Pacific Gas and Electric Company®

All Source Long-Term Request for Offers

April 1, 2008

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I. Introduction and Overview:

A. Overview

Pacific Gas and Electric Company ("PG&E") is issuing this All Source Long-Term Request For Offers ("RFO") to obtain new dispatchable, operationally flexible resources through a solicitation of interest from project owners/developers. PG&E will consider the following resources in this RFO:

- New Renewable Generation
- New Distributed Generation
- Existing or New Qualifying Facilities ("QFs")
- Repowering an existing facility
- New Conventional Generation technologies and all fuel types, including technologies capable of running on multiple fuels.

For new renewable, new distributed generation, existing or new QFs, repowered facilities and/or new conventional generation facilities, Participants may submit offers for a Power Purchase Agreement ("PPA") with PG&E.

In addition or as an alternative to PPA options, Participants may also propose Facility Ownership agreements. For Facility Ownership, the sale would be conducted pursuant to a Purchase and Sale Agreement and related documentation ("PSA") under which a Participant would develop and cause to be constructed a fully permitted, operational facility, which would then be sold to PG&E at project completion. If a Participant submits an offer for both PPA and Facility Ownership for the same generation facility, PG&E would execute only one agreement.

A PPA or Facility Ownership agreement (whether through a PSA or alternative structure agreement), with related documentation, is alternatively or collectively referred to as a "Contract" or "Agreement" in this document.

Pursuant to California Public Utilities Commission ("CPUC") Decision ("D.") 07-12-052, PG&E seeks to acquire between 800 – 1,200 megawatts ("MW") of new resources, with a preference for dispatchable and operationally flexible resources with on-line dates no later than May 2015. Preference will be given to resources that can come on-line earlier rather than later.

B. Expected Schedule

I. Schedule Overview

The RFO schedule is subject to change at PG&E's sole discretion at any time. The RFO schedule may be affected by, among other things, discussions with selected shortlisted Participants, and proceedings before the CPUC, including, but not limited to, proceedings to obtain Regulatory Approval. PG&E will endeavor to notify Participants of any schedule change, but will have no liability or responsibility to any Participant for change in the schedule or for failing to provide notice of any change.

The expected schedule for this RFO process is:

- Ongoing: Participants are invited to register on-line to receive notices regarding the RFO.
- April 1, 2008: PG&E issues RFO.
- April 21, 2008: Bidders' Conference.
- April 25, 2008: Participants asked to submit Notices of Intent to offer if not previously submitted.
- April 28, 2008: Deadline for Participants to initiate gas interconnection studies and provide PG&E evidence of same.
- May 9, 2008: Form Agreements distributed.
- July 21, 2008: Offers Due
- July 21 – October 17, 2008: Offer Evaluation, Preliminary Discussions, Clarifying Meetings
- October 20, 2008: PG&E selects shortlist and distributes supplemental information requests and other RFO materials.
- October 27, 2008: Deadline for Participants to submit Large Generator Interconnection Procedure (“LGIP”) or a Small Generator Interconnection Procedure (”SGIP”) application to the California Independent System Operator ("CAISO") and provide PG&E evidence of same.

To be considered in this RFO, an Offer must be received by PG&E in accordance with this RFO **no later than 1:00 P.M. Pacific Prevailing Time (“PPT”) on, July 21, 2008.**

PG&E will be seeking CPUC approval of all Agreements resulting from this RFO prior to the Agreement taking effect. PG&E reserves the right to execute Agreements with individual Participants after shortlisting and to file separate CPUC applications for approval of individual Agreements in order to expedite the approval process.

In D.07-12-052, the CPUC expressed concern that the RFO processes are "too time intensive" and "much too protracted." PG&E recognizes this concern and is fully committed in this RFO to minimizing the amount of time required to negotiate Agreements and obtain Regulatory Approval, while ensuring the

Participants have sufficient time to prepare Offers and PG&E has sufficient time to evaluate and review Offers to ensure the best are selected. Some of the most significant ways to reduce the amount of time spent in the RFO process are for Participants to provide all of the requested information and to minimize the number of changes to the form agreements provided in this RFO. As described in Section IV, the evaluation criteria include a Participant's conformance with PG&E's non-price terms and conditions. Consistent with D.07-12-052, Participants are strongly encouraged to minimize changes to the non-price terms and conditions in the form agreements provided by PG&E. Minimizing changes will significantly expedite the RFO process.

II. RFO Process

1. Registration. Participants may register at the RFO website: http://www.pge.com/rfo. Registration will establish the Participant on PG&E's notice list and ensure that the Participant receives timely announcements and updates. On-line registration is not required, but is strongly recommended.

2. Notice of Intent to Offer. Participants are requested to complete and submit Appendix D by April 25, 2008 for each individual project, with basic project information. Failure to submit a completed Appendix D by the scheduled date will not disqualify a Participant from participating in the RFO process.

3. Bidders' Conference. PG&E will hold a Bidders' Conference on April 21, 2008 to discuss this RFO. Participants choosing to attend should register for this event to facilitate entry by April 17. To register for this event, please submit attendees and company name to LTRFO@exchange.pge.com.

4. Deadline to Initiate Gas Interconnection Studies. Participants must submit to PG&E Gas Transmission and Distribution ("GT&D") a request for a Preliminary Application for Gas Service as set forth in Section IX if applicable and submit to PG&E Energy Procurement proof of this submittal. As part of this request, Participants must agree that PG&E GT&D may share information with the RFO Evaluation Team.

   Participants with gas interconnections outside California Gas Transmission ("CGT") must demonstrate comparable initiation with their local gas service provider. The Participant is responsible for the cost of each interconnection study or application. Failure of a Participant to provide the information necessary to complete its Application promptly may result in disqualification of the Participant's Offer. Participants are highly encouraged to submit their Applications early to avoid delays in starting the study due to incomplete information.

   - Deadline to initiate gas interconnection studies:
     Monday, April 28, 2008, 3:00 P.M. (PPT)

   - Deadline for completion of gas interconnection studies:
     Monday, June 27, 2008 3:00 p.m. (PPT). See Section IX for suggestions for expediting studies.

5. Form Agreements Distributed. PG&E plans to distribute form agreements for all contract types to Participants by May 9, 2008.

6. Offers Due. Participant's Offer must be submitted by the July 21, 2008 deadline and include without limitation the documents described in Section VI.B "Required Information." The Participant's Offer must include a signed, binding contract that PG&E could execute, as described in Section II.E "Contract Options." Participant's submission of its Offer constitutes its consent to and authorization of PG&E's electric and natural gas transmission functions providing to PG&E's merchant function any information concerning their evaluation of the Participant's interconnection and transmission system impacts which the Participant provides to them, or, which they provide to the Participant. Offers must include an executed Federal Energy Regulatory Commission ("FERC") Order 2004 Waiver (FERC Consent Form, Appendix E). Offers should include a copy of any current CAISO Interconnection Studies for the proposed project, if available. Submittals must be tendered electronically and in hard copy. By responding to this RFO as described in Section V.A "Agreement by Participant" the Participant agrees to be bound by all of the terms, conditions and other provisions of this RFO and any changes or supplements to it that may be issued by PG&E.

7. PG&E Selects Shortlist. PG&E expects to select a shortlist of offers by October 20, 2008. Participants who have been selected for the shortlist will be required to execute a Confidentiality Agreement in the form attached as Appendix B1, agreeing to keep confidential the terms discussed during the course of finalizing the Agreements. These Participants must execute and return to PG&E the Confidentiality Agreement within five (5) business days of Participant's receipt of written notice of its selection for PG&E's shortlist. PG&E reserves the right to request additional information and to add additional Participants to the shortlist following the initial selection.

8. Deadline to Initiate Electric Studies. Participants must initiate, if needed, a Feasibility Study (FeS), System Impact Study ("SIS") and Facility Study ("FS") (each an "Interconnection Study") with the CAISO, as described in the applicable CAISO Interconnection Procedures. The Participant is responsible for the cost of each interconnection study or application. Failure of a Participant to provide the information necessary to complete its application promptly, and to execute the LGIP/SGIP in a manner that is consistent with the timelines spelled out in the CAISO tariff may result in disqualification of the Participant's Offer.

    - **Deadline to initiate Electric Interconnection Studies:**
      October 27, 2008

PG&E reserves the right, following shortlisting, to execute Agreements with individual Participants and to file separate CPUC applications for approval of those individual Agreements. PG&E further reserves the right to request refreshed offers from remaining shortlisted bidders at or after that time.

C. Disclaimers for Rejecting Offers and/or Terminating this RFO

This RFO does not constitute an offer to buy and creates no obligation to execute any Agreement or to enter into a transaction under an Agreement as a consequence of the RFO. PG&E shall retain the right at any time, in its sole discretion, to reject any Offer on the grounds that it does not conform to the terms and conditions of this RFO and reserves the right to request information at any time during the solicitation process. PG&E also retains the discretion, in its sole judgment, to: (a) reject any Offer on the basis that it does not provide sufficient ratepayer benefit or that it would impose conditions that PG&E determines are impractical or inappropriate; (b) formulate and implement appropriate criteria for the evaluation and selection of Offers; (c) negotiate with any Participant to maximize ratepayer benefits; (d) modify this RFO as it deems appropriate to implement the RFO and to comply with applicable law or other direction provided by the CPUC; and (e) terminate the RFO should the CPUC not authorize PG&E to execute Agreements of the type sought through this RFO. In addition, PG&E reserves the right to either suspend or terminate this RFO at any time for any reason whatsoever. PG&E will not be liable in any way, by reason of such withdrawal, rejection, suspension, termination or any other action described in this paragraph to any Participant, whether submitting an Offer or not.

II. RFO Goals:

A. PG&E Resource Needs

PG&E submitted its resource needs to the CPUC in its 2006 Long Term Procurement Plan ("LTPP") (R.06-02-013). The CPUC approved PG&E's 2006 LTPP, with modifications, in D.07-12-052, including PG&E's need for 800-1,200 MW of new capacity by 2015. To meet this projected need, PG&E is seeking Offers from resources that meet the specifications noted in Section III "Eligibility Requirements." Optimal Offers will be those that best allow PG&E to produce energy and capacity products that are compatible with PG&E's requirements, and contribute to the other criteria specified in Section IV "Evaluation of Offers."

B. Products

In this solicitation, PG&E has a strong preference for operationally flexible, dispatchable resources. In general, PG&E will assess the value of the Offer's operating flexibility versus the Offer's costs.

Resources that are capable of being committed to production a high number of times per year and those capable of multiple starts and stops per day are preferred. For example, flexible resources should be capable of being "cycled" on and off at least 300 times per year.

PG&E prefers resources that have a relatively short startup time to full operation. For example, PG&E prefers resources that have start times of 30 minutes or less, or, in the case of resources offering daily cycling, start times of 60 minutes or less. Resources with longer start up times to full load, such as 4 hours or more, are less valuable.

PG&E prefers resources that have the ability to turndown to a low minimum output level relative to their maximum output. The ability to change output quickly from maximum to minimum or minimum to maximum is also a valued attribute. For example, a ramp rate of at least 7% of full output per minute is desirable.

The ability to provide ancillary services such as Automatic Generation Control ("AGC") will have incremental value. However, AGC will have greater value for resources that are expected to operate enough hours such that it can be effectively utilized. PG&E will also consider the value of other ancillary services if offered. However, it is not a requirement for resources to explicitly offer ancillary services.

Finally, PG&E must fully understand operational limitations due to environmental constraints, such as air quality limitations. If applicable, Participants should specify all operational constraints the resource will have to meet, such as those needed to comply with local Air Board requirements as well as other permitting requirements.

C. Resources

PG&E will consider Offers from the following resources in this RFO:

I. Renewable Resources

For the purposes of this solicitation, renewable resources refer to those resources which meet the requirements of California's Renewables Portfolio Standard ("RPS").[1] Currently, RPS renewables include facilities burning biodiesel, digester gas, landfill gas or municipal solid waste, fuel cells using renewable fuels, geothermal facilities, ocean wave, ocean thermal and tidal current facilities, solar photovoltaic and solar thermal facilities, small hydroelectric (30 megawatts or less) facilities and wind generators. This RFO seeks new renewable generation.

Minimum Offer size is 25 MW from each facility.

PG&E notes that it also is conducting an RPS-only solicitation in 2008. The 2008 RPS RFO was issued on March 7, 2008, and offers are due May 12, 2008.

II. Distributed Generation

Distributed generation is small-scale generation facilities interconnected to PG&E's transmission or distribution system. For the purposes of this solicitation, PG&E will consider distributed generation which exports power to the CAISO controlled-grid. This RFO seeks new distributed generation.

[1] See http://www.energy.ca.gov/2007publications/CEC-300-2007-006/CEC-300-2007-006-CMF.PDF

Minimum Offer size is 25 MW of power to the grid, which can come from multiple sites, but no individual site can offer less than 10 net MW. The Offer must be net of any on-site customer use.

III. Qualifying Facilities

Qualifying Facility ("QF") generators are those facilities satisfying the requirements under the Public Utility Regulatory Policies Act of 1978. This RFO seeks new or existing QF resources currently selling power PG&E. For an existing QF resource under contract with PG&E, the existing contract will need to be terminated if the Offer is accepted and the Agreement is approved by the CPUC.

Minimum Offer size is 20 MW from each facility.

IV. Repowering

A repowered facility is a generation facility where substantial replacement of old equipment has occurred, such that the facility's performance and economic life are similar to that of a new facility of like technology. This RFO will consider newly repowered generating facilities.

Minimum Offer size is 25 MW from each facility.

V. New Conventional Generation

New conventional generation includes combined cycle technologies, combustion turbines, and reciprocating engines fueled by fossil or bio-fuels.

Minimum Offer size is 25 MW from each facility.

D. Facility Ownership: Generation Characteristics

For Facility Ownership proposals, PG&E is seeking more specific operating characteristics. Each facility will be operated to provide products as needed to support the system. For most resources, this is expected to include multiple daily starts and stops, rapid turndown and ramp up within the unit's capabilities and full compliance with environmental permit conditions.

I. Peaking Generation:

Offers to develop and sell a peaking facility to PG&E will be expected to have the following Generation Operating Characteristics as more fully described in Appendix N1 (Technical Specifications for Utility Ownership Products – Simple Cycle). The ability to meet these characteristics will be given significant weight in the evaluation process.

1. Air emission permit limits, if applicable, that allow a minimum of 4000 operating hours per year.
2. Capability to complete a shutdown and restart cycle in less than one hour and perform three start-stop cycles per day with no maintenance penalty.

Start based maintenance may be considered in lieu of no maintenance penalty.

3. Minimum run time – 15 minutes or less per start.
4. Ability for both local control and to connect to a remote source for starting and stopping of the facility.
5. A facility that meets all North American Electric Reliability Corporation ("NERC") requirements (cyber, site security, other).
6. A facility that meets the CAISO interconnection requirements including metering and ancillary service provisions.

Offers other than gas-fired technologies should respond to the appendices in a full and complete manner indicating where information is not applicable and provide additional information where appropriate in order to allow PG&E to fully evaluate its offer.

II. Shaping or Load Following Generation:

Offers to develop and sell a shaping or load following facility to PG&E will be expected to have the following Generation Operating Characteristics as more fully described in Appendix N2 (Technical Specifications for Utility Ownership Products – Combined Cycle). The ability to meet these characteristics will be given significant weight in the evaluation process.

1. Ability to turn-down to 55% of full baseload power output or lower.
2. AGC and load following over the full turn down range (55% to 100%).
3. Maximum allowable hot-start time of 90 minutes including all pre-ignition purges, if applicable, and other permissives.
4. Minimum downtime between combustion turbine restarts not to exceed 60 minutes, if applicable.
5. Minimum ramp rate of 7% of guaranteed capacity per minute per combustion turbine, if applicable.
6. Ability to complete a hot shutdown to hot re-start cycle in less than three hours.
7. 300 annual starts including approximately 25 cold starts.
8. Minimum Run Time – 4 hours or less per start.
9. A facility that meets all NERC requirements (cyber, site security, other).
10. A facility that meets the CAISO interconnection requirements including metering and ancillary service provisions.
11. Ability to meet all air emissions criteria at startup, shutdown, and for all operating loads.
12. Alternate power source or back-up generator to meet essential loads

Offers other than natural gas-fired technologies should respond to the appendices in a full and complete manner indicating where information is not applicable and provide additional information where appropriate in order to allow PG&E to fully evaluate its offer.

E. Contract Options

All Offers must include a complete and executed agreement binding the Participant to the terms of that Offer, which PG&E could execute following the shortlisting process without further negotiation. Failure of a Participant to provide an executed agreement may result in disqualification of the Participant's Offer.

Given the length of the Regulatory Approval process, each shortlisted Participant must agree to be bound by its Offer(s) for a period of eight (8) months from the date PG&E files the Agreement(s) with the winning Participant(s) with the CPUC. If the CPUC grants (subject to appeal) Regulatory Approval of the Agreement(s) within the eight-month period, each shortlisted Participant must agree to be bound by its Offer(s) for any additional period of time required for the CPUC order granting Regulatory Approval to become final and non-appealable.

I. PPAs:

PG&E is seeking PPA Offers for new renewables, new distributed generation, new and existing QFs, new repowered facilities and new conventional generation technologies, including technologies capable of running on multiple fuels. PG&E will not consider Offers from partial Units, except for distributed generation serving on-site customer load. Specific operating flexibility must be defined by the Participant. For details, see Appendix H, (Offer Data Form: H1 - PPA). The PPA term sheet is provided in Appendix F. PG&E plans to update Appendix F with a form contract by May 9, 2008

For PPA Offers from natural gas-fired facilities, PG&E's preferred contract structure is a fuel conversion (tolling) structure. The documentation requested in this RFO is generally structured to accommodate gas-fired units and a fuel conversion agreement. Participants offering a PPA other than a fuel conversion agreement for a gas-fired facility should adapt the documentation by selecting or deleting the optional elements as appropriate or making such other adjustments as necessary and appropriate for the technology and fuel-type offered.

Participants offering an RPS-eligible resource should include provisions affirming such status and conveying the environmental attribute benefits to PG&E by selecting the appropriate optional elements in the documentation.

Regardless of the contract structure offered, Participants are requested to break out capacity, fixed O&M, variable O&M and fuel costs (where applicable) to aid PG&E in comparing Offers.

Participants can submit fixed-price PPA Offers. Participants can also submit PPA Offers that use indexed pricing, as described in Section II.E.III "Indexed Pricing" below.

From a long-term strategic portfolio planning perspective, PG&E seeks to develop a diversified portfolio of resources. This includes having a portfolio with resources of varying contractual and economic lives, and diversity across contracted and owned resources. Such diversity provides flexibility in adapting to a variety of uncertainties including load and price. In addition, the CPUC in D.06-07-029 adopted a ten-year maximum cost allocation mechanism for PPAs with new non-renewable generation facilities. Given these factors, PG&E requires that PPA contracts resulting from the RFO not to exceed ten years for distributed generation, repowered facilities, new conventional generation and QFs.

Replacement of Expiring QF Contracts

A QF Participant that has ongoing contract commitments must provide an offer with price, terms and conditions assuming the ongoing QF commitment will be terminated if the Offer is accepted and the Agreement is approved by the CPUC. Termination arrangements will be considered separately from evaluation of the Offer in this RFO. The QF bidder must set forth its plan to terminate any ongoing QF commitments in order for PG&E to evaluate the viability of its Offer. It is anticipated that any arrangement for the termination of an ongoing QF commitment will need to be approved by the CPUC as a part of the application for approval of an Agreement.

II. PSAs:

PG&E is seeking PSA Offers for Facility Ownership of new conventional generation technologies, including technologies capable of running on multiple fuels, whereby the Participant would design, develop, permit, construct and commission the facility. PG&E would take ownership of the facility once it is constructed and tested. Offers must include milestone guarantees and performance guarantees for the completed facility.

Participants can submit fixed-price PSA Offers. Participants can also submit PSA Offers that use indexed pricing, as described in Section II.E.III “Indexed Pricing” below.

The PSA term sheet is provided in Appendix G. Generation characteristics that PG&E is seeking are described above in Section II.D ”Facility Ownership”. PG&E plans to update Appendix G with a form contract by May 9, 2008.

III. Indexed Pricing:

A Participant may submit an Offer that includes indexed pricing, but is not required to do so. A Participant may submit two variations for the same facility, one utilizing a fixed price and one utilizing indexed pricing, or may submit a fixed price Offer only or an indexed price Offer only. An indexed Offer shall only use the Gross Domestic Product (“GDP”) Implicit Price Deflator as the index for the Offer components as described in more detail below. Information concerning the GDP Implicit Price Deflator is available from the Federal Reserve Bank of St. Louis website at the following link: http://research.stlouisfed.org/fred2/series/GDPDEF?cid=21.

As part of an individual Offer, a Participant may submit Offer variations, with each Offer variation indexing certain components. For example a Participant offering a PPA could offer one variation with a fixed capacity price while another variation may index the capacity price while both Offer variations index the other pricing components.

PG&E will not consider offers that use indices other than the GDP Implicit Price Deflator

For PPAs:

- Variable O&M, Fixed O&M, Variable Energy and Fired Hour Charge: A Participant shall indicate in its Offer an initial price for each of these components. If the Participant elects to use indexed pricing, the Participant should indicate that the initial prices for all or some of these components will be indexed to the GDP Implicit Price Deflator for the period of time from when the date the Agreement is executed by PG&E through the term of the Agreement.

- Capacity Payment Rate: A Participant shall indicate in its Offer an initial price for capacity. If the Participant elects to use indexed pricing, the Participant should indicate that the initial capacity price will be indexed to the GDP Implicit Price Deflator for the period of time from when the date the Agreement is executed by PG&E to no later than thirty (30) days after the Offer's original construction financing milestone. Offers that index capacity prices through the term of the Agreement will not be accepted. A Participant can also specify whether all or a portion of the capacity price is indexed. For example, a Participant's Offer may specify that only 50% of the capacity price will be indexed to the GDP Implicit Price Deflator and the other 50% is fixed.

For PSAs:

- Purchase Price: A Participant shall indicate in its Offer a purchase price for a Project offered in a PSA Offer. If the Participant elects to use indexed pricing, the Participant should indicate that the initial purchase price will be indexed to the GDP Implicit Price Deflator for the period of time from the date the Agreement is executed by PG&E to no later than thirty (30) days after the Offer's original construction financing milestone. A Participant can also specify whether all or a portion of the purchase price is indexed. For example, a Participant's Offer may specify that only 50% of the purchase price will be indexed to the GDP Implicit Price Deflator and the other 50% is fixed.

III. Eligibility Requirements:

PG&E will consider Offers that meet the specifications noted below:

1. New facilities with a Commercial Operation Date no later than May 2015. However, PG&E prefers resources that can come on-line earlier rather than later.
2. Facilities must be constructed with new equipment, except for existing QF facilities. In addition, PG&E is interested in offers to repower existing generating facilities provided that sufficient new equipment is installed that the facilities have an expected economic life similar to that of a new facility of like technology. Facilities must be constructed with equipment that has a useful life of 30 years or greater.

3. A new QF, or a QF with an existing contract, must meet the requirements of the FERC rules (*e.g.,* 18 Code of Federal Regulations Part 292) implementing Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C.A. § 796, *et. seq*.) and have not waived these rights as regards to PG&E.
4. Maximum contract PPA term of 10 years and minimum contract PPA term of 5 years for distributed generation, repowered facilities, new and existing QFs and new conventional generation. The maximum term for new renewables resources may vary.
5. Each Participant offering a gas-fired facility must initiate a study for firm physical delivery of its generation to a busbar at a specified delivery point within the area designated as NP15, as presently defined by the CAISO except that a QF may alternatively provide delivery within the area designated as ZP26 by the CAISO.
6. Offers for RPS resources must satisfy the RPS standards which can be found at http://www.pge.com/rfo.
7. Each Participant offering a gas-fired facility must initiate a Preliminary Application for Gas Service, as defined in Section IX by April 28, 2008, except for existing QF facilities.
8. Each Participant is encouraged, but not required to initiate the CAISO Large Generator Interconnection Procedure (“LGIP”) or Small Generator Interconnection Procedure (“SGIP”), as appropriate (“Interconnection Procedures”), as further described in Section VIII “Electric Transmission Interconnection”. For Offers that are shortlisted and have not initiated Interconnection Procedures, such process shall be initiated no later than one (1) week after shortlisting.
9. Each Participant must satisfy the Offer Deposit requirements set forth in Section V. C “Offer Deposit”.
10. Each Participant must demonstrate no later than eight (8) weeks after notification of shortlisting that it has control by ownership or long-term lease over the proposed site or an option to control the proposed site through ownership or a long-term lease.
11. Offers shall confer upon PG&E exclusive rights to the Project's capacity based on agreed-upon operating flexibility, and subject to CAISO requirements.
12. Each Participant must agree: (i) to schedule and dedicate the contracted amount of electrical output to PG&E, net of station use and electrical losses; and (ii) not sell, deed, grant, convey, transmit, or otherwise provide any energy, capacity, ancillary services or any other related electricity product, including Environmental Attributes[2], or capacity attributes associated with the output to an entity other than PG&E.

[2] See D.04-06-014

13. Under D.06-07-029 when a utility submits to the CPUC an application for approval of a PPA the utility must indicate in the application whether it intends to submit the PPA to the energy auction. Participants in the RFO are hereby notified that if their proposed PPA is selected, it may be submitted to the energy auction at the sole discretion of PG&E.

IV. Evaluation of Offers:

To evaluate Offers, PG&E will primarily consider Market Valuation, Portfolio Fit, Credit, Participant Qualification, Project Viability, Technical Reliability (of equipment), Environmental Leadership, and Conformance with PG&E's non-price terms and conditions. Each of these primary criteria is discussed below.

PG&E will evaluate all Offers together and will utilize an Independent Evaluator.

Market Valuation means how an Offer's cost compares to an Offer's benefits, from a market perspective. An Offer's cost is reflected in the Offer's pricing. An Offer's benefits are the market value of the energy, capacity, and ancillary services offered. These costs and benefits may include: fixed and variable costs; transaction costs, such as market bid-ask spreads; fixed vs. indexed priced Offers; location-specific value, as represented by locational price differentiation; and operating flexibility, as represented by option value. The risks and uncertainties associated with an Offer's costs and benefits will be considered as part of Market Valuation.

An important component of market valuation benefit is operating flexibility. PG&E uses option valuation models to quantify how operating flexibility contributes to market valuation.

Included in Market Valuation are the costs attributed to greenhouse gas ("GHG") emissions associated with the Offer.

For purposes of this RFO, also included in Market Valuation are the impacts an Offer is anticipated to have on the electric transmission system. In evaluating an Offer, PG&E will consider the network upgrade costs as described in Section VIII.D "System Impacts". PG&E will also consider congestion risk.

Portfolio Fit means how well an Offer's features match PG&E's portfolio needs within the context of California's Energy Action Plan II Loading Order ("EAP Loading Order").[3] In particular, the value of an Offer's capacity, energy, and ancillary services is adjusted to account for PG&E's portfolio positions, including temporal, locational and fuel diversity aspects. Portfolio Fit thereby weighs an Offer's costs and benefits in the context of PG&E's portfolio needs. In contrast, the Market Valuation component considers an Offer's costs and benefits without taking into account PG&E's portfolio needs.

Credit means the Participant's capability and willingness to perform all of its financial and other obligations under the Agreements, including, without limitation, the Participant's ability to provide performance assurance under the

[3] See http://energy.ca.gov/energy_action_plan/2005-09-21_EAP2_FINAL.PDF

Agreements. PG&E will consider the Participant's financial strength, as determined by PG&E, as well as any credit enhancements acceptable to PG&E that Participant may offer with its proposal. PG&E will also consider its overall credit concentration with any particular Participant, including any of Participant's affiliates.

Participant Qualification means the experience of the developer, Engineering, Procurement and Construction ("EPC") contractor, prime subcontractors and O&M operator (for PPA). This may include their experience (demonstrated track record) in successfully developing and operating (relevant if PPA) similar type power plants in North America, whether they have successfully licensed and permitted similar projects in California, and whether they are currently an owner/operator of power plants in California. The Supplier Diversity evaluation will take into account the Participant's status as a CPUC certified Woman-, Minority-, and/or Disabled Veteran-owned Business Enterprise ("WMDVBE") and/or an intent or policy of subcontracting with WMDVBEs.

Project Viability means the probability that the resource(s) associated with an Offer can be financed and completed as required by the Agreement. This will include an assessment of the degree of detail and feasibility of Schedules (*e.g*. engineering, procurement plan and lead times, equipment delivery, construction, start-up and testing), Plans (procurement plan, site access/equipment delivery, engineering/construction division of responsibility ("DOR"), construction plan/subcontractors, existing labor agreements in place, labor availability, construction facility and laydown, water supply, wastewater discharge), adequacy of financing during construction and operation of the plant, lender commitment provided, equity commitment provided, the controls provided to prevent construction cost overruns, debt coverage ratios are adequate, interest rates and fees are reasonable, quality and completeness of financing package, ownership structure, interest rate risk, whether Participant has commitment letters from project participants or financial institutions indicating that the project will be able to obtain financing, and Participant's project financing experience. The project's progress in the CEC permitting process will also be evaluated, including its Environmental Characteristics such as Air Quality, Water Supply, Land Use, Hazardous Material usage, Wetlands & other Waters, Biological Resources, Cultural Resources, Socioeconomics, degree of control of property, and other aspects that would help ensure project completion. The project's progress in the gas and electric interconnection processes will be evaluated. The quantities and potential costs to PG&E and to society associated with all of these characteristics will be considered.

Technical Reliability has to do with the type of technology and the equipment being offered. This will examine whether there is high reliability due to plant construction design that is tried and proven with historical evidence of high availability in comparison to NERC national averages, with significant additional enhancements that may add to the plant's availability, such as multiple systems and redundancy. Also evaluated here are plant performance parameters such as heat rate and capacity estimates, availability guarantees, unplanned outage factor guarantee, fixed and variable O&M costs (PPA only), start-up times and costs. Plant operations factors that would be evaluated would be plans for staff training program, staffing requirements, maintenance support availability, permit limitations on operations, Long Term Service Agreement ("LTSA") terms, maintenance outage requirements (impacts on availability), spare parts and labor agreements.

Environmental Leadership encompasses PG&E's commitment to seek opportunities to exceed current standards of environmental protection. The quantities and potential costs to PG&E and to society associated with an Offer's environmental characteristics will be considered. Also, PG&E will assess the potential cumulative pollution exposure of the community to criteria pollutants in air, water, and soil within 1 mile and within 6 miles of Participant's proposed facility. PG&E will also assess the Participant's local community outreach plans to evaluate how it plans to work with the local community to resolve potential issues of concern.

Conformance with PG&E's non-price terms and conditions means the degree to which the Participant accepts PG&E's proposed terms and conditions. Terms and conditions evaluated elsewhere will not be considered in this evaluation criterion (*e.g*. credit terms). PG&E reserves the right to specify additional or different non-price terms and conditions from those set forth in the attached term sheets for any reason including, but not limited to, the specific characteristics of the generation unit offered or the ability of the Participant to meet other requirements of the RFO. The RFO evaluation may impute for the purposes of evaluation an additional amount to a Participant's Offer Price to reflect a Participant's proposed modifications to the non-price terms and conditions that result in PG&E incurring additional costs or risks. Participants are strongly encouraged to price the term sheet and/or form of contract template as is, with minimal to no changes.

V. Participation in the RFO Process:

A. Agreement by Participant

By responding to this RFO, each Participant agrees to be bound by all terms, conditions and other provisions of this RFO and any changes or supplements to it that may be issued by PG&E. Each Participant will be required to have an authorized officer of Participant execute the "Long Term Request for Offer Agreement" attached hereto as Appendix B, which requires that the Participant agrees to be bound by the terms of the RFO and to make specified representations and warranties to PG&E.

B. Offer

Respondents may submit multiple offers. Each Offer must have a discrete size, location and delivery point.

C. Offer Deposit

Each Offer will require a separate Offer Deposit. When submitting each Offer, the Participant will be required to provide an initial deposit of cash or a Letter of Credit, (the "Offer Deposit"), as defined below for each Offer, in the amount of $5 per kW of the maximum monthly Capacity as set forth on Participant's completed

Appendix I (Generation Facility Information Form). Participants must complete a W-9 (Appendix C1). Participants may also provide up to five Offer variations under a single Offer Deposit. All Offer variations under a given Offer Deposit must be for a project which has the same size, location and delivery point. The variations under a single Offer Deposit are: (i) two variations for Facility Ownership which can only vary price; and (ii) three variations for PPAs which can only vary price and term. [4]

The Offer Deposit is intended to secure the obligations of each Participant during the RFO's evaluation period and the period required to negotiate, execute and obtain regulatory approval of the Agreement(s). It is also intended to ensure that each Offer has been carefully considered. Any Offer submitted without an accompanying Offer Deposit will be deemed to be a non-conforming Offer. Offer Deposits will be returned as set forth below.

Offers will have additional security posting requirements:

- Within ten (10) business days of submission for Regulatory Approval of selected Offers, an additional security posting of $10 per kW (for a total of $15 per kW) of the maximum monthly Capacity will be required from each selected Participant with respect to each selected Offer.

- Following Regulatory Approval of individual selected Offers, an additional security posting of $85 per kW (for a total of $100 per kW) of the maximum monthly Capacity will be required from each selected Participant with respect to each Offer receiving Regulatory Approval.

PG&E will not accept any Offer Deposit that is not in the form of either: (a) a cash deposit through a wire transfer; or (b) a Letter of Credit, as described below. Any Participants submitting an Offer via a check or money order will not be eligible to participate in this RFO. **Participants should notify PG&E via email at ltrfo@exchange.pge.com prior to submitting their Offer Deposits to obtain details of delivery instructions, and routing and account number requirements.**

PG&E will pay interest on each cash deposit, calculated on a monthly basis and compounded at the end of each calendar month, from the date the cash is fully deposited through the date prior to its return, substitution, or conversion to another form of security under the RFO. The applicable interest rate will be the rate per annum equal to the Monthly Federal Funds Rate (as reset on a monthly basis based on the latest month for which such rate is available) for each day cash is held by PG&E as reported in Federal Reserve Bank Publication H.15-519 or its successor publication ("Interest Rate"). The Interest Rate shall be calculated based on a 360-day year and payable through the Cash Deposit End Date.

Letter of Credit - The Offer Deposit Letter of Credit and the Delivery Date Security Letter of Credit must be irrevocable, standby letters of credit. The Offer Deposit Letter of Credit must be in the form attached hereto as Appendix C. The

[4] Pricing for a PPA Offer that takes on versus not takes on GHG change of law risk does not count as an Offer variation. See Section XI "Pricing, Terms and Conditions."

Delivery Date Security Letter of Credit must be in form satisfactory to PG&E. Each Letter of Credit must be issued by a U.S. commercial bank or a foreign bank with a U. S. branch with such bank having total assets of at least USD $10 billion and a senior unsecured long term debt rating of no lower than A2 from Moody's Investor Services, Inc., or its successor ("Moody's") or A from Standard & Poor's Rating Group, or its successor ("S&P") ("Letter of Credit").

The Offer Deposit Letter of Credit must remain outstanding for the entire period in which the Offer Deposit is required. The Offer Deposit Letter of Credit submitted with each Offer must have an expiry date of no earlier than one year from the date of posting. If a Participant's Offer is shortlisted, the expiry date of the Offer Deposit Letter of Credit for that Offer must, within 15 calendar days after notice to the Participant of the shortlisting, be amended to be no earlier than one year from the date of notice to the Participants of shortlisting. PG&E may require further extensions of the required expiration date of any Offer Deposit Letter of Credit to the extent it deems necessary in its sole discretion to ensure that the Offer Deposit Letter of Credit remains in effect until Regulatory Approval of the corresponding Agreement has been obtained.

All Offer Deposit Letters of Credit must specify that PG&E may draw on such Offer Deposit Letter of Credit if, by the date that is thirty (30) days prior to the stated expiration date, PG&E has not received substitute security in the amount of the required Offer Deposit, such security to be in the form of a cash deposit as described above or another Offer Deposit Letter of Credit satisfying the requirements of this section. Costs of the Offer Deposit Letter of Credit shall be borne by Participant. The Offer Deposit Letter of Credit should be sent by overnight delivery to:

PG&E
77 Beale Street, Mail Code B28L
San Francisco, CA 94105
Attn: Kenneth Lock, Credit Risk Management

Upon selection of the shortlist for this RFO, the Offer Deposit for rejected Offers with respect to projects which are not shortlisted in the RFO process will be returned within fifteen (15) business days. PG&E will continue to hold the Offer Deposit for shortlisted Offers. The Offer Deposit of those shortlisted Offers will be returned under the following conditions:

1. PG&E's rejection of the Offer subsequent to shortlist selection when no variation of the Offer (secured by the same Offer Deposit) is shortlisted for the same project.
2. In the course of negotiation, the parties cannot agree on the terms of the Offer and Agreement, and PG&E rejects the Offer and Agreement as submitted by Participant when no variation of the Offer (secured by the same Offer Deposit) is shortlisted for the same project.
3. Upon execution and approval of the Agreement and Participant's submission of the Letter of Credit or other security required under the Agreement ("Performance Assurance").

4. To the extent Regulatory Approval of the Offer has not been obtained before the Participant is no longer required to be bound under Section V.A "Agreement by Participant" of this RFO and the Participant does not agree to be bound for a longer period of time.

The Participant will forfeit the Offer Deposit in its entirety under the following conditions:

1. Participant's withdrawal of the Offer other than as a result of the Participant no longer being bound as required by Section V.A "Agreement by Participant" of this RFO;

2. Any material misrepresentation of pricing or other information knowingly submitted by Participant.

In the event that Participant forfeits the Offer Deposit, PG&E will be entitled to draw upon the Offer Deposit in its entirety as payment for direct and indirect damages incurred in connection with the Participant's withdrawal of Offer. PG&E shall also be able to draw on any Letter of Credit or retain any cash deposit provided as an Offer Deposit, as Performance Assurance under an Agreement, in the event that Participant fails to provide the Performance Assurance required under such Agreement.

PG&E may also draw on the Letter of Credit in the event: (i) the Participant is obligated to, but has not, provided a replacement Letter of Credit from a qualifying issuer, or a cash deposit as set forth above, before the date that is thirty (30) days prior to the stated expiry date of the Letter of Credit, or (ii) the credit rating of the issuer falls below A2 from Moody's and A from S&P and a replacement Letter of Credit from a qualifying issuer, or a cash deposit as set forth above, is not provided to PG&E within seven (7) days. Amounts drawn in such circumstance will be held as cash deposits and be subject to draw or forfeiture as provided in the RFO.

PG&E will not reimburse Participants for their expenses under any circumstances, regardless of whether the RFO reaches a successful conclusion or is terminated early at the sole discretion of PG&E.

VI. Participation Protocols:

A. Overview

All Offers must be received in both hard copy and electronic form by Wednesday, July 21, 2008 at 1:00 p.m. (PPT) via hand-delivery or overnight delivery to:

All Source Long Term RFO
Energy Procurement / Energy Supply
245 Market Street, Mail Code N13C
San Francisco, CA 94105

If there is disagreement between the electronic and hard copies, the hard copy will prevail.

Hard copy documents: Participants must submit five (5) bound and one (1) unbound copy.

Electronic Documents: The electronic documents must be in a Microsoft Word (standard edition 2003 SP2) and/or Excel file (standard edition 2003 SP2), as applicable. The bidder should not provide documents in other electronic formats, versions, and/or in hard copy alone. For Facility Ownership proposals, any proposed alternatives for the PSA structure should be in a Microsoft Word file marked to show all changes. Electronic Documents must be in the form of three (3) compact disks (CD) or, preferably, two (2) USB removable flash drives, accompanying the hard copy documents.

Telephonic, telegraphic, e-mail or facsimile transmission of an Offer is not acceptable.

B. Required Information

The following documents, which are located in the Appendices, must be included in any Offer in the order given below:

1. **Completed Offer Cover Sheet (Appendix A)** providing key details of the Participant's Offer.

2. **Signed Long Term Request for Offer Agreement (Appendix B)** attesting to Participant's agreement to be bound by the conditions of the RFO.

3. **A Letter of Credit in the form of Appendix C** from an issuer meeting the criteria set forth in Section V.C ("Offer Deposit") **or wire transfer,** either in accordance with the requirements of Section V.C "Offer Deposit". **Completed W-9 form** (Appendix C1).

4. An executed **FERC Order 2004 Waiver Appendix E** (Consent Agreement) Include a copy of any current CAISO Interconnection Studies for the proposed project, if available.

5. **A signed form of Power Purchase Agreement (form to be provided by PG&E based on Appendix F), or a signed form of Purchase and Sale Agreement (form to be provided by PG&E based on Appendix G), or a signed form of an alternative Facility Ownership transaction.** For alternative Facility Ownership transactions, a Participant must submit the form of a Microsoft Word document that is marked to show any proposed alternatives for the PSA structure. The submitted signed form contract(s) must be complete and executed agreement(s) which PG&E may accept in its entirety and execute without modification. Requested modifications will be considered part of the Participant's Offer; that is, PG&E will assume that the Participant is willing to negotiate and execute an Agreement based on these terms.

6. A completed **Offer Data Form (Appendix H) for either PPA or Facility Ownership.**

7. A completed **Generation Facility Information Form (Appendix I).** For generation facility PPAs, the Participant should demonstrate the ability of the generation facility to be available by the Expected Initial Delivery Date and throughout the term of the PPA to provide capacity and energy and/or ancillary services when called upon. For Facility Ownership Offers, the Participant should demonstrate the ability to complete construction of the generation facility by the Participant's proposed Guaranteed Operation Date at the Purchase Price proposed by Participant.

8. A **Project Description (Appendix J**). Participants are required to describe in detail the generation facility.

9. A completed **Credit and Finance Information Forms (Appendix K and Table A and Table B).**

10. A completed **Electric Transmission Data Information Form (Appendix L).**

11. A completed **Gas Interconnection Information Form and copy of the completed Application (Appendix M1) and a completed Agreement to Perform Tariff Scheduled Related Work (Appendix M2).**

12. A completed **Generation Operating Characteristics (Appendix N3) and Start-Up and Testing Protocols (Appendix N4).** A Facility Ownership Offer will be expected to meet the Generation Operating Characteristics described in Appendix N, applicable to the technology. Any specification that cannot be met should be identified, along with a rationale for why the specification cannot be satisfied. Offers other than gas-fired technologies should provide a letter stating their ability to meet these requirements and provide a markup of the applicable Appendix N stating those characteristics they cannot meet and provide the standards they can satisfy.

VII. Communications:

PG&E has established a website at http://www.pge.com/rfo, where Participants may register and where all RFO documents, information, announcements and Q&As are posted and available to Participants.

To promote accuracy and consistency of the information provided to all Participants, PG&E discourages Participants from speaking directly with PG&E employees about this RFO. PG&E strongly prefers that all communications take the form of an e-mail directed to ltrfo@exchange.pge.com. With respect to matters of general interest raised by any Participant, PG&E may, without reference to the specific Participant raising such matter or initiating the inquiry, post responses on its website. PG&E may, in its sole discretion, decline to respond to any email or other inquiry without liability or responsibility.

PG&E may elect to respond to inquiries or comments by individual Participants concerning purely procedural or administrative matters, but may also decline to do so in its sole discretion without liability or responsibility.

VIII. Electric Transmission Interconnection:

A. Overview

Interconnection of a Project to the electric system grid and the ability of the project to deliver the resource to serve load reliably will be integral components of PG&E's evaluation of Offers. This section describes the interconnection requirements that the Participants, proposing facilities which would connect to the electric transmission system, are required to meet. Participant requirements are:

1. The resource must meet all applicable planning and operation standards as described in Section VIII. B "Standards of Care".

2. PG&E's transmission system must be able to reliably deliver the output of the resource to serve load. This ability and the associated costs are determined from the CAISO Interconnection Procedure. While Participants are encouraged to initiate the applicable CAISO Interconnection Procedures as early as possible, Participants that are shortlisted that have not submitted an Interconnection Application (in the form specified by the CAISO) must apply for interconnection as described in Section D ("Transmission System Impacts") no later than one (1) week after notification of shortlisting.

3. For those projects that have a current interconnection study (*i.e.*, a Feasibility Study, System Impact Study or Facilities Study), each Offer must include all completed CAISO interconnection studies to be considered for selection. No Offer involving a project that has a current interconnection study will be complete until PG&E has received this information. Any Participant that does not want to provide this information to PG&E should not submit an Offer in this RFO.

4. For those projects that do not yet have a current CAISO interconnection study, each Participant must accept the transmission proxy costs that result from their choice of substation, as further specified in Section VIII.D, "Transmission System Impacts." The Participant must provide to PG&E the results of any CAISO interconnection studies as those results become available. This information will be used by PG&E solely in ranking and evaluating Offers and will be treated as confidential information by PG&E in a manner consistent with the CAISO Tariff.

5. Each Participant must provide PG&E copies of all correspondence between Participant and the CAISO and/or between Participant and all transmission owners regarding their application as well as proof of payment to initiate the CAISO process.

6. Each Participant is solely responsible for any direct assignment costs and transmission charges, as described in Section VIII.C "Direct Assignment Facilities and Transmission Charges".

7. Completion of Appendix L "Electric Transmission Information Form". Appendix L provides the web links to the documents referred to in this Section.

B. Standards of Care

All Projects will be required to meet the following standards of care.

1. CAISO Standards. Facilities must be designed and constructed such that all generation, scheduling and transmission services shall be performed in compliance with all applicable operating policies, criteria, rules, guidelines and tariffs of the CAISO and Prudent Electrical Practices. The Project, at its own expense, shall fulfill all contractual, metering and interconnection requirements as set forth in Participating Transmission Owner's applicable tariffs, the CAISO tariff and implementing CAISO standards and requirements, including but not limited to executing a CAISO Interconnection, Participating Generator and Meter Service agreements and PTO Generator Special Facilities Agreements ("GSFA"), so as to be able to deliver energy to the CAISO controlled grid and bear all costs relating to all metering equipment installed to accommodate the Unit(s). The Project will be expected to comply with any conditions, modifications, amendments or additions to the applicable CAISO tariffs and protocols throughout the term of its Agreement.
2. Reliability Standard. The project must be designed and constructed to comply with all NERC, Western Electricity Coordinating Council ("WECC"), and CAISO reliability requirements. If the project is interconnected directly to the PG&E system, it must meet PG&E's requirements regarding interconnection of the Unit(s), including PG&E's Interconnection Handbook ("PIH"); or, if the project is interconnected to the system of another transmission owner, it must also meet the applicable requirements regarding interconnection of the Unit(s) with such transmission owner's system.
3. Protective Apparatus. The project must include all relays, meters, power circuit breakers, synchronizers and other control and protective apparatus that the Transmission Owner, in its sole judgment, determines are reasonably necessary for proper and safe operation of the Unit(s) in parallel with the Transmission Owner's system.

C. Direct Assignment Facilities and Transmission Charges

Direct Assignment facilities are those facilities needed to interconnect the generation facility to the first point of interconnection with the PG&E transmission system. These facilities are referred to as Direct Assignment facilities, or gen-ties. Direct Assignment facilities include the transformer bank used to step-up the generation output to transmission voltage, the outlet line between this step-up transformer bank and the transmission system, and protection and communication facilities needed for interconnection and safe operation of the generator. Direct Assignment transmission charges include any transmission charges the project must pay to a Transmission Owner. The Participant is solely responsible for Direct Assignment Facilities and Transmission Charges.

D. System Impacts

System Impacts relate to the capability of the transmission system to deliver the full output of the project from the first point of interconnection with the Transmission Owner's transmission system to serve PG&E's load reliably. This includes both CAISO Interconnection Service and Deliverability Assessment (as defined by the CAISO tariff). If there is insufficient capability, network upgrades would be needed. Network upgrades may include transmission lines, transformer banks, special protection systems, substation breakers, capacitors, and other equipment needed to transfer the generation output to the consumer. Pursuant to FERC Order 2003, as modified by FERC in March of 2004, Participants will be required to fund the full cost of all facilities necessary to interconnect to PG&E's system, including network upgrades. A Participant is entitled to a cash equivalent refund of the network upgrades it funds, with interest paid over a five-year period. Participants that are shortlisted in this RFO must apply for interconnection one week after shortlist notification.

1. Projects With Completed and Current CAISO Interconnection Studies. For projects that have already obtained cost estimates from completed and current CAISO Interconnection Studies through the applicable CAISO Interconnection Procedure, the Participant shall submit copies of the completed studies with the Offer.

2. Projects Without Completed CAISO Interconnection Studies. For projects that do not yet have completed CAISO Interconnection Studies, pending the availability of the completed studies, PG&E will use transmission proxy costs for interim Offer evaluation. A link to the proxy costs may be found on the following PG&E web site: http://www.pge.com/b2b/energysupply/wholesaleelectricsuppliersolicitation/allsourcerfo/ under the section titled "Transmission Related Information and References," listed as "Electric Transmission Proxy Costs." Copies of the completed CAISO Interconnection Studies must be received by PG&E when they are available.

Each Participant without completed CAISO Interconnection Studies must select from the substations listed on the web site cited above the substation which best approximates the point of interconnection for the Unit(s) in its Offer. The transmission costs are proxies for transmission network upgrades that may be needed to transmit the full output of the project to serve load reliably. The transmission costs were determined based on the method that was filed in compliance with CPUC D.04-06-013.

The PG&E web site referenced above provides the transmission proxy costs for 230 kV substations during peak and off-peak periods for 2012 as of September 2007. For each substation, PG&E has identified several levels of possible additional transmission capacity and the related costs. Level 1 reflects the

available transmission capacity after taking into account all approved reliability and economic transmission projects as well as upgrades planned for generation projects in the CAISO interconnection queue based on their completed CAISO Interconnection Studies. Thus, Level 1 would have no network upgrade costs except those associated with reactive power support. The next and subsequent levels reflect the next most cost-effective proxy network upgrade(s). The number of levels depends on the number of proxy network upgrades needed to accommodate up to about 1,000 MW new generation in each substation.
The transmission proxy costs will be used solely for the purpose of ranking and evaluating Offers. The actual transmission network upgrade costs for a specific project, determined by the CAISO Interconnection Studies, may differ from the transmission proxy costs and PG&E is not responsible or liable for the deviation between estimated and actual costs.

IX. Gas Supply and Interconnection:

Each Offer using natural gas must include a completed form of Appendix M. This information is required regardless of the gas transportation service provider.

If Interconnected to PG&E's Gas Transmission or Distribution System:

To obtain the information needed to complete Appendix M for a power plant that is located in PG&E's service territory and is served from the PG&E gas transmission or distribution system, each Participant must submit to PG&E GT&D Business Development, Rm. 1553, 245 Market Street, San Francisco, CA 94105 or e-mail to Mike O'Brien, at mdo1@pge.com, a request for an expedited Preliminary Application for Gas Service by no later than **April 28, 2008.** If the Participant submits its Application for Gas Service any later than close of business April 28, 2008, PG&E may not have the resources to respond in time to support the Participant's Offer.

The application form and the standard gas interconnection process is described at: http://www.pge.com/b2b/newgenerator/gasinterconnections/

For projects that have already obtained a response for a Preliminary Application for Gas Service within the past 12 months from a previous PG&E application, the Participant shall submit copies of the completed studies and a completed Appendix M with the Offer.

The PG&E Gas Transmission Connection Process usually consists of 4 steps:

1. Preliminary Request for Information,
2. Preliminary Application for Gas Service,
3. Formal Application and Approval for Gas Service, and
4. Construction.

However, for this RFO, Participants are asked to use the following expedited process:

1. Submit to PG&E's GT&D a formal written request to initiate an expedited Preliminary Application for Gas Service for each site. The normal response time for a Preliminary Application for Gas Service is approximately 10 weeks, which includes a Gas System Impact Study (GSIS) and a Gas Preliminary Facilities Study (GPFS). Because of the necessity of an expedited response and the number of requests, we suggest the following requests be made in the cover letter:
   a. Notify GT&D that you are participating in this RFO.
   b. Request GT&D to forgo the Preliminary Informational Review and immediately initiate an expedited Preliminary Application for Gas Service, which must be completed and attached.
   c. Request GT&D to provide results of the (GSIS) as soon as the study is complete.
   d. Request that, upon completion of the GSIS, GT&D should proceed with an expedited GPFS. Request that the study be completed by June 27, 2008. Also state that, because of the timing of this RFO, the request for information should be treated by GT&D on an expedited schedule, and that the Participant will accept order-of-magnitude cost estimates based upon available engineering resources.
   e. In the cover letter, include language similar to the following: "In connection with PG&E's All-Source Long-term RFO, Applicant (otherwise known as Bidder) agrees that PG&E's Gas Transmission and Distribution may share information with the LTRFO Evaluation Team."

2. Provide GT&D with a completed "Application for Gas Transmission Service" (Appendix M1). An electronic copy of this document is included with this RFO, and can also be found at: http://www.pge.com/b2b/newgenerator/gasinterconnections/

3. Provide GT&D with two completed and executed originals of PG&E's "Agreement to Perform Tariff Schedule Related Work" (Appendix M2).

4. Provide a site map of the proposed power plant with a detailed, proposed meter set location.

5. Include hourly/daily/seasonal projected load curves when the power plant is in-service (maximum loads are in the interconnection information sheet);

6. Provide the estimated annual gas usage of the proposed Facility by month.

7. Enclose a cash advance made out to Pacific Gas and Electric Company of $15,000 to initiate engineering.

The date of receipt by GT&D of the completed application will establish the Participant's place in the engineering queue. In order to meet the expedited bidding schedule, GT&D will not perform a full analysis at this time. PG&E will request that if the Participant is selected for the shortlist, the Participant shall request GT&D to provide a detailed Preliminary Application for Gas Service.

Additional funding may be required at that time. The Formal Application and Approval for Gas Service will not be required until the Offers have been selected.

The Participant will be required to pay for the interconnection of the project to the PG&E gas system, subject to the conditions as outlined in PG&E's Gas Rules 2, 15 and 16 (http://www.pge.com/tariffs/GR.SHTML#GR), unless addressed in PG&E's response to the Preliminary Application for Gas Service.

If work does not proceed, the balance of the cash advance will be returned to Participant. Should the costs exceed the project advance PG&E will stop work and notify Participant accordingly. For this cash advance, PG&E will perform the following:

1. A cost and schedule to build PG&E's recommended Standard Facilities and Special Facilities Designs if applicable within the accuracy limits as discussed above;
2. A map showing PG&E's preferred transmission service tap, pipeline route and meter set location; and
3. The expected minimum delivery pressure available at the meter set for PG&E's preferred route.

An additional cash advance may be required to complete the Preliminary Study should the Participant make the short list.

The Application including the initial cash advance made out to PG&E should be delivered to:

Pacific Gas and Electric Company
Attn: Rod Boschee
Mail Code N15A
245 Market Street
San Francisco, CA 94105-1702

If Not Interconnected to PG&E GT&D:

The Participant will be responsible for obtaining all required information from the gas service provider, and will include all related documents and studies with the Offer.

X. Credit:

In its evaluation of an Offer, PG&E will consider the Participant's capability to perform all of its financial and other obligations.

Power Purchase Agreement:

For PPAs, PG&E will consider the Participant's capability to perform all of its financial and other obligations including, without limitation, the Participant's ability to provide Performance Assurance that the resource would be available and operate as required under the executed contract. This assurance is to support performance during plant operations and the ability of the Participant to construct the generation facility by the Expected Initial Delivery Date. This assurance includes the ability of the Participant to fund the construction of the generation facility and cause it to be constructed by the Expected Initial Delivery Date as set forth in the form of PPA to be provided. Participants are required to complete the Credit and Finance Information Form set forth in Appendix K.

The Participant will be required to post collateral to support its ability to construct the generation facility by the expected delivery date and, depending on its credit standing, may need to post collateral acceptable to PG&E to support performance of other obligations under the contract. The terms and conditions to provide collateral are set forth in the form of PPA. As set forth in Section VIII "Electric Transmission Interconnection", Participants will be required to provide funding for any network upgrade costs.

To manage credit risk associated with the products being contracted through this RFO after the Initial Delivery Date, PG&E will require a weekly collateral posting based on a computation of the week-to-week change in market value for the product(s). The change in market value will be computed for either a three-year or a five-year time frame. The specific time frame is dependent on the length of time it is expected to take to replace the technology underlying the product contracted through this RFO. Depending on the shift in market value, PG&E or the seller will be required to post collateral beyond their respective collateral threshold amounts as described in the form of PPA.

Facility Ownership:

For Facility Ownership, PG&E will consider the Participant's capability to perform all of its financial and other obligations under the PSA, including without limitation, the Participant's ability to fund the construction of the generation facility and cause it to be constructed in accordance with the requirements of the PSA by the Commercial Operation Date and the Participant's ability to provide credit support to assure performance of its obligations, both during construction and after the completed facility has been purchased by PG&E as set forth on the form of PSA to be provided. This assurance includes the ability of the Participant to fund the construction of the generation facility and cause it to be constructed by the Commercial Operation Date as set forth in the form of the PSA to be provided. Participants are required to complete the Credit and Finance Information Form set forth in Appendix K.

XI. Pricing, Terms and Conditions:

As part of this initial RFO offer solicitation package, PG&E has prepared detailed term sheets for PPA and PSA Offers. These term sheets cover the major commercial terms for each structure. PG&E plans to provide fully developed forms of PPA and PSA contracts by May 9, 2008. These contracts will be consistent with the earlier term sheets, and Participants should develop their responses and Offers based on these forms of contracts rather than the term sheets.

Power Purchase Agreement:

PPA Offers must include a complete and executed agreement based on the form of agreement provided by PG&E which PG&E may accept in its entirety and execute without modification. In addition to a clean and executable version of the PPA, Participants must also provide a red-line of the PPA Offer agreement marked against the form of agreement provided by PG&E. Any changes made to the form of PPA agreement after submission of the Offer may result in early termination of PG&E's consideration of the Offer. A term sheet for PPA transactions is included as Appendix F.

Participants are required to complete the Offer Data Form set forth in Appendix H1, as well as the other applicable appendices. The Offer Data Form should be completed in conjunction with the PPA form of contract when provided.

In order for a PPA Offer to be considered, it shall include two distinct sets of Appendix H1 compensation rates, as follows: the first set is to assume the inclusion of Note 1, below, in the PPA, and the second set is to assume Note 1, below, is not included in the PPA.

> Note 1: Buyer shall reimburse Seller (Participant) for taxes, charges or fees that are implemented after the PPA is executed for Greenhouse Gases ("GHGs") attributable to the generation facility, within forty-five (45) days of Buyer's receipt from Seller of documentation, in form and substance acceptable to Buyer, establishing that: (i) that Seller is actually liable for the tax, charge or fee for GHGs attributed to the operation of the generation facility during the services term of the PPA; (ii) that the tax, charge, or fee was not effective or scheduled to become effective as of the date the PPA was executed; (iii) the specific amount of the tax, charge, or fee; (iv) that the tax, charge or fee was imposed upon Seller by an authorized governmental authority with jurisdiction to impose the tax, charge or fee where the generation facility is located, or which otherwise has jurisdiction over Seller or the generation facility; (v) that Seller has paid the government authority identified under (iv) the full amount of the tax, charge or fee for which Seller seeks reimbursement from Buyer, and (vi) that Seller took all reasonable steps to mitigate the cost or amount of such tax, charge or fee, *provided,* the reasonable steps shall not be deemed to require Seller to make capital improvements to the generation facility.

Facility Ownership:

Under a PSA, PG&E would purchase the project from Participant when it has been constructed, tested, completed and is ready for transfer, and all conditions precedent to Closing for which the Participant is responsible as set forth in the PSA have been satisfied. A term sheet for PSA transactions is included as Appendix G.

PSA Offers must include a complete and executed agreement based on the form of agreement provided by PG&E which PG&E may accept in its entirety and execute without modification. In addition to a clean and executable version of the Offer, Participants must also provide a red-line of the Offer agreement marked against the form of agreement provided by PG&E.

PG&E will also consider alternative structures for Facilities Ownership transactions as set forth in Section VI.B "Required Information", in recognition of such proposals being less standardized. Offers for alternative structures must include a complete and executed agreement which PG&E may accept in its entirety and execute without modification. Any alternative PSA forms of agreement offered by the Participant must follow the form PSA agreement to the greatest extent practicable. Where practicable, a Participant's proposed form agreement for an alternative Facilities Ownership transaction should be marked against PG&E's PSA form of agreement.

Any changes made to the form of PSA or alternative Facilities Ownership transactions after submission of the Offer may result in early termination of negotiations.

Facility Ownership - Pricing:

In the Offer Data Form (Appendix H2) to be submitted by each Participant making a Facility Ownership Offer, the Participant must specify the Purchase Price for which it will sell its completed project to PG&E. As further described in the PSA term sheet (Appendix G), 95% of the Purchase Price would be payable by PG&E subject to the satisfaction of all conditions precedent set forth in the PSA, and the deferred portion of the Purchase Price would be payable to the Participant subject to the project's successfully completing the Extended Reliability and Performance Test described in the form of PSA under "Release of Deferred Portion of Purchase Price".

As part of the Facility Ownership definitive agreement, Participant and PG&E will agree to a firm project specification and scope of work for completion of the project. The Participant shall be responsible for the cost of any change orders that PG&E determines are necessary to ensure that the Project complies with the specifications, required design and the other requirements of the PSA. PG&E will only compensate Participant for changes made at PG&E's request that expand the scope of work in a material respect and are not required for the Project to comply with the agreed specifications and design. The Participant will be responsible for all other potential cost increases that may occur during construction of the project regardless of source or reason.

Facility Ownership - Long Term Service Agreement ("LTSA"):

PG&E requires that the Participant making a Facility Ownership Offer provide to PG&E the option to purchase on behalf of PG&E one or more Long Term Service Agreement ("LTSA") from the vendors of major equipment included as part of the facility (e.g., turbines). Many equipment manufacturers provide LTSAs to supplement their short-term equipment warranties. LTSAs provide many benefits including reducing the ownership risk of equipment breakdowns, premature parts failures, protection from parts and services price escalation and plant heat rate, output and availability performance guarantees.

XII. Confidentiality Agreement:

Except as provided below, all information and documents provided to PG&E by Participant in connection with this RFO shall be considered confidential information, and PG&E and the Participant shall be prohibited from disclosing such information and documents to any and all third parties except as provided below.

It is expressly contemplated that materials submitted by a Participant in connection with this RFO will be provided to the CPUC, its staff, the Independent Evaluator, and PG&E's Procurement Review Group ("PRG"), and Cost Allocation Methodology ("CAM") Group. PG&E will seek confidential treatment pursuant to D.06-06-066 and Public Utilities Code section 583, with respect to any Participant-supplied non-public RFO information and documents ("Participant's Confidential Information") that are submitted by PG&E to the CPUC for the purpose of obtaining Regulatory Approval. PG&E will also seek confidentiality and/or non-disclosure agreements with the PRG/CAM Group applicable to the Participant's confidential information. PG&E cannot, however, ensure that the CPUC will afford confidential treatment to a Participant's confidential information, or that confidentiality agreements or orders will be obtained from and/or honored by the PRG/CAM Group or the CPUC.

PG&E retains the right to disclose any information or documents provided by the Participant to the CPUC, its staff, the Independent Evaluator, the PRG, CAM Group, and to any other entity in order to comply with any applicable law, regulation, or any exchange, control area or CAISO rule, or order issued by a court or entity with competent jurisdiction over PG&E at any time even in the absence of a protective order, confidentiality agreement or nondisclosure agreement, as the case may be, without notification to the Participant and without liability or any responsibility of PG&E to the Participant.

As provided in Appendix B, the Long Term Request for Offer Agreement, once a Participant is selected for the Shortlist, the Participant must execute a Confidentiality Agreement in the form attached to Appendix B and return such Confidentiality Agreement within five (5) business days of notification of their selection in order to continue to participate in the RFO.

XIII. Accounting

In conformity with accounting principles generally accepted in the United States of America ("US GAAP") PG&E may be required to collect and possibly consolidate financial information from the facility whose output is being purchased under long-term contractual arrangements. Some general guidelines for determining whether consolidation must occur include:

A. Determination of allocation of the entity's risks and rewards;

B. Proportion of total project output being purchased by PG&E;

C. Proportion of expected project life being committed to PG&E; and

D. Pricing provisions of contract, that is, does the contract contain fixed long-term prices or does pricing vary over the term of the agreement based on market conditions or other factors.

For any PPA that meets the applicability criteria as established by US GAAP, PG&E is obligated to obtain information from successful Participants to determine whether or not consolidation is required. If PG&E determines that consolidation is required, PG&E shall require the following during every calendar quarter for the term of a PPA:

A. Complete financial statements and notes to financial statements;

B. Financial schedules underlying the financial statements, all within 15 days of the end of each quarter; and

C. Access to records and personnel, so that PG&E's independent auditor can conduct financial audits (in accordance with generally accepted auditing standards) and internal control audits (in accordance with Section 404 of the Sarbanes-Oxley Act of 2002).

Any information provided to PG&E shall be treated confidentially and only disclosed on an aggregate basis with other similar entities for which PG&E has power-purchase contracts. The information will only be used for financial statement purposes and shall not be otherwise shared with internal or external parties.

XIV. Execution of Agreement

By submitting an Offer, Participant agrees, if its Offer is selected, to negotiate and execute a definitive Agreement consistent with the mark-up of the form of Agreement submitted with the Participant’s Offer and containing such other terms and conditions as may be mutually acceptable to PG&E and the Participant. By submitting an Offer, Participant agrees, if its Offer is selected, to enter into a definitive Agreement consistent with the mark-up of the Agreement submitted. PG&E’s evaluation of a Participant’s Offer, and PG&E’s shortlisting of a Participant, will not constitute any agreement by PG&E to any modification made by the Participant to the form of Agreement submitted to Participant.

XV. Regulatory Approval:

The effectiveness of any Agreement is expressly conditioned on PG&E’s receipt of Regulatory Approval. “Regulatory Approval” means a final and non-appealable order or orders of each regulatory or other governmental body designated by PG&E, including without limitation the CPUC, without conditions or modifications unacceptable to PG&E, which, in the case of Regulatory Approval by a governmental body other than the CPUC grants the approvals requested in the application therefore, and in the case of Regulatory Approval by the CPUC, does the following:

1. Approves the Agreement in its entirety, including payments to be made by PG&E and timely cost recovery, subject only to CPUC review with respect to the reasonableness of PG&E's administration of the Agreement, and finds PG&E's entry into and performance under the Agreement to be reasonable; and,

2. Authorizes PG&E to recover payments under the Agreement in utility revenue subject only to CPUC review with respect to the reasonableness of PG&E's administration of the Agreement.

XVI. Participant's Waiver of Claims and Limitations of Remedies

Except as expressly set forth in this RFO, by submitting an Offer, the Participant knowingly and voluntarily waives any rights under statute, regulation, state or federal constitution, or common law to assert any claim or complaint or other challenge in any regulatory, judicial or other forum, including the CPUC, except as expressly provided below, the FERC, the Superior Court of the State of California ("State Court") or United States District Court ("Federal Court") concerning or related in any way to the RFO and/or any Appendices to the RFO ("Waived Claims"). The assertion of any Waived Claims by Participant at the CPUC, FERC, State Court, Federal Court, or otherwise shall, to the extent that Participant's Offer has not already been disqualified, provide PG&E the right, and may result in PG&E electing, to reject such Offer or terminate the RFO.
By submitting an Offer, the Participant further agrees that the sole forum in which Participant may assert any challenge with respect to the conduct or results of the RFO is the CPUC. The Participant further agrees that the sole means of challenging the conduct or results of the RFO is a protest to PG&E's filing before the CPUC seeking approval of one or more Agreements entered into as a result of the RFO. The Participant further agrees that the sole basis for any such protest shall be a challenge to the conduct or results of the RFO on the ground that PG&E failed in a material respect to conduct the RFO in accordance with the RFO rules and procedures outlined in this document, and the exclusive remedy available to the Participant in the case of such a protest shall be an order of the CPUC that PG&E again conduct any portion of the RFO that the CPUC determines was not previously conducted in accordance with the RFO rules and procedures outlined in this document. The Participant expressly waives any and all other remedies, including, without limitation, compensatory and/or exemplary damages, restitution, injunctive relief, interest, costs, and/or attorneys' fees. Unless PG&E elects to do otherwise in its sole discretion, during the pendency of such a protest the RFO and any related regulatory proceedings related to the RFO will continue as if the protest had not been filed, unless the CPUC has issued an order suspending the RFO or PG&E has elected to terminate the RFO.

The Participant agrees to indemnify and hold PG&E harmless from any and all claims by any other Participant asserted in response to the assertion of a Waived Claim by the Participant or as a result of a Participant's protest to an Advice Letter Filing resulting from the RFO. Except as expressly provided in this RFO, nothing herein, including Participant's waiver of the Waived Claims as set forth above, shall in any way limit or otherwise affect the rights and remedies of PG&E.

XVII. Termination of the RFO-Related Matters

PG&E reserves the right at any time, in its sole discretion, to terminate the RFO for any reason whatsoever without prior notification to Participants and without liability of any kind to or responsibility of PG&E or anyone acting on PG&E's behalf. Without limitation, grounds for termination of the RFO may include the assertion of any Waived Claims by a Participant or a determination by PG&E that, following evaluation of the Offers, there are no Offers that provide adequate ratepayer benefit.

PG&E reserves the right to change the Offer evaluation criteria for any reason, to terminate further participation in this process by any Participant, to accept any Offer or to enter into any definitive Agreement, to evaluate the qualifications of any Participant, and to reject any or all Offers, all without notice and without assigning any reasons and without liability to PG&E or anyone acting on PG&E's behalf. PG&E shall have no obligation to consider any Offer.

In the event of termination of the RFO for any reason, PG&E will not reimburse the Participant for any expenses incurred in connection with the RFO regardless of whether such Participant's Offer is selected, not selected, rejected or disqualified. Return of a Participant's Offer Deposit in the event of termination will be governed by the provisions of Section V.C "Offer Deposit".

Unless earlier terminated, the RFO will terminate automatically upon the execution of one or more Agreements by selected Participants as described herein. In the event that no Agreements are executed, then the RFO will terminate automatically on March 31, 2009.

XVIII. Participant's Representations and Warranties

Each Participant submitting an Offer shall execute and provide the Long Term Request for Offer Agreement (Appendix B) attesting to the Participant's agreement to be bound by the conditions of the RFO in submitting its Offer and making the representations and warranties set forth therein.

BREACH BY ANY PARTICIPANT OF THE REPRESENTATIONS AND WARRANTIES IN APPENDIX A OF THE RFO APPENDICES IS, IN ADDITION TO ANY OTHER REMEDIES THAT MAY BE AVAILABLE TO PG&E UNDER APPLICABLE LAW, GROUNDS FOR IMMEDIATE DISQUALIFICATION OF SUCH PARTICIPANT FROM PARTICIPATION IN THE RFO AND, DEPENDING ON THE NATURE OR SEVERITY OF THE BREACH, MAY ALSO BE GROUNDS FOR TERMINATING THE RFO IN ITS ENTIRETY.