March 30, 2000

ADVICE 1986-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 request authorization to participate and recover the costs of new ancillary service contracts proposed by the California Power Exchange (CalPX) in its February 17, 2000 application with the Federal Energy Regulatory Commission (FERC) in the block forward market (BFM). Additionally, PG&E requests to recover credit and collateral costs, and system costs associated with all BFM transactions, including the new ancillary service trades. In order to implement this filing, PG&E submits revisions to Schedule PX--*Power Exchange Energy Cost*, and new Preliminary Statement Part AF—*Block Forward Market Memorandum Account (BFMMA)*

Background

In its application with FERC, CalPX proposed to offer, on a forward basis, new ancillary services through its California Trading Services Division (CTS) starting May 1, 2000. Initially, CTS will offer five physical ancillary service contracts in NP15 and SP15. Those five ancillary services are: regulation up, regulation down, spinning reserves, non-spinning reserves and replacement reserves. Contracts will initially be listed two to four months forward with delivery beginning on June 1, 2000.

In filing with FERC, CalPX notes that "CTS participants, the California Public Utilities Commission ("CPUC") and the California Independent System Operator ("CAISO") have strongly encouraged CTS to provide a market for ancillary services. The new market proposed by CTS will supplement the market for ancillary services currently offered by the CAISO. CTS and its participants believe that the availability of an additional market for ancillary services will attract additional supply and will benefit California consumers by making the overall market more competitive."

CTS sellers will schedule their ancillary services sales through CTS into the CalPX Day Ahead Market. CalPX will report all CTS provided ancillary services to the CAISO.

Proposed trading limits

In addition to the positive impact on the competitiveness of the market, PG&E believes that its participation in the ancillary services BFM would allow it to further hedge price risk for its bundled service customers. Ancillary services exhibited high prices in 1998 with price spikes of up to $9,999 per MW in replacement reserves. Lower demand and market design changes have contributed to bringing ancillary prices to more reasonable levels in 1999 and 2000; however, the potential exists for these prices to increase along with other energy prices during the upcoming summer hours.

PG&E estimates that collectively, ancillary services capacity averages about 10 percent of total demand. Given its hedging objectives, PG&E requests that it be allowed to purchase ancillary service capacity from any of the five BFM ancillary services offered by CTS so that the sum of all ancillary service capacity does not exceed 5 percent of its historical hourly demand averaged over a given quarter.

Consistent with the term authorized for PG&E's participation in the BFM in Resolution E-3658, PG&E requests that it be allowed to participate in the ancillary services BFM through the end of its rate freeze as such authority may be superseded by the expected Post-Transition Electric Procurement- Phase II decision.

Schedule PX

PG&E understands that the new ancillary service contracts, as well as the existing BFM energy contracts traded for delivery at external delivery points such as COB which are part of the enhanced BFM authorized in Resolution E-3658, settle at the BFM purchase or trade price, rather than at the difference between the trade price and the corresponding average day-ahead price. As a result, Schedule PX must be revised to include the total payment or revenue due for purchases or sales of ancillary services in the BFM.

Preliminary Statement Part AF

The purpose of the BFMMA is to record costs incurred by PG&E to participate in the BFM that are not billed to PG&E by CalPX or CAISO. These costs include, but are not limited to: a) credit and collateral costs including surety bond fees, cash collateral account financing costs, and other fees associated with credit and collateral costs, and b) costs incurred in modifying or acquiring systems needed to capture, track and settle block forward market transactions. PG&E proposes to recover the balance in the BFMMA through the Revenue Adjustment Proceeding (RAP) or other proceeding as authorized by the Commission. These costs will be collected as required by the Commission in its decisions in PG&E's pending 1999 RAP application, A. 99-08-023, and on PG&E's future application for a cost recovery mechanism to collect procurement costs, as required by D. 00-02-046.

In order to enable PG&E to use the new ancillary service BFM contracts for Summer 2000, PG&E respectfully requests that this filing become effective on **May 9, 2000**, which is 40 days after the date of filing.

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

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 4002
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 Nelia Avendano at (415) 973-3529.

Vice President – Regulatory Relations

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

Attachments

PRELIMINARY STATEMENT
(Continued)

AF. BLOCK-FORWARD MARKET MEMORANDUM ACCOUNT (BFMMA) (N)

1. PURPOSE:

The purpose of the BFMMA is to record costs incurred by PG&E to participate in the Power Exchange's (PX's) Block-Forward Market that are not billed to PG&E by the PX or the Independent System Operator (ISO). These costs include, but are not limited to: a) credit and collateral costs including surety bond fees, cash collateral account financing costs, and other fees associated with credit and collateral costs, and b) costs incurred in modifying or acquiring systems needed to capture, track, and settle block forward market transactions.

2. APPLICABILITY:

The BFMMA shall apply to all customer classes, except for those specifically excluded by the Commission.

3. BFMMA RATES:

The BFMMA does not have a rate component.

4. ACCOUNTING PROCEDURE:

PG&E shall maintain the BFMMA by making entries at the end of each month as follows:

a. A debit entry for monthly financing costs associated with maintaining the cash collateral account equal to the average monthly balance in the cash collateral account multiplied by one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13 or its successor.

b. A credit entry equal to monthly interest earned on the cash collateral account.

c. A debit entry equal to fees associated with opening, maintaining or transacting in the cash collateral account.

d. A debit entry equal to letter of credit fees.

e. A debit entry equal to surety bond fees.

f. A debit entry equal to start-up and operating costs of modifications to systems needed to capture, track and settle block forward market transactions.

g. A debit entry equal to other costs directly resulting from PX requirements to participate in the Block-Forward Market. These shall not include any costs associated with non-utility legal counsel, consultants, or advisors.

h. An entry equal to the interest on the average of the balance at the beginning of the month and the balance after entries 4.a. through 4.g. above, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G. 13 or its successor.

PG&E shall request recovery of the balance in the BFMMA in the annual Revenue Adjustment Proceeding (RAP), or other proceeding expressly authorized by the Commission. These costs will be collected as required by the Commission in its decisions in PG&E's pending 1999 RAP application, A.99-08-023, and on PG&E's future application for a cost recovery mechanism to collect procurement costs, as required by D.00-02-046. (N)

SCHEDULE PX—POWER EXCHANGE ENERGY COST
(Continued)

RATES: (Cont'd)

1. Development of hourly forward market costs (Cont'd)

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, which settle at the difference between the trade's matching price and the respective PX average day-ahead price, plus the net cost of block forward market ancillary service transactions which settle at the trade's matching price, 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 its net-short position, as defined in Resolution E-3658 for transactions which settle at the difference between the trades matching price and the respective PX average day-ahead price, and to 5 percent of PG&E's historical demand for ancillary service transactions. Furthermore, PG&E is guaranteed recovery of costs for its block forward market transactions for deliveries until the end of PG&E's rate freeze. (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)

PRELIMINARY STATEMENTS

(Continued)

TABLE OF CONTENTS
(Continued)

RATE SCHEDULES

(Continued)

TABLE OF CONTENTS

RATE SCHEDULES

(Continued)