who had one or more higher-ranked projects that had already been selected, it may warrant jumping over the offer and not selecting it for the short list. Conversely, a small, new technology project might be considered for the short list to promote new development even if the offer's initial economics placed it in a low-ranked position, provided that the project size was small enough to render its total economic impact relatively insignificant. A sufficient number of offers were selected for the short list to cover PG&E's 1%-2% need and allow for the loss of some projects for reasons identified above in the process design discussion (e.g., ultimate non-viability, transmission complications, failure to post the bid deposit, etc.).

Short List Development

Given the significant uncertainties surrounding many of the offers, PG&E chose to employ a strategy of inclusiveness in developing its short list. As the negotiations proceed, which shortlisted bidders end up with final executed contracts will depend on PG&E's further due diligence, additional information from the bidders, and the willingness of bidders to refine and lower their pricing. Sedway Consulting concurred with this strategy, recognizing that it may result in commencing negotiations with certain developers whose initially-proposed prices are rather high. However, it is difficult to conduct sufficient due diligence on a project without having face-to-face discussions with the developer. This strategy will help ensure that higher-priced viable projects are not rejected at the shortlisting stage in favor of lower-priced less certain projects. At the same time, it will maintain substantial competitive pressure on all shortlisted bidders. Those who cannot demonstrate development strength, reach reasonable terms and conditions with PG&E, and reduce their prices to get into a competitive range will be relegated to a lower priority in the negotiation process and are less likely to be chosen for ultimate contract execution.

In addition, it may be the case that new transmission facilities or reinforcements will be needed to enable delivery of a project's power supplies. A longer short list erred on the side of allowing sufficient time for transmission studies to be performed and to assess how the timing of transmission reinforcements may affect each project's commercial operation date. The principal focus of the transmission analysis that yielded the short list was on ascertaining likely transmission costs that might be attributable to each offer. In the negotiation stage, PG&E will need to supplement the transmission cost estimates with an appraisal of the likely scheduled completion of transmission projects to ensure that there is an alignment of commercial operation dates between generating resources and transmission upgrades.

Sedway Consulting concurred with PG&E's selection and rejection decisions. Those offers that were not included on the short list were rejected for good reasons (e.g., very low market value/high prices, low viability, insufficient focus on RPS goals, etc.), as described further in Confidential Appendix A.

Sedway Consulting concluded that PG&E administered its evaluation and selection process fairly. In its assessment, Sedway Consulting employed the same general principles as were described in the design fairness discussion; in addition, the fact that Sedway Consulting performed a fully separate, independent evaluation allowed it to develop its own ranking and confirm that PG&E was fairly and appropriately evaluating all offers and selecting the best offers for the short list.

Negotiation Process and Contract Execution

Sedway Consulting monitored PG&E's negotiation process by listening in on many of the negotiation meetings and calls between PG&E and the shortlisted bidders, reviewing redlined contracts passed back-and-forth between PG&E and each counterparty, and reviewing all email traffic between the utility and each counterparty. Sedway Consulting also continued to participate in PG&E's Steering Committee meetings and other update meetings where negotiation summaries were provided to management and decisions were made regarding proposal prioritization, negotiation positions, and procedural treatment of counterparties. Sedway Consulting believes that PG&E has conducted a fair negotiation process. This assessment is based on an application of many of the principles described earlier in this report – namely, that no bidder or technology was inappropriately favored by PG&E in its negotiation process and all bidders were provided consistent information. In addition, PG&E applied consistent "pressure" on all bidders to meet appropriate deadlines, post bid deposits, and conform as closely as possible to PG&E's pro forma contract positions. Details of the negotiation process are addressed in the Confidential Appendix to this report.

To date, PG&E's negotiation process in its 2006 RPS solicitation has successfully yielded five executed contracts that have been submitted for CPUC approval:

1. **Western GeoPower, Inc.** – a 20-year PPA with deliveries of baseload geothermal energy expected to commence in early 2010 from a 25.5 MW facility near Cloverdale, California in the Geysers Geothermal Area of PG&E's service territory. Annual deliveries are expected to be approximately 212 GWh.

2. **Green Volts, Inc. –** a 20-year PPA with deliveries of solar energy expected to commence in late 2008 from a high concentration photovoltaic (PV) facility near Byron, California in PG&E's service territory with phased development up to 2 MW. Annual deliveries are expected to be approximately 5 GWh.

3. **CalRENEW-1, LLC** – a 20-year PPA with deliveries of solar energy expected to commence in early 2009 from a 5 MW high concentration PV facility near Fresno, California in PG&E's service territory. Annual deliveries are expected to be approximately 9 GWh.

4. **Klondike Wind Power III LLC** – a "package" of two contracts involving a 15-year PPA with deliveries of energy expected to commence in late 2007 from a new 85 MW wind facility near Wasco (Sherman County), Oregon. Annual deliveries are expected to be approximately 265 GWh.

5. **Finavera Renewables, Inc. –** a 15-year PPA with deliveries of ocean wave energy expected to commence in late 2012 from a set of wave energy converters that will be located in the Pacific Ocean approximately 2.5 miles west of PG&E's Fairhaven substation on the Samoa Peninsula near Eureka, California. Annual deliveries are expected to be approximately 4 GWh.

Sedway Consulting does not believe that there are any material issues or deficiencies that would warrant the CPUC's rejection of any of these PPAs. Specific assessments of the PPAs and associated projects are included in the Confidential Appendix to this report.

Conclusion

Sedway Consulting believes that PG&E conducted a fair and effective evaluation of the RPS offers that it received in response to its June 30, 2006 Solicitation Protocol. The offer that was disqualified was set aside for appropriate reasons, and the remaining set of qualified offers were evaluated consistently, appropriately, and without bias.

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel PG&E's process with its own evaluation of the offers. Sedway

Consulting reviewed PG&E's evaluation and modeling methodologies and results and did not find any bias for or against any offers in PG&E's evaluation processes or selection decisions. However, Sedway Consulting recommends that PG&E give some consideration to 1) eliminating its portfolio fit metric, and 2) establishing a disqualification policy regarding natural gas/renewable hybrid projects.

Sedway Consulting monitored the back-and-forth email traffic between PG&E and the RPS bidders and believes that PG&E treated all bidders consistently and fairly. Sedway Consulting concludes that PG&E made the appropriate selection and rejection decisions in developing its 2006 RPS short list.

Sedway Consulting monitored PG&E's negotiation process and concluded that all shortlisted bidders were treated fairly and consistently. An appropriate degree of leniency was shown by PG&E in encouraging all shortlisted bidders to advance the negotiation process toward executed PPAs. However, some bidders exhibited insufficient interest or commitment toward that goal or encountered project-specific complications that resulted in their removal from the short list. Sedway Consulting concurred with PG&E's prioritization of the negotiation activities and the utility's decisions surrounding the termination of negotiations with those counterparties who failed to meet the necessary deadlines, show sufficient commitment, or provide essential information.

The five PPAs that PG&E has submitted for CPUC approval with its three advice letters (Western GeoPower, Green Volts, CalRENEW-1, Klondike III, and Finavera) were negotiated fairly and appropriately. Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of any of these PPAs.

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

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Kahl
Ancillary Services Coalition
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Bartle Wells Associates
Blue Ridge Gas
Bohannon Development Co
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
Chevron USA Production Co.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Commerce Energy
Constellation New Energy
CPUC
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright, Tremaine LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton
Heeg, Peggy A.
Hitachi Global Storage Technologies
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
IUCG/Sunshine Design LLC
J. R. Wood, Inc
JTM, Inc
Luce, Forward, Hamilton & Scripps
Manatt, Phelps & Phillips
Marcus, David
Matthew V. Brady & Associates
Maynor, Donald H.
MBMC, Inc.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
North Coast Solar Resources
Northern California Power Agency
Office of Energy Assessments
OnGrid Solar
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Praxair, Inc.
Price, Roy
Product Development Dept
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tecogen, Inc
TFS Energy
Transcanada
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Resource Network
Wellhead Electric Company
White & Case
WMA