January 19, 2000

ADVICE 1960-E

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariff sheets. The affected tariff sheets are listed on the enclosed Attachment I.

The purpose of this filing is to clarify the cost recovery rules under the existing authorization in Resolution E-3618 for trades in the California Power Exchange Corporation (CalPX) Block Forward Market (BFM), to include in such authorization the new BFM products proposed by the CalPX in its recent application with the Federal Energy Regulatory Commission (FERC), and to extend the megawatt (MW) quantity and term of this authorization.

Clarifying the BFM authorization is necessary for PG&E to hedge price risk for energy purchases for this summer. Including new BFM products and extending the authorization will enhance PG&E's ability to mitigate the price risk of energy purchases.

Background

On July 8, 1999, the Commission in Resolution E-3618, Ordering Paragraph 4, authorized PG&E to recover costs for trades in the CalPX BFM for delivery through October 2000, subject to the outcome of the Post Transition Ratemaking Proceeding (PTER). The approval was for a limited term "in view of the innovative nature of the Block-Forward Market," with the date selected to "insure that the program will have a fair period of time to work, will not be interrupted during a peak season, and will allow time for analysis and the implementation of any appropriate changes before the next peak season begins." (Discussion Paragraph 9).

The Commission found the BFM "will be a useful option for electricity buyers offering the ability to obtain power supplies with greater price stability than on the spot markets, and mitigating the effects of price spikes in the day-ahead and hour-ahead markets on peak days." To ensure that the BFM will be used for hedging rather than speculation, the Commission limited PG&E's BFM transactions to one-third of its historical minimum hourly load by month.

Approval of cost recovery in Resolution E-3618 is also only for products authorized by the FERC order of May 26, 1999. The Commission found "[s]hould the Power Exchange introduce any additional block-forward offerings, SCE and PG&E must obtain Commission authorization for PX cost recovery of such products."

On October 21, 1999, in Decision (D.) 99-10-057 (PTER Phase 1), p. 29, the Commission stated its intent to review any purchases through the PX after the transition period "until and unless" some other type of oversight is adopted. That decision states on p.33, "[n]o utility may carry over costs incurred during the rate freeze period to the post-rate freeze period …." and "[a]fter the rate freeze, the utilities may not recover costs incurred during the rate freeze."

Clarification Of Existing Cost Recovery For BFM Transactions

As stated above, Resolution E-3618 authorized PG&E to recover costs for trades in the CalPX BFM for delivery through October 2000, subject to the outcome of the PTER proceeding. The PTER Phase 1 decision subsequently put cost recovery in doubt for any BFM trades for which delivery may turn out to be made post-rate freeze.

As authorized, PG&E has participated in the BFM, using it to hedge price risk associated with energy purchases. PG&E has reported its trades to the Commission monthly, under seal pursuant to Public Utilities Code Section 583 and General Order 66-C.

The need to continue hedging price risk for bundled-service customers remains. However, given the uncertain end-date of PG&E's rate freeze, PG&E's ability to recover its BFM costs is unclear, particularly in the event the end date of the rate freeze precedes the delivery date of energy purchased before that date. This uncertainty makes it very difficult for PG&E to continue hedging price risk using the BFM.

If D 99-10-057 is interpreted in such a way that costs and benefits of block forward transactions made today can not be recovered after the rate freeze, then it is impossible to continue hedging the price risk of energy purchases for any date that may turn out to be post-rate freeze. PG&E's customers will remain fully exposed to prices in the spot markets.

If costs and benefits of the BFM are viewed as being incurred on the date of energy delivery, then cost recovery is possible under the PTER Phase 1 decision. However, these transactions might still be subject to reasonableness review or some other type of oversight, not yet determined.

PG&E's effort to hedge price risk using BFM trades is limited by the cost recovery rules adopted by the Commission. To enable PG&E to continue to use the BFM to hedge price risk, PG&E requests that the Commission adopt the following standard for the cost recovery of BFM transactions: all BFM transactions made within the limits of the Commission authorization (authorized BFM products, quantity and term) are deemed prudent and recoverable without the need for reasonableness reviews. The cost recovery and oversight rules determined in the PTER proceeding shall apply prospectively to BFM transactions for delivery after the end date of the PG&E rate freeze which are entered after the Commission decision determining that end date, not retroactively.

As the end date of the rate freeze approaches, it is essential that cost recovery authorization and the standard for review or oversight be known at time of the BFM trade and that these not be changed retroactively. Authorizing this proposal will achieve that requirement.

Additional Products

On December 30, 1999, CalPX filed a tariff modification with FERC in order to offer additional BFM products effective March 1, 2000. (FERC Docket No. ER00-950-000) These additional products are new delivery periods (blocks) and new delivery locations. The new blocks are "Super Peak Energy" and "Shoulder Peak Energy", each of which is a "6 day by 8 hour" product while the present "Peak Energy" block is a "6 day by 16 hour" product. These new blocks split the existing Peak block into two parts. The new delivery locations include the California Oregon Border (COB).

The new Super Peak and Shoulder Peak blocks and additional delivery location at COB provide added flexibility in hedging the price risk of PG&E's energy purchases, beyond that in the previously offered products. These products will allow PG&E to better match BFM purchases to the price risk embedded in PG&E's demand. As required by Resolution E-3618, PG&E requests that the cost recovery authority for Block Forward trades be extended to these additional products.

CalPX has requested authority from FERC to add or change permitted delivery periods and locations in the BFM without further modifying its tariff. Its FERC filing anticipates CalPX may enhance its BFM product offerings in this way from time to time "as may be approved by the CalPX Board" in response to the desires of market participants. To enable it to respond in a timely manner to such enhancements, PG&E further requests the cost recovery authority for Block Forward trades be extended to such additional BFM time periods and delivery locations as may be offered by the CalPX.

Quantity: Extend MW limitation

The limitation of BFM transactions to one-third historical minimum hourly load by month was imposed before any BFM trades had ever been made because of the innovative nature of the BFM. It is a low limit in view of the fact that BFM products are for on-peak hours, when loads have historically been well above minimum. This limit restricts the ability of PG&E to mitigate price risk. The present limit prevents PG&E from hedging more than about 2000 MW in July through September, which represents about one-sixth of the average PG&E Super Peak demand.

To increase the effectiveness of hedging the price risk of energy purchases, PG&E requests that the cost recovery authorized in Resolution E-3618 be extended to BFM transactions up to 3000 MW, or to such other increased limits as the Commission may adopt. This amount is less than PG&E's average net position (load – generation) in the Northern California Zone of CalPX during Super Peak hours. PG&E's position in the BFM will not exceed the above monthly amounts in any hour.

Term: Extend termination date of authorization

Price risk is not limited to the summer season only, and the BFM offers products which can be used to mitigate price risk up to twelve months forward. The initial termination date of authorization for trades with delivery through October 2000 was established because of the innovative nature of the new BFM. The BFM has now been established and is functioning in conjunction with the other PX markets.

PG&E requests that the cost recovery authorization extend further to any BFM trades made for delivery through March 2002, or to such other extension date as the Commission may adopt.

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

PG&E requests that this filing become effective on **February 28, 2000**, which is 40 days after the date of filing.

Anyone wishing to protest this filing may do so by sending a letter within 20 days of this filing. Protests should be mailed to:

IMC Branch Chief
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 3102
San Francisco, California 94102
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division (address above), and Les Guliasi, Regulatory Relations Manager, 77 Beale Street, Mail Code B10C, P.O. Box 770000, San Francisco, California 94177, Facsimile (415) 973-7451. The protest should set forth the grounds upon which it is based and shall be submitted expeditiously. There are no restrictions on who may file a protest.

In accordance with Section III, Paragraph G of General Order 96-A, PG&E is mailing copies of this advice filing to the utilities and interested parties shown on the attached list. Address change requests should be directed to Ms. Nelia Avendano at (415) 973-3529.

Vice President – Regulatory Relations

cc: California Independent System Operator
California Power Exchange
Electricity Oversight Board

Attachments

SCHEDULE PX—POWER EXCHANGE ENERGY COST

APPLICABILITY: This schedule applies to customers who elect PG&E's Bundled, Direct Access and Hourly PX Pricing Option services.

TERRITORY: Schedule PX applies everywhere PG&E provides electric service as shown in Preliminary Statement, Part A.

RATES: This schedule will apply where calculation of the Power Exchange (PX) energy cost is required for either energy cost credits or charges. The PX cost used for billing will consist of the forward market cost plus real-time settlement costs and post-real-time settlement costs, adjusted by an allowance for uncollectibles and Distribution Loss Factors (DLFs). PG&E shall utilize the best information available for calculating the PX energy cost.

1. Development of hourly forward market costs:

   Hourly market clearing prices and loads, or the total costs allocated to PG&E by the PX, as a result of block forward, day-ahead, or hour-ahead scheduling of load in a PX-administered forward energy market will be obtained (or estimated to the extent feasible) for each relevant transmission pricing zone on the day following each trading day. Total costs for services obtained through the PX shall include, but are not limited to, the following:

   a. Energy, including inter-zonal congestion fees;
   b. Ancillary Services;
   c. Independent System Operator (ISO) and PX administration costs including subscription fees, payments, or charges by the PX, or CalPX Trading Services (CTS), as required by CTS trading rules and/or the Participation Agreement net of credits, rebates, or refunds; and
   d. Other miscellaneous ISO/PX charges incurred to serve Bundled Service Customers.

   The weighted average cost for these services shall be calculated for each hour as the sum of the costs in the day-ahead market in each zone, plus the costs in the hour-ahead market in each zone, plus the net gain or loss on transactions in the block forward market, all divided by the total kWh purchased in all zones in all forward energy markets for that hour. PG&E's block forward market transactions shall be limited to the products, quantity, and term for which cost recovery has (T)
   been authorized by the California Public Utilities Commission. (T)

2. Real-time Settlement Costs:

   Real-time Settlement costs, representing the real-time costs (i.e., those costs not reflected in charges to customers based upon prices determined from the day-ahead and/or hour-ahead scheduling of load) for acquiring power for PG&E customers for the trading day 60 days or more earlier, is added to the cost derived in Part 1 of this section. This rate is determined by dividing the real-time cost amount (which is the dollar amount incremental to the cost described in Part 1 of this section) by the load scheduled by PG&E to be served by the PX. Two adjustments may eventually be implemented: one for all customers of PG&E and an incremental adjustment only for customers without real-time meters.

   PG&E may make up to two real-time settlement cost adjustments on a single day's hourly prices, in order to shorten the lag between the settlement adjustment and the trading day.

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TABLE OF CONTENTS
(Continued)

RATE SCHEDULES

(Continued)

TABLE OF CONTENTS

RATE SCHEDULES

(Continued)