

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Advice Letter 2869-E

September 25, 2007

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

Subject: Procurement Transaction Quarterly Compliance Filing (Q2, 2006)

Dear Mr. Cherry:

Advice Letter 2869-E is effective September 20, 2007.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director
Energy Division



Brian K. Cherry
Vice President
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July 31, 2006

Advice 2869-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Procurement Transaction Quarterly Compliance Filing (Q2, 2006)

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its compliance filing for the fourth quarter of 2005, in accordance with Decision (D.) 02-10-062, Ordering Paragraph (O.P.) 8, and clarified in D.03-06-076 and D.03-12-062. Decision 03-12-062, O.P. 19, requires that the Quarterly Procurement Plan Compliance Reports be submitted within 30 days of the end of the quarter.

Background

In D. 02-10-062, appendix B, *Adopted Master Data Request for Monthly Advice Letters*, outlines the required information for each utility's transaction reporting advice letter. The Energy Division clarified that the compliance items delineated in Appendix B of D.02-10-062 are for the Quarterly Report. The quarterly cycle for Appendix B was formalized in D.03-06-076, Order Modifying Decisions 02-10-062 and 02-12-074 and Denying Rehearing.¹ Subsequently, D. 03-12-062, O.P. 19, granted PG&E and SCE's joint petition to extend the due date of the quarterly filing from within 15 days to within 30 days of the end of the quarter.

In addition, a histogram (graph) of energy purchases and sales during the second quarter of 2006 is also provided in Confidential Appendix H.

Compliance Items

A Confidential Attachment (the narrative) with supporting Appendices is being submitted to the Energy Division as follows:

¹ Ordering Paragraph 8 of the Decision modified the title of Appendix B from D.02-10-062 to read: "Adopted Master Data Request for Quarterly Advice Letters." Also, in the first sentence of Appendix B, the word "month's" was deleted and replaced with "quarter's."

Confidential Attachment and Related Appendices

The Confidential Attachment to this filing contains responses to the information requested in Appendix B of D.02-10-062, as clarified by D.03-06-076 and of D.02-12-074, O.P. 10.

The supporting Confidential Appendices are:

- Appendix A – Procurement Review Group
Meeting Minutes, Presentations
- Appendix B - Request for Offers – Resource Adequacy
- Appendix C – Qualifying Facility (QF) Contracts
- Appendix D – PG&E’s Quarterly Transactions by Type and Quantity
- Appendix E – PG&E’s Monthly Transactions by Type and Quantity
- Appendix F – PG&E’s Monthly ISO Purchase and Sales Transactions for March, April, and May 2006
- Appendix G – Monthly Reports of Projected Need
- Appendix H – Histogram

Protests

Anyone wishing to protest this filing may do so by sending a letter by **August 21, 2006**, which is 21 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address. The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company
Attention: Brian K. Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

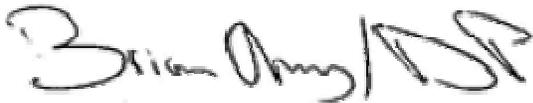
Effective Date

In compliance with D.02-10-062, the effective date of this advice letter is **July 31, 2006**.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter excluding the confidential appendices is being sent electronically and via U.S. mail to parties shown on the attached list and the service lists for Rulemaking (R.) 01-10-024 and R. 04-04-003. Address change requests should be directed to Rose De La Torre at (415) 973-4716 (RxDd@pge.com). Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs/>

A handwritten signature in black ink, appearing to read "Brian Amy/ASP". The signature is written in a cursive, somewhat stylized font.

Vice President - Regulatory Relations

cc: Service List - R. 01-10-024, R. 04-04-003
Procurement Review Group

Attachments

Confidential Attachment and Related Confidential Appendices A through H

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

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

Company name/CPUC Utility No. Pacific Gas and Electric Company U39M

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: David Poster

Phone #: (415) 973-1082

E-mail: dxpu@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2869-E**

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q2, 2006)

Keywords (choose from CPUC listing): Compliance

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution: D.02-10-062, D.02-12-074, D.03-06-076

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL _____

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Resolution Required? Yes No

Requested effective date: **7-31-2006**

No. of tariff sheets: 0

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

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

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

Tariff schedules affected: N/A

Service affected and changes proposed¹: See Advice Letter

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Utility Info (including e-mail)

Attn: Brian K. Cherry

Director, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

¹ Discuss in AL if more space is needed.

**PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

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

**Procurement Transaction Quarterly Compliance Report
Second Quarter, 2006
July 31, 2006**

Introduction

As required by Ordering Paragraph 8 of Decision (D.) 02-10-062, and clarified in Decisions 03-06-076, 03-12-062, 04-07-028, and 04-12-048, Pacific Gas and Electric Company (PG&E) hereby submits its Procurement Transaction Quarterly Compliance Report for the second quarter of 2006.

During the period April through June 2006 (Q2, 2006), PG&E engaged in competitive solicitations, bilateral contracting and market transactions conducted through brokers, electronic platforms and directly with counterparties to manage its net open (long/short) positions during the quarter and for portions of its future energy and capacity requirements. This procurement transaction report includes energy delivery and price data for contracts executed within the second quarter of 2006.

PG&E's energy transactions in the California Independent System Operator (CAISO) markets are not finalized until after the CAISO settlement period, which occurs approximately 75 days after the close of an operating month. This report includes final quantities of energy in megawatt-hours (MWh) that PG&E procured in the CAISO markets for the months of February, March, and April 2006, and is included in Confidential Appendix F. The quarterly Advice Letter filing for the third quarter of 2006 will include final CAISO procurement for the months of May, June, and July 2006.

Data Request Items

D.02-10-062, Appendix B, as clarified by D.03-06-076, sets forth specific elements to be addressed in this quarterly report. Each element is identified below, along with PG&E's response.

1. Identification of the ultimate decision maker(s) up to the Board level, approving transactions.

Electric and gas procurement activities conducted during the second quarter of 2006 included the results of Qualifying Facility (QF) contract terminations and contract extension; bilateral capacity and energy transactions, ISO FTR Auction, fuel supply for utility-retained generation and contracted resources, gas hedging, and forward, spot-market, and CAISO real-time transactions. Each of these activities is further described in Section 3b. All procurement activity was approved and executed either by or under the direction of Fong Wan (Vice President, Energy Procurement) or Roy Kuga (Vice President, Energy Supply).

2. The briefing package provided to the ultimate decision maker.

For Q2, 2006, there were not any transactions identified and described that were required to be presented to PG&E's Utility Risk Management Committee (URMC) and Risk Policy Committee (RPC).

3. Description of and justification for the procurement processes used to select the transactions (e.g., Request for Offers, Electronic Trading Exchanges, ISO Spot Markets).

To meet electric energy resource requirements during Q2, 2006, PG&E engaged in a variety of procurement activities allowed under Decisions 03-12-062 and 04-01-050: These procurement efforts include Standard Offers 1 (SO1) contract extensions and Pay for Curtailment agreements, bilateral contracting (Request for Offers), term and balance of month transactions, and additional transactions through brokers and electronic trading platforms, as discussed in Section 3a below.

PG&E executed broker, voice, and electronic exchange transactions, as well as procurement in CAISO markets, as discussed in Section 3b.

PG&E procured fuel for its two remaining Utility Retained Generation (URG) fossil fuel electric generation facilities, Humboldt Bay and Hunters Point Power Plants (Hunter's Point Power Plant was closed on May 15, 2006). PG&E also supplied fuel for its contracted

resources through the Mirant Second Wraparound Agreement and the Duke Morro Bay Energy Tolling Agreement. Financial hedging transactions were completed to reduce risk associated with the open gas position. Transaction information is discussed further in Section 4.

Copies of presentations made by PG&E to its Procurement Review Group (PRG), and meeting notes of PRG meetings conducted in Q2, 2006 for transactions executed during the quarter are included in Confidential Appendix A.

3a. For competitive solicitations, describe the process used to rank offers and select winning bids.

Electric Procurement

PG&E conducted a Request for Offers for Intermediate Term Shapeable Energy and Resource Adequacy for 2006-2010 (RFO 9), which resulted in executing two agreements with Duke Energy and an ongoing negotiation with Mirant Corporation.

In addition, PG&E continued the Renewable Energy RFO 2005 (initiated in August 2005 and expected to conclude in Quarter 3 2006), conducted Resource Adequacy (RA) RFO for Summer 2006, and concluded its Long-Term RFO process. A brief description of the 2005 Renewable Energy RFO agreements are included in this quarter's report, but approval for each contract is being sought through an application or separate advice letter filing. The 2005 Renewable RFO is anticipated to conclude in Q3 2006. RA RFO for resource adequacy for Summer 2006 was completed and is described in this quarter's report.

For the Long-Term RFO, 2005 Renewables RFO, RFO 9, and RA RFO, the Procurement Review Group (PRG) was consulted regarding the process, the bid requirements, and the potential transactions. Additionally, for the 2005 Renewable RFO, RFO 9, and the Long Term RFO, the PRG reviewed the short lists of selected products. Moreover, PG&E used an Independent Evaluator to monitor the process for both the Long-Term RFO and for the 2005 Renewables RFO. PG&E will separately submit the resulting contracts for approval in an appropriate Quarterly Procurement Report, separate Advice Letter or Application.

May 2006 RFO for Resource Adequacy for August 2006

Based on an assessment of RA needs performed in April 2006, PG&E issued an RFO for the purchase of an August 2006 RA capacity... This RFO concluded on June 29, 2006, with the procurement of a total of [REDACTED] MW of August 2006 RA capacity product. The executed agreements are included in Confidential Attachment B.

1

The April 2006 needs assessment highlighted a need to cover a shortfall of [REDACTED] MW during August 2006. Given PG&E's long energy position in August 2006, the RA-only capacity product was the sole product solicited in the RFO. As part of the competitive solicitation process, PG&E issued the RFO on May 1, 2006 to about [REDACTED] potential bidders. The RFO requested August 2006 RA capacity product consistent with the RA capacity product approved by the CPUC for PG&E's short-term procurement plan. The transactions were to be made pursuant to an EEI Master or WSPP Agreement with credit requirements waived for this limited quantity, short-term product.

2

3

On May 3, 2006, PG&E received indicative offers from [REDACTED] bidders offering close to [REDACTED] MW of August 2006 RA capacity product at prices ranging from [REDACTED]/kW-month to [REDACTED]/kW-month. Only [REDACTED] MW was available at the [REDACTED]/kW-month price. The average [REDACTED]/kW-month price was realized for the desired [REDACTED] MW for August 2006 RA capacity products with delivery from three different counterparties. PG&E also received several late offers during the RFO process that were uncompetitive and thus not considered further.

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10-11

PG&E discussed this RA capacity RFO with the PRG on May 3, 2006 and received the PRG's support for these transactions pursuant to this RFO.

Based on the indicative prices, PG&E negotiated confirm language with the most promising counterparties between early and late May 2006. Because RA capacity is not a standard product, these negotiations were somewhat lengthy. Close to the conclusion of these negotiations, PG&E requested refreshed prices from top ranked counterparties and ultimately negotiated with [REDACTED] to provide the entire [REDACTED] MW at a price of [REDACTED]/kW-month. This

12-14

was [REDACTED]/kW-month less expensive than [REDACTED] original offer and equivalent in cost to buying the [REDACTED] MW spread between the lowest priced bids from three counterparties. PG&E completed this RA capacity procurement on May 26, 2006.

15-16
17

Based on a reevaluation of August 2006 RA capacity needs performed in late May 2006, PG&E continued the RFO to procure addition RA capacity products to cover an unexpected increase in the amount of direct access customers returning to retail service in August 2006 and uncertainty in the availability of RA capacity from several resources. PG&E notified the PRG of this on June 9, 2006. PG&E requested updated prices from all counterparties (including those that gave offers after the initial deadline). PG&E received updated offers from [REDACTED] counterparties with prices ranging from [REDACTED]/kW-month to [REDACTED]/kW-month. Only [REDACTED] MW, from [REDACTED], was available at the [REDACTED]. Pursuant to these offers, on June 29, 2006, PG&E bought an additional [REDACTED] of August 2006 RA capacity from [REDACTED] at [REDACTED]/kW-month. This price was [REDACTED]/kW-month less than the lowest offer from all other counterparties.

18-20
21-23
24-25
26-27

The total purchases pursuant to this RA capacity RFO are shown in Table 1 below. The confirmation agreements executed as part of the RFO are included in Confidential Appendix B.

**TABLE 1
PACIFIC GAS AND ELECTRIC COMPANY
PG&E August 2006 RA RFO Purchases (MW)**

Counterparty	Facility	Term	Quantity	Price (\$/kW-mo)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

28
29

RFO 9 - Request for Offer (RFO9) for Intermediate Term Shapeable Energy and Resource Adequacy (RA) for 2006-2010

PG&E is continuing negotiations with [REDACTED]. Any executed agreement will be reported in the next Quarterly Procurement Compliance Report filing and in a separate advice filing.

30

PG&E's Long Term Procurement

On April 11, 2006, PG&E filed its Long Term Procurement Application with the CPUC. The 2,250 MW in the application filing includes five agreements totaling 1,430 megawatts for the purchase of power from third party generators, one agreement for the construction of a 660 megawatt power plant that will be owned and operated by PG&E and one agreement related to the 163 megawatt repowering of the Humboldt Bay Power Plant.

The agreements submitted in the application are: (for purchase of power) - Calpine, Hayward (601 MW), EIF Firebaugh (399 MW), EIF Fresno (196 MW), Starwood Firebaugh (118 MW), Tierra Energy Hayward (116 MW), E&L Westcoast Colusa (657 MW), and (for repowering) Humboldt Bay Power Plant.

2005 Renewables RFO – Advice Filing of Three Agreements

On May 15, 2006, PG&E filed Advice 2827-E, *Contracts for Procurement of Renewable Energy Resources Resulting from PG&E's 2005 Renewables Portfolio Standard (RPS) Solicitation*. The agreements recommended for action to the CPUC are Bottle Rock, Liberty, and HFI. Approval of these pending advice letters will authorize PG&E to accept future deliveries of incremental supplies of firm baseload electricity from Bottle Rock 17-55 MW (nameplate) geothermal resource, Liberty 5-10 MW (nameplate) biomass resource, and HFI 20-40 MW (nameplate) biomass resource. These three agreements contribute significantly towards the 20 percent renewable procurement goal required by California's RPS statute.¹

2004 Renewables RFO – Advice Filing of Three Agreements

In addition, on May 15, 2006, PG&E filed an amendment to the Buena Vista Power Purchase agreement through Advice 2828-E, *Amendment to Master Power Purchase and Sale Agreement Confirmation for a Renewable Energy Resource Resulting from PG&E's 2004*

¹ 1 California Public Utilities Code section 399.11 et seq., as interpreted by D.03-07-061, the "Order Initiating Implementation of the Senate Bill 1078 Renewables Portfolio Standard Program", and subsequent CPUC decisions in Rulemaking (R.) 04-04-026.

Renewables Portfolio Standard (RPS) Solicitation. Buena Vista is one of the renewable power purchase agreements resulting from the 2004 RPS RFO Solicitation and was approved by Resolution E-3946. Resolution E-3946 approved Advice 2655-E, *Contracts for Procurement of Renewable Energy Resources Resulting from PG&E's 2004 Renewables Portfolio Standard (RPS) Solicitation.*

The amendment to the Buena Vista agreement (filed in Advice 2828-E) provided for a small price increase, reduced the contract terms from 15 to 10 years, increased the project security amount, and increased the performance assurance amount. This is a result of increased project costs and PG&E's desire to support this project to achieve operations under increased cost conditions.

To balance its portfolio and to manage its resource position, PG&E also participated in near-term and spot market energy bilateral transactions, which will be discussed in Section 3b.

3b. For other transactional methods, provide documentation supporting the selection of the chosen products.

Electric Procurement

During Q2 2006, PG&E executed various qualifying facilities (QF) contracts.

Qualifying Facility Contracts

During Q2, 2006, PG&E executed one Standard Offer 1 (SO1) Power Purchase Agreement (PPA) extension, two PFC agreements - one with Santa Maria and one with Fresno Cogen, and one incremental energy purchase agreement with Pacific Lumber Company.

The Santa Maria and Fresno Cogen PFC agreements allow PG&E to dispatch energy from both facilities as it is economic and needed by PG&E. In exchange for dropping the requirement that each project meet FERC-specified operating and efficiency standards, PG&E receives capacity discounts and the ability to dispatch the energy when needed in lieu

of the 8:30 a.m. to 9:30 p.m. each non-holiday week day standard delivery schedule that would otherwise apply.

The Zond Windsystems PPA was due to expire on December 29, 2005. It was extended by letter agreement until January 31, 2006 to allow Zond Windsystems time to secure its management's approval to extend the PPA for 5 years pursuant to D.04-01-050. In spite of repeated efforts by PG&E to contact the QF, Zond Windsystems did not execute the extension agreement PG&E had tendered. Consequently the PPA expired on January 31, 2006. However, on May 19, 2006, PG&E successfully executed and agreed upon a fourth extension, set to expire on July 16, 2006.

Pacific Lumber requested and PG&E agreed to increase the maximum rate of delivery from 22 MW to 28.8 MW their biomass facility under an existing QF contract. The incremental renewable generation will count towards PG&E's RPS compliance targets.

A copy of each agreement is included in Confidential Appendix C.

**TABLE 2
PACIFIC GAS AND ELECTRIC COMPANY
Q2, 2006 Qualifying Facility Contracts**

Qualifying Facility Name	PG&E Log No.	Capacity (MW)
Santa Maria Cogen (PFC)	18C026	8.0
Fresno Cogen (PFC)	25C092	25.0
Zond Windsystems (SO1 Extension)	01W017	20.0
Pacific Lumber Company	19C010	6.8
Total		59.8

Included with QF contracts were 122 amendments to various QF PPAs implementing a joint settlement negotiated between PG&E and the Independent Energy Producers Association ("IEP"). The IEP amendments settle various pricing and contractual issues currently before the Commission in the avoided cost proceedings (R.99-11-022, R.04-04-003 and R.04-04-025). PG&E filed 121 of the IEP settlement amendments in its joint motion with IEP motion seeking CPUC approval of the IEP settlement and associated amendments on April 18, 2006,

amended on May 10, 2006 and again on May 24, 2006. Also executed in Q2, 2006, which was not filed with the CPUC for prior approval, was an amendment with Collins Pine that contains the exact same pricing and contract terms as the 121 IEP amendments that were submitted for advance CPUC approval. PG&E and Collins Pine have agreed that CPUC approval of the April 18, 2006 motion for approval of the IEP settlement, as amended, would satisfy the requirement for CPUC approval specified in the Collins Pine amendment.

Broker, Voice and Electronic Exchange Transactions

For electric energy, in addition to competitive procurement and bilateral contracting during the second quarter of 2006, PG&E engaged in competitive voice and electronic broker market transactions in order to manage its net open position, and traded directly with counterparties via telephone (in accordance with terms of Master Agreements). These transactions were conducted to manage PG&E's net physical open position and to participate in economic transactions designed to reduce ratepayers' exposure to market volatility. Pursuant to D.04-12-048, transactions include forward transactions with delivery starting within the next quarter and less than one quarter in duration, monthly, balance of month (BOM), day-ahead and hour-ahead transactions. These transactions are included in Table 3 of Section 4.

In the second quarter of 2006, PG&E continued the use of voice and broker market for non-standard products, such as trading in day-ahead markets for individual hours or blocks/strips of hours on specific days of the week. Where possible, PG&E continues to expand its trading in these markets to promote competitive markets for products that better fit its load-serving obligations and, to the extent practicable, procure only the energy required rather than standard products.

As part of its effort to reduce the forward net open position in order to limit spot market energy transactions, PG&E entered into a series of term and BOM energy purchases and sales during the second quarter of 2006, PG&E either reduced or closed its open positions for the months of April 2006 through June 2006, through a series of energy purchases and sales.

Table 3 below shows a summary of the strategies that PG&E completed in each month. The aggregate energy volumes are included in Table 4 of Section 4.

**TABLE 3
PACIFIC GAS AND ELECTRIC COMPANY
Q2, 2006 Term and Balance of Month (BOM) Energy Purchases and (Sales)**

Transaction Month Delivery Month	April	May	June
April			
May			
June			
July			

31
32-33
34-35
36

Electric Procurement Planning

Near-Term Planning and Procurement

PG&E’s near term planning process is designed to minimize the net open position prior to the operating month to within 5 percent of expected requirements as prescribed by D.03-12-062. PG&E develops a near-term analysis of its resource position (intra-month through several months forward) using an optimization model, which solves for lowest cost by optimizing a mix of resources to meet requirements including dispatchable CDWR contracts, Utility Retained Generation (URG) resources, Tolling Arrangements with “Merchant Plants” (e.g., Duke and Mirant), and market purchases, while accounting for all resource requirements and constraints (must-run, must-take and operating constraints).

Term and BOM purchases and sales are transacted to close the net open position to reduce reliance on the spot market. PG&E also conducts locational basis swap transactions to manage its position in different zones. After identifying transactions required to meet the must-run, must-take and operating constraints, PG&E considers “economic transactions”, which involve decisions regarding dispatchable units and market purchases/sales. The decision to engage in “economic” transactions is more complex and depends on several quantitative and subjective factors. Economic transactions are conducted using information and data regarding system conditions, market prices and options available at the time of the decision. While potentially attractive, “economic” transactions that reduce ratepayer volatility inherently include risks that must be considered, such as (a) sharp swings in electric prices, (b) changes in production costs due to market dynamics or (c) system changes, which may result in these transactions becoming more, or less, valuable, during the operating period or possible losses on hedge transactions. Additionally, changes in load or expected generation may result in having to buy (or sell) energy in the day-ahead or real-time markets at a cost greater than the revenue earned (or a price less than paid) in the forward transaction. Factors that go into the decision to engage in these transactions include (but are not limited to) the forecasted level of short/long energy during the forecasted period, sensitivity to changes in market price, reserve margins and demand volatility.

Day-Ahead Planning and Procurement

In day-ahead planning PG&E strives to balance projected energy requirements with available resources and provide hour-ahead traders and real-time operators with appropriate resources to respond to changes that may occur in system requirements subsequent to day-ahead trading. On a daily basis PG&E conducts a least-cost analysis to determine unit dispatch and market transactions to meet energy and ancillary services requirements. This process integrates all regulatory, environmental, safety, and legal requirements.

During Q4 2005, a new requirement was included in PG&E’s least cost dispatch process. The CAISO sought FERC approval to amend its operating tariffs (i.e., “Amendment No. 72”). This Amendment requires scheduling coordinators to schedule at least 95% of its load in the day-ahead time frame. PG&E had suggested that the combination of day-ahead and

those resources with intra-day flexibility (some of which this Commission had previously approved) would more effectively capture changes in system and operating parameters that occur after day-ahead trading is concluded. While FERC acknowledged PG&E's concerns, nonetheless, FERC approved Amendment No. 72 as tendered by the CAISO, effective September 23, 2005. PG&E has sought re-hearing of FERC's order. In the interim, PG&E is complying fully with Amendment No. 72. On May 12, 2006, FERC denied the Company's renewed protest seeking flexibility to use intra-day resources.

PG&E's day-ahead planning and procurement incorporates weather-adjusted load forecasts, resource availability, dispatch costs and current electric market prices. The results of this analysis will determine the supply mix of CDWR contracts allocated to PG&E, PG&E-owned or controlled thermal and hydro generation, QFs and existing bilateral contracts, and market purchases. In determining its trading strategy, PG&E will dispatch resources whose variable costs are below market price, purchase the remainder of energy at market price or, alternatively, sell excess energy in the market.

While PG&E strives to go into the hour-ahead trading market and real-time operations with schedules as close to balanced as practicable, it also must anticipate and plan for potential schedule changes. Between the day-ahead and hour-ahead market timeframes changes in system conditions such as weather, transmission and resource availability are inevitable. Further, resources are "lumpy" when compared to load; hence it is not always possible to perfectly balance schedules in every hour, which often results in excess energy during some hours while leaving PG&E short during other hours. To address these concerns, PG&E has contracted for resources that provide intra-day flexibility that will help match changes in electric demand due to sudden weather variations and other occurrences that cause loads and resources to vary from day-ahead forecasts. These contracts contribute to system reliability as well as reduce overall costs to consumers by reducing incremental, decremental and other costs associated with the changes between day-ahead and hour-ahead forecasted conditions. The specific agreements have been addressed in PG&E's Q2 2005 Quarterly Procurement Compliance filing, Advice 2693-E.

In addition, PG&E has adapted its daily procurement process to incorporate the opportunities available in the day-ahead market as well as its must-run and must-take resource requirements by purchasing or selling energy for individual hours or small blocks of hours.

PG&E actively participates in the daily energy market using a combination of brokered transactions, exchange-based transactions and direct transactions with counterparties. Day-ahead trading generally occurs between 6:00 a.m. and 7:00 a.m. on the day prior to the operating day. The day-ahead market continues to evolve in terms of participants, products and characteristics. In 2003 the market usually traded in “standard” on-peak and off-peak “packages” of multiples of 25 MW blocks of energy with specified delivery points. In 2004 and 2005, the day-ahead market has become more liquid in the trading of non-standard products, with individual-hours transactions as well as custom packages of hours.

Hour-Ahead Planning and Procurement

“Hour-ahead” planning and procurement is somewhat of a misnomer since it effectively begins at the conclusion of day-ahead trading. As day-ahead analysis and trading occurs early in the morning prior to the operating day, there can be substantial changes to operating day requirements. Additionally, PG&E prepares weather-adjusted load forecasts throughout the day to determine if changes in generation or system operation are required. Further, unit outages and transmission outages and constraints may also affect resource requirements prior to real-time. In order to balance its portfolio during this time frame, PG&E’s hour-ahead staff has several resources at its disposal. Generation, including URG hydro, the Helms units, certain QF generators and certain CDWR contracts, may be adjusted at unique dispatch prices. Hour-ahead personnel will then optimize the portfolio and decide, based on operating requirements and market opportunity costs, if available generating resources should be adjusted to minimize system costs, and whether market transactions are required or beneficial.

The hourly market, while active, is far less transparent and dynamic than that of the day-ahead market. As there are few brokers operating in this market and limited electronic exchange opportunities, the bulk of transactions are bilateral in nature. PG&E constantly

participates in the hour-ahead market to optimize its generation and market transactions to reduce costs.

CAISO Real-time Markets

There is limited opportunity for planning and analysis in anticipation for real-time operation. PG&E strives to ensure it has matched requirements and resources in its CAISO hour-ahead schedules, and submits supplemental energy bids, as well as ancillary service schedules and bids. Once hour-ahead schedules, supplemental bids and resource adjustment bids are provided to the CAISO, the CAISO integrates the PG&E portfolio with the remainder of the CAISO grid.

The real-time “market” is unlike the bilateral and exchange markets, as real-time market participants have limited discretion to transact. Further, a market participant’s energy purchases and sales in the real-time market may not represent imbalances in a utility’s submitted portfolio. While PG&E and other market participants submit real-time supplemental energy bids to the CAISO, the CAISO optimizes resources to meet system requirements, which may or may not be a result of any individual participant’s activities. For instance, the CAISO may determine certain unscheduled RMR units are required to ensure system reliability and dispatch these units accordingly. To accommodate the over-generation resulting from the dispatch of these units, it will send decremental energy instructions in rank-bid order to certain generating resources to reduce output.

Locational Spreads

During Q2, 2006, PG&E engaged in day-ahead locational spread transactions, authorized by the Commission in D.04-12-048 and included in PG&E’s 2005 procurement plan, in order to manage its position, reduce risk of congestion pricing, and maximize the value of its purchased Firm Transmission Right (FTR) assets. Energy volumes and average prices associated with these spread transactions are listed on quarterly and monthly transaction summaries, respectively, included as Confidential Appendices D and E.

4. Explanation / justification for the timing of the transactions (i.e., product term and rate of procurement).

Electric Transactions

PG&E executed approximately 4,903 transactions during Q2, 2006 in all forward and spot markets, purchasing approximately [REDACTED] gigawatt-hours (GWh) and selling approximately [REDACTED] GWh.² Table 4 below presents the number of forward and spot transactions, along with energy volumes, by tenor. Transaction information for energy that was delivered and received within each month, regardless of transaction execution date, has previously been provided to the Commission’s Energy Division in PG&E’s monthly data request submittals.

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**TABLE 4
PACIFIC GAS AND ELECTRIC COMPANY
Q2, 2006 Forward Electric Transactions**

	Term	BOM	Day Ahead	Hour Ahead	Day Ahead Options	Other (non-standard)	TOTAL
Transactions	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	4,903
Volumes (GWh)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2,148

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40

In addition to forward market participation, PG&E was a participant in the CAISO real-time “imbalance” and “supplemental” energy markets, purchasing and selling energy. As discussed above, transactions in the real-time market may be unrelated to PG&E’s position, as the ISO purchases and sells energy in order to balance the control area grid without distinguishing an individual participant’s portfolio position.

Confidential Appendices D and E detail PG&E’s quarterly and related monthly energy transactions delivered and received during the quarter, by type, cost and quantity.³

² These quantities represent PG&E’s transactions executed during this quarter to close its net open position within this quarter and future periods, excluding locational spreads which are separately detailed in Confidential Appendices E and F.

³ The attached transaction reports reflect delivered energy from transactions during the period, including transactions executed in prior periods with deliveries in the current period. Energy quantities will differ between executed transaction energy and delivered energy for any given period.

Confidential Appendix F details PG&E's monthly CAISO purchase and sales transactions for February, March and April 2006⁴.

Electric Fuels Section - Gas Transactions for Utility-owned and Contracted Generation

During the second quarter 2006, PG&E continued to supply gas for its utility-owned generation plants and for several tolling agreements. PG&E-owned generation includes Humboldt Bay and Hunters Point Power Plants. PG&E tolling arrangements include an agreement with Duke for Morro Bay and Moss Landing Power Plants and an agreement with Mirant for Contra Costa and Pittsburg Power Plants.

Table 5 summarizes the daily and monthly gas purchases PG&E transacted during the second quarter of 2006 for utility-owned generation and the tolling agreements. PG&E purchases gas for these obligations as a single portfolio. For reporting purposes, these purchases are allocated between PG&E-owned generation and tolling arrangements based on the volumes burned at these facilities during the quarter for each calendar month. Transportation costs are based on actual burns in the calendar month gas was delivered.

During the second quarter 2006, PG&E also made its initial multi-month supply arrangements for baseload supplies for the summer 2006 season (April 1, 2006 through October 31, 2006). Table 6 summarizes these term purchases.

⁴ Effective October 1, 2004 the CAISO implemented its Phase 1B market changes. The impact on this appendix is the inclusion of an additional charge type that provides for real time purchases and sales related to Generation Meter Multipliers.

**TABLE 5
PACIFIC GAS AND ELECTRIC COMPANY
Q2, 2006 Transactions – Gas Purchases for Electric Generation**

Daily and Monthly Gas Supply Purchases					
Transaction Month	Volume (MMBtu)	Commodity Cost (\$ millions)	Transportation Cost (\$ millions)	Average Unit Cost (\$/MMBtu)	
Transactions for PG&E-owned Generation					
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Transactions for Tolling Agreements					
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

41-44

45-48

**TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
Term Purchases Executed in Q2, 2006**

Transaction	Volume (MMBtu/day)	Term	Price
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[49-52]

Financial Gas Hedging

On January 31, 2006, PG&E filed an updated Electric Portfolio Gas Hedging Plan (GHP Update 2006-1) with the CPUC. The plan provides a modification to the framework that PG&E uses to manage the price risk associated with the gas open position in its electric portfolio. PG&E submitted the Update as a result of increasing natural gas prices and the need to keep its electric portfolio risk measure (TeVaR) in line with CPUC guidelines... The updated plan augments and is consistent with PG&E's current Commission approved electric procurement plans and Gas Supply Plans for CDWR Tolling Agreements. GHP Update 2006-11 was approved by the CPUC's Energy Division on April 4, 2006, with an effective date of March 17, 2006. PG&E began implementation of GHP Update 1 in April and completed implementation through the end of June. Per the plan, PG&E anticipates completing implementation by November 30, 2006

The hedge transactions that PG&E executed in the second quarter of 2006 under Gas Hedging Plan Update 2006-1 are summarized in Table 7. The first part of the table includes fixed-for-floating swaps, basis swaps and futures contracts. The second part of the table includes call options.

5. Discussion of the system load requirements / conditions underlying the need for the month's transactions.

Above normal precipitation continued in the 2nd quarter of 2006. The quarter ended with precipitation at 133% of normal.

PG&E's hydroelectric system was operated to manage the heavy precipitation and runoff. Reservoirs were filled. In most of PG&E's hydro system, powerhouses were run at full load and reservoirs were spilling for most of the quarter.

Helms Pumped Storage Project was used to meet peak daily loads and provide ancillary service reserves. Helms pumped throughout the quarter as system conditions and economics allowed. All three units at Helms were out of service for more than 20 days to perform unit and common system maintenance.

The list of significant planned maintenance in the quarter included work on:

Belden (118mw), Bucks Creek Units 1 and 2 (58mw total), Black 1 (86mw), Kings River (52mw), Narrows 2 (55mw), Pit 1 Units 2 (31.5mw), and Pit 4 Units 1 and 2 (47.5mw ea.).

The significant forced outages in the quarter included:

Pit 7 Unit 1 (56mw) 3 days due to brush rigging trouble

PG&E performed a refueling outage at its Diablo Canyon Unit 2 and also replaced the low pressure turbine on the unit. The outage took approximately 38 days.

During April 2006, PG&E was a [REDACTED] in the on peak and off-peak hours in the Day Ahead and Hour Ahead. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately \$45.95/MWh to \$62.54/MWh. Day-ahead off-peak electric prices in NP 15 ranged from approximately \$14.29/MWh to \$41.59/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between \$5.91/MMBtu and \$7.20/MMBtu.

During May 2006, PG&E was a [REDACTED] in the on peak hours in the Day Ahead market and a [REDACTED] in the off peak hours in the Day Ahead market. PG&E was a [REDACTED] in the on peak and off peak hours in the Hour Ahead market. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately \$44.33/MWh to \$57.95/MWh. Day-ahead off-peak electric prices in NP 15 ranged from approximately \$11.17/MWh to \$38.97/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between \$5.22/MMBtu and \$6.09/MMBtu.

70
71-72

During June 2006, PG&E was a [REDACTED] in the on peak and off peak hours in the Day Ahead market. PG&E was a [REDACTED] in the on peak and off peak hours in the Hour Ahead markets. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately \$45.60/MWh to \$71.11/MWh. Day-ahead off-peak electric prices in NP 15 ranged from approximately \$9.61/MWh to \$47.98/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between \$5.61/MMBtu and \$6.08/MMBtu.

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74

7. Discussion of how the quarter’s transactions meet the goals of the risk management strategy reflected in the Commission-approved procurement plan.

Decision 03-12-062 maintained the interim Consumer Risk Tolerance (CRT) level of one-cent per kilowatt-hour (KWh) adopted by the Commission in D.02-12-074, which equates to a CRT level of \$720 million for the “net open position” on a rolling 12 months basis. The decision specified the methodology for reporting the CRT should be based on TeVaR at the 99 percent confidence level. Finally, the decision requires PG&E to notify the PRG when the portfolio reaches 125 percent of the \$720 million tolerance level (\$900 million) to determine if remedial action or revised plans should be filed in order to manage this risk.

During Q2, 2006, [REDACTED]

[REDACTED]

75-79

[REDACTED]

[REDACTED] The results will be further discussed in PG&E's Energy Resource Recovery Account (ERRA) Compliance Filing Application to be filed in February 2007.

8. Copy of each contract.

As discussed in Section 3b, during Q2, 2006, PG&E executed contractual documents. Copies of the QF agreements are included in Confidential Appendix C.

9. The break-even spot price equivalent to the contract(s).

There is no pertinent analysis required for this quarter's executed agreements.

10. Electronic copy of any data or forecasts used to analyze the transactions.

The monthly reports demonstrating the projected need during the quarter are provided in Confidential Appendix G. This information is also provided to the Commission as part of PG&E's monthly report of Residual Net Open.

11. Utilities should provide a reasonable number of analyses requested by the Commission or the Procurement Review Group and provide the resulting outputs. Utilities should also provide documentation on the model and how it operates.

PG&E performed the appropriate number of analyses within the needs assessment process associated with its procurement activities during the quarter. These results were provided to PG&E's PRG ahead of contract execution and are provided in Confidential Appendix A.

12. Histogram (Graph) of Energy Purchases and Sales ("Buy and Sells")

Confidential Appendix H is a histogram (graph) of energy purchases and sales by price and volume (GWh) for Q2, 2006, as requested by the CPUC Energy Division. These purchases

and sales represent energy purchased and sold through competitive exchange markets during the quarter and bilateral contracts executed since January 1, 2003.