

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 19, 2008

Advice Letter 3292-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 for Procurement of Renewable Energy Resources
Resulting from PG&E's 2006 Renewables Portfolio Standard
Solicitation**

Dear Mr. Cherry:

Advice Letter 3292-E is effective November 21, 2008 per Resolution E-4204.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Lewis".

Kenneth Lewis, Acting Director
Energy Division



Brian K. Cherry
Vice President
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

Fax: 415.973.7226

August 8, 2008

Advice 3292-E-A

(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

**Subject: Supplemental Filing for Contract for Procurement of Renewable
Energy Resources Resulting from PG&E's 2006 Renewables
Portfolio Standard Solicitation**

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) a supplemental filing for Advice 3292-E, dated July 1, 2008. The purpose of this supplement is to file the Confidential and Public versions of the Independent Evaluator Report in compliance with the Commission's "2007 RPS Solicitation CPUC Contract Approval Request Template."¹

The Advice Letter is supported by information, which, except for the "Independent Evaluator Report, Public Version," is confidential under either the terms of the IOU Matrix, Attachment 1, of D.06-06-066 and Appendix C of D.08-04-023 or General Order 66-C. PG&E submits the confidential information in the manner directed by D.08-04-023 and the Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 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. A separate Declaration Seeking Confidential Treatment is being filed concurrently with this supplement.

Confidential Attachment:

Appendix C – Independent Evaluator Report, Confidential Version

Non-Confidential Attachment:

Appendix I – Independent Evaluator Report, Public Version

¹ The "2007 RPS Solicitation CPUC Contract Approval Request Template" was distributed by the Commission on April 2, 2007.

Protests:

PG&E asks that the protest and comment period not be reopened since this supplement is simply providing the Confidential and Public versions of the Independent Evaluator Report in compliance with the "2007 RPS Solicitation CPUC Contract Approval Request Template."

Effective Date:

PG&E requests that the Commission issue a resolution approving this advice filing no later than **November 6, 2008**.

Notice:

In accordance with General Order 96-B, Section IV, a copy of this advice letter excluding the confidential appendix 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 attachment 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.06-05-027
Service List for R.06-02-013
Service List for R.06-02-012
Paul Douglas - Energy Division

Limited Access to Confidential Material:

The portions of this advice letter so 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 bid information, bid evaluations, and analysis of the proposed RPS contract, which are protected pursuant to D.06-06-066 and D.08-04-023. A separate Declaration Seeking Confidential Treatment regarding the confidential information is filed concurrently herewith.

Attachments:

Confidential Appendix C – Independent Evaluator Report

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) #: **3292-E-A**

Tier: **[3]**

Subject of AL: Supplemental Filing for Contract 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: Charlie Post, (415)-973-9286.

Resolution Required? Yes No

Requested effective date: **11/06/2008**

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: 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

jn@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

PACIFIC GAS AND ELECTRIC COMPANY
 Advice Letter 3292-E-A
 August 8, 2008

IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISIONS 08-04-023 and 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 3292-E-A							
1	Appendix C	Y	Item VIII A) Bid information and B) Specific quantitative analysis involved in scoring and evaluation of participating bids. Items VII G), and VII (un-numbered category following VII G) Score sheets, analyses, evaluations of proposed RPS projects.	Y	Y	Y	This information presents bid information and bid evaluations from the 2006 solicitation. This information would provide market sensitive information to competitors and is therefore considered confidential for three years after winning bidders are selected. Furthermore, contracts from the 2006 solicitation are still under negotiation further substantiating why releasing this information would be damaging to the negotiation process.	Remain confidential for three years after winning bidders selected

**DECLARATION OF CHARLES H. POST
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION
CONTAINED IN ADVICE LETTER 3292-E
(PACIFIC GAS AND ELECTRIC COMPANY - U 39 E)**

I, Charles H. Post, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee for more than 8 years. My current title is Senior Electric Resource Analyst within PG&E's Energy Procurement Department. In this position, my responsibilities include negotiating PG&E's Renewables Portfolio Standard Program ("RPS") Power Purchase Agreements. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with numerous counterparties. I 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 the types of data and information about their contracts and operations that such owners would 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 C to Advice Letter 3292-E-A, submitted on August 8, 2008. By this Advice Letter, PG&E is supplementing previously filed Advice Letter 3292-E seeking this Commission's approval of a PPA that PG&E has executed with Arlington Wind Power Project LLC.

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 Public Utilities Code § 583 and General Order 66-C. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix that is pertinent to this filing.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on August 8, 2008 at San Francisco, California.



Charles H. Post

Sedway Consulting, Inc.

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

Fourth Advice Letter Report

Submitted by:

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

August 7, 2008

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?

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).

- **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?

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 an additional executed PPA that PG&E submitted for CPUC approval in August, 2007. Similarly, on December 18, 2007, Sedway Consulting's Second Advice Letter IE Report was amended and reissued as the Third Advice Letter IE Report to describe additional solicitation, evaluation, and negotiation activities and conclusions associated with an additional executed PPA that PG&E submitted for CPUC approval in December, 2007. This report (labeled as the Fourth Advice Letter IE Report) represents a further amendment of the Third 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 the First, Second, and Third Advice Letter IE Reports' discussions and conclusions have been retained in this Fourth Advice Letter IE Report, and this report has been supplemented with appropriate discussions surrounding the Arlington Wind PPA that has been filed with PG&E's fourth 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 Fourth 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 with 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 six 2006 RPS contracts (five associated with the utility's first three advice letters and the Arlington Wind PPA with the fourth advice letter). In reviewing those six 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 Fourth 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 underway with other bidders from later RPS solicitations; confidential information associated with PG&E's 2006 RPS process and executed contracts could inappropriately affect those negotiations if made public.

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 (34 projects providing over 3,300 MW of capacity) that it received from the renewable development community.

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. 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.²

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

² 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.

- 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 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.³ 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

³ 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.

- 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 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. Table 1 depicts the number of projects and the capacities of these projects by resource type; some projects had more than one offer associated with them.

<p style="text-align: center;">Table 1 Summary of Projects Submitted in PG&E’s 2006 RPS Solicitation</p>		
Resource Type	Number of projects	Aggregated Capacity (MW)
Wind	7	775
Solar Thermal	3	429
Solar PV	5	138
Biomass	7	348
Biogas	2	34
Biodiesel	3	183
Geothermal	3	112
Hydro	1	15
Wave	1	5
Other	2	1,300
TOTAL	34	3,339

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 proceeded, which shortlisted bidders ended up with final executed contracts depended 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 have resulted in commencing negotiations with certain developers whose initially-proposed prices were 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 helped ensure that higher-priced viable projects were not rejected at the shortlisting stage in favor of lower-priced less certain projects. At the same time, it maintained substantial competitive pressure on all shortlisted bidders. Those who could not demonstrate development strength, reach reasonable terms and conditions with PG&E, and reduce their prices to get into a competitive range were relegated to a lower priority in the negotiation process and were less likely to be chosen for ultimate contract execution.

In addition, it may be the case that new transmission facilities or reinforcements would 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 supplemented the transmission cost estimates with an appraisal of the likely scheduled completion of transmission projects to ensure that there was 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.

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

1. **Western GeoPower, Inc.**⁴ – a 20-year PPA with deliveries of baseload geothermal energy that was 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 were 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.
6. **Arlington Wind Power Project LLC** – a 15-year PPA with deliveries of wind energy (delivered to COB via a Shaping Party) expected to commence in late 2008 from a new wind facility in Gilliam County, Oregon. Annual deliveries are expected to be approximately 240 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.

⁴ The Western GeoPower, Inc. PPA was terminated by the developer after the CPUC approved the contract by exercising a no-fault termination clause in the PPA.

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 six PPAs that PG&E has submitted for CPUC approval with its four advice letters (Western GeoPower, Green Volts, CalRENEW-1, Klondike III, Finavera, and Horizon-Arlington) 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**

Aglet	Department of the Army	Northern California Power Association
Agnews Developmental Center	Dept of General Services	Occidental Energy Marketing, Inc.
Alcantar & Kahl	Division of Business Advisory Services	OnGrid Solar
Ancillary Services Coalition	Douglas & Liddell	PITCO
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California League of Food Processors	Hanna & Morton	Sequoia Union HS Dist
California Public Utilities Commission	Heeg, Peggy A.	Sierra Pacific Power Company
California Water Company	Hitachi	Silicon Valley Power
Calpine	Hogan Manufacturing, Inc.	Smurfit Stone Container Corp
Cameron McKenna	Imperial Irrigation District	Southern California Edison Company
Cardinal Cogen	Innercite	St. Paul Assoc.
Casner, Steve	International Power Technology	Sunshine Design
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City of San Jose	MRW & Associates	U S Borax, Inc.
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Coast Economic Consulting	Matthew V. Brady & Associates	Utility Cost Management
Commerce Energy	McKenzie & Associates	Utility Resource Network
Commercial Energy	Meek, Daniel W.	Utility Specialists
Constellation	Merced Irrigation District	Vandenberg Air Force
Constellation New Energy	Mirant	Verizon
Consumer Federation of California	Modesto Irrigation District	Wellhead Electric Company
Crossborder Energy	Morgan Stanley	Western Manufactured Housing Communities Association (WMA)
Davis Wright Tremaine LLP	Morrison & Foerster	White & Case
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