STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Advice Letter 2921-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 (Q3, 2006)

Dear Mr. Cherry:

Advice Letter 2921-E is effective September 20, 2007.

Sincerely,

Sean H. Gallagher, Director
Energy Division

Pacific Gas and Electric Company™

Brian K. Cherry
Vice President
Regulatory Relations

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October 30, 2006

Advice 2921-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

<u>Subject</u>: Procurement Transaction Quarterly Compliance Filing (Q3, 2006)

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its compliance filing for the third quarter of 2006, 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.

<u>Background</u>

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 third quarter of 2006 is also provided in Confidential Appendix L.

[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."

Compliance Items

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

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, which is protectable material pursuant to Decision 06-06-066, Appendix I, Item XI, under Public Utilities Code sections 454.5(g) and 583. The enclosed Declaration of Sharon K. Tatai attests that the information contained herein is recognized as confidential and protected information pursuant to D.06-06-066. We are providing the Energy Division with Ms. Tatai's declaration in accordance with ALJ Thomas's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066, dated August 22, 2006.

The supporting Confidential Appendices are:

Appendix A - Briefing Package to Decision Makers
Appendix B – Procurement Review Group Meeting Minutes, Presentations
Appendix C - Resource Adequacy – Participation in RFO
Appendix D - Resource Adequacy – Participation in Generator RFB
Appendix E - Resource Adequacy - Bilaterals
Appendix F - PG&E's Request for Offer (RFO) 9
Appendix G – Qualifying Facility (QF) Contracts
Appendix H – PG&E's Quarterly Transactions by Type and Quantity
Appendix I – PG&E's Monthly Transactions by Type and Quantity
Appendix J – PG&E's Monthly ISO Purchase and Sales Transactions for May, June, and July 2006
Appendix K – Monthly Reports of Projected Need
Appendix L – Histogram

Protests

Anyone wishing to protest this filing may do so by sending a letter by **November 19, 2006**, which is 20 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
Vice President, 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 **October 30, 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/

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 L

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:	Contact Person: David Poster
☒ ELC ☒ GAS	Phone #: (415) 973-1082
☐ PLC ☐ HEAT ☐ WATER	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) #: **2921-E**

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q3, 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.02-10-026, 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 AL: ____________________

Resolution Required? ☐ Yes ☒ No

Requested effective date: **10-30-06** 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 proposed[1]:N/A

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)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF ADVICE 2921-E IN SUPPORT OF QUARTERLY PROCUREMENT TRANSACTIONS COMPLIANCE REPORT ADVICE FILING

I, Sharon K. Tatai, declare:

1. I am a senior energy compliance and reporting analyst, in the Energy Procurement department at Pacific Gas and Electric Company (PG&E). I am responsible for the regulatory filing of the Quarterly Procurement Transactions Compliance Report. In carrying out these responsibilities, I have acquired knowledge of the electric transactions in PG&E's electric portfolio, which are the subject of this data request response.
2. I have reviewed PG&E's the response to this advice filing and was responsible for the preparation of Narrative and related attachments. I am familiar with the information included in this response, and would testify to the facts and representations in this declaration under oath based on personal knowledge.
3. Based on my review of the response and my knowledge of the information included as an attachment in the response, the response contains confidential information (Protected Information) that is material, market sensitive, electric procurement-related information within the scope of Public Utilities Code section 454.5(g). The Protected Information is also entitled to confidential treatment under Appendix 1 of D.06-06-066 (entitled "IOU Matrix"). Based on my knowledge and experience and in accordance with D.06-06-066 and the August 22, 2006 Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with D.06-06-066, R. 05-06-040, I make this declaration seeking confidential treatment of the Protected Information as detailed in the declaration.
4. The Protected Information falls into one or more of the following categories in the IOU Matrix:
    - I) Natural gas information, Long-term fuel (gas buying and hedging plans)
    - II) Cost forecast data – electric, generation cost forecasts, QF contracts
    - VI) Net Open Position Information - Electric

- A) Utility bundled net open (long or short) position for capacity (MW) and energy (MW and MWh)

- VII) Bilateral Contract Terms and Conditions – Electric
  - B) Contracts and power purchase agreements between utilities and non-affiliates
- VIII) Competitive Solicitation (Bidding) Information - Electric
  - A) Bid information (and pertinent information related to that bid)
- XI) Monthly Procurement Costs (Energy Resource Recovery Account (ERRA) Filings)
  - Detail of monthly variable cost on energy and utility operation.
- XIII) Energy Division Monthly Data Request (AB57)
  - Monthly updates on the monthly/weekly on-off peak procurement cost, capacity forecast, monthly residual net open position forecast for a rolling 12-month the number of hours the utility is expecting to be short or long, the nature of the long position (physical vs economic), monthly electric and gas price forecast, filed in response to the Energy Division's monthly data request.

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix as follows:

- I) Natural gas information, Long-term fuel (gas buying and hedging plans)

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix for 3 years.

- II) Cost forecast data – electric, generation cost forecasts, QF contracts

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix for 3 years.

- VI) Net Open Position Information – Electric
  - A) Utility bundled net open (long or short) position for capacity (MW) and energy (MW and MWh)

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix for 3 years.

- VII) Bilateral Contract Terms and Conditions – Electric
    - B) Contracts and power purchase agreements between utilities and non-affiliates

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix for 3 years.

- VIII) Competitive Solicitation (Bidding) Information - Electric
    - A) Bid information (and pertinent information related to that bid)

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix until final contracts are approved.

- XI) Monthly Procurement Costs (Energy Resource Recovery Account (ERRA) Filings)
    - Detail of monthly variable cost on energy and utility operation.

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix for 3 years.

- XIII) Energy Division Monthly Data Request (AB57)
    - Monthly updates on the monthly/weekly on-off peak procurement cost, capacity forecast, monthly residual net open position forecast for a rolling 12-month the number of hours the utility is expecting to be short or long, the nature of the long position (physical vs economic), monthly electric and gas price forecast, filed in response to the Energy Division's monthly data request.

The Protected Information in each of these categories in entitled to protection as confidential, according to the IOU Matrix for 3 years.

5. PG&E is complying with the limitations on confidentiality specified in the IOU Matrix for the type of data described above.
6. I am not aware of any instances in which the Protected Information identified in this declaration has been disclosed to the public.

7. The response does not alter the level of aggregation of the original report. The Protected Information cannot be provided in an aggregated, partially redacted, summarized, masked or otherwise protected form in a fashion that is consistent with the request, or without divulging confidential information.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 30th day of October 2006, at San Francisco, California.

Sharon K Tatai

Sharon K. Tatai
Pacific Gas and Electric Company

PACIFIC GAS AND ELECTRIC COMPANY
Procurement Transaction Quarterly Compliance Report
Third Quarter—2006
October 30, 2006

Introduction

As required by Ordering Paragraph 8 of Decision 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 third quarter 2006.

During the period July through September 2006 (Q3-2006), 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 3Q-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 May, June, and July 2006, and is included in Confidential Appendix J. The quarterly Advice Letter filing for the 4Q-2006 will include final CAISO procurement for the months of August, September and October 2006.

Data Request Items

Decision 02-10-062, Appendix B, as clarified by Decision 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 third quarter 2006 included Qualifying Facility (QF) IEP Settlement agreements (not filed through D.06-07-032), bilateral capacity and energy transactions, Request for Offers (RFO) for RFO 9 and also Resource Adequacy, 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 Q3-2006, the specific transactions required for presentation to and approval from PG&E's Utility Risk Management Committee (URMC) and Risk Policy Committee (RPC) are included in Confidential Appendix A.

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

To meet electric energy resource requirements during Q3-2006, PG&E engaged in a variety of procurement activities allowed under Decisions 03-12-062 and 04-01-050. These procurement efforts include qualifying facility settlement 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 remaining Utility Retained Generation (URG) fossil fuel electric generation facility at Humboldt Bay. 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 Q3, 2006 for transactions executed during the quarter are included in Confidential Appendix B.

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

Electric Procurement

PG&E concluded its 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 (filed in the Q2-2006 Quarterly Procurement Transaction Compliance Report, Advice 2869-E filed on July 31, 2006) and with Mirant Corporation (filed Advice 2874-E on August 4, 2006).

In addition, PG&E continued the Renewable Energy RFO 2005 (initiated in August 2005 and expected to conclude in Q4-2006), initiated the Renewable Energy RFO 2006 (in July 2006) and conducted a Resource Adequacy (RA) RFO for summer 2007. A brief description of the 2005 Renewable Energy RFO agreements is 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 Q4-2006. RA RFO for resource adequacy for summer 2007 is continuing and will be described in the Q4-2006 report.

For the 2005 Renewables RFO, RFO 9, and the RA RFO, the PRG was consulted regarding the process, the bid requirements, and the potential transactions. Additionally, for the 2005 Renewable RFO and RFO 9, the PRG reviewed the short lists of selected products. Moreover, PG&E used an Independent Evaluator to monitor the process 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.

September 2006 Sale Resource Adequacy for 2007 – Western Area Power Administration's Request for Offer (RFO)

Late on September 25, 2006, the Western Area Power Administration (WAPA) issued a request for offers RFO for resource adequacy capacity (RA) for the calendar year 2007. In this RFO, WAPA was seeking to procure [redacted] MW of system RA year-round for 2007 and an 1
additional [redacted] MW of system RA during the months of June through September 2007. Offers 2
were due the morning of September 28, 2006. Upon consideration of its system RA position for 2007, PG&E decided it had sufficient system RA to offer [redacted] MW for the months of [redacted] 3-4
through [redacted] and [redacted] through [redacted]. PG&E chose not to offer the other months 5-7
of [redacted] because of uncertainty around the availability of one of its large supply contracts and 8
whether the California Public Utilities Commission (CPUC or Commission) would increase the reserve margin requirements for 2007 in the current phase of the resource adequacy proceeding.

On September 26, 2006, PG&E consulted with its PRG via e-mail as prescribed in its short-turn around RFO process. No PRG member expressed any opposition to the transaction. On the morning of September 28, 2006, PG&E submitted its offer to sell [redacted] MW of system RA 9
for the months of [redacted] through [redacted] at a price of [redacted]/kilowatt (kW)-month and its 10-12
offer to sell [redacted] megawatt (MW) of system RA for the months of [redacted] through 13-14
[redacted] at a price of [redacted]/kW-month for a total of [redacted]/kW-year. This pricing was 15-17
consistent with the system RA offers received in PG&E's 2007 RA RFO and PG&E's RA price shape analysis. PG&E also submitted several changes to WAPA's RA confirm. WAPA informed PG&E later that morning that it accepted PG&E's offer and PG&E's confirm changes. Confirms for the product were executed later that day.

PG&E's participation in this RFO allowed PG&E to reduce its [redacted] system [redacted] position 18-19
in the non-[redacted] months of [redacted], thus benefiting customers with lower overall costs for RA 20-21
procurement. The agreement is included in Confidential Appendix C.

TABLE 1
PACIFIC GAS AND ELECTRIC COMPANY
PG&E RA SALES TO WAPA (MW)

Counterparty	Term	Quantity	Price ($/kW-mo)	
[redacted]	[redacted] through [redacted]	[redacted] MW	[redacted]	22
	through [redacted]	MW		23

PG&E Participation in Western Area Power Administration's (WAPA Request for Bid – Resource Adequacy (RA) (Generator RFB)

Decision 04-01-050 explicitly authorized utilities to participate in generator RFO. As such, on August 31, 2006, PG&E executed a Resource Adequacy Capacity Product Confirmation agreement with WAPA for [redacted] MW, at a price of [redacted] $/kW-month, between [redacted] 24-26
through [redacted]. PG&E had a surplus RA position in this time period. The 27
confirmation is included under Confidential Appendix D.

Resource Adequacy (RA) – Settlement Agreement with Calpine

Two major circumstances led to settlement discussions between PG&E and Calpine. They were (1) outstanding Federal Energy Regulatory Commission (FERC) litigation concerning CAISO Reliability Must-Run (RMR) agreements with Calpine generating units; and (2) Calpine's bankruptcy.

In late summer 2005, PG&E, Calpine and the CAISO entered into negotiations on protests filed with the FERC concerning past rates for Delta Energy Center's RMR agreement and 2006 rates for the RMR agreements for Delta and the Los Esteros Critical Energy Facility. When Calpine filed the 2006 rates for these facilities in November 2005, PG&E filed a protest with FERC and later filed a complaint that Calpine had violated FERC's Market Rule 3 in its November filings.

In December 2005, Calpine filed for bankruptcy in the United States Bankruptcy Courts. Part of that action included Calpine's request for rejection of various agreements with many parties, including PG&E. As a result of settlement discussions, PG&E has executed four agreements, specifically for resource adequacy and renewables resources. Calpine has filed an "Offer of Settlement Explanatory Statement" to FERC, which must also approve these energy agreements and the settlement of the outstanding RMR issues.

The settlement includes [redacted], RA agreements for [redacted]. The sites are: 28-29
[redacted], [redacted] and 30-31
[redacted]. The agreements are included in Confidential Appendix E. 32
Table 2 provides a summary of the agreements.

The settlement also included execution of a [redacted] agreement for RA and renewable 33
energy. Approval of this agreement will be requested in an application. Once this agreement is
approved, it will supercede the [redacted] agreement. 34

TABLE 2
PACIFIC GAS AND ELECTRIC COMPANY
PG&E AND CALPINE SETTLEMENT AGREEMENTS

Site	Term	Quantity	Price ($/kW-yr)	
[redacted]	[redacted]	[redacted] MW	$[redacted]	35
		MW	$	36
		MW	$	37

[redacted] 38

The RA component will provide local RA in the North Bay/North Coast sub-area, a region in which the CAISO has indicated a significant need for generation resources. The RA contract should reduce the amount of resources that will receive RMR contracts from the CAISO
and may reduce the overall cost to our customers in [redacted] and would likely be of lower cost than 39
under the proposed Reliability Capacity Services Tariff (RCST)[1] going forward.

[redacted] 40

This agreement will provide [redacted] MW of RA in the San Jose sub-area of the Bay Area 41
local capacity region. Without this agreement the CAISO would likely award RMR contracts for

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[1] Currently the RCST price for RA only is in the $40/kW-yr range.

similarly situated units for [redacted] at a cost that is likely to be higher than this contract[2] and PG&E 42
would not be able to count 100 percent of the unit for RA counting purposes. For years after [redacted] it is likely that Calpine would receive RCST payments from the CAISO at a higher cost to 43
PG&E ratepayers.

[redacted] 44

This agreement will provide approximately [redacted] MW of RA in the Pittsburg sub-area of 45
the Bay Area local capacity region. Without this agreement the CAISO would likely award RMR contracts for similarly situated units for [redacted] at a cost that is likely to be higher than this 46
contract and PG&E would not be able to count 100 percent of the unit for RA counting purposes. For years after [redacted] it is likely that Calpine would receive RCST payments from CAISO at a 47
higher cost to PG&E ratepayers.

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

Based on an assessment of energy resource needs performed in the summer 2005 and updated in November 2005, PG&E issued an RFO on December 8, 2005, for shapeable energy and RA products for May 2006 through December 2010, targeting up to 2,500 MW. The RFO is more fully described in PG&E's first quarter 2006 Procurement Transaction Compliance Filing submitted on April 28, 2006, as Advice Letter 2821-E. The RFO was concluded during the third quarter with the execution of two contracts with [redacted] in accordance with 48
PG&E's Long-Term Procurement Plan, pursuant to Decision 04-12-048.

Following the execution of the [redacted] contracts as more fully described in Advice 49
Letters 2821-E and AL 2803-E, with the latter having been approved by Resolution E-4002 on July 20, 2006, PG&E continued discussions with [redacted] regarding their units at the [redacted] 50-51
and [redacted] in the [redacted]. 52-53

[2] Calpine's bids to supply RMR in 2006 were significantly higher than the rates we are discussing for the 2007 RA product, DEC at approximately [redacted] per kW-year and LECEF at approximately [redacted] per kW-year. 54

Having filled the majority of its 2006 needs with the [redacted] 55
transaction, which was approved by the CPUC in Resolution E-4002, PG&E's focus on the Agreement with [redacted] was for a delivery term starting after [redacted]. PG&E's needs for RA and 56-57
shapeable energy, with and without the transaction, were discussed with the PRG on January 12, 2006. PG&E demonstrated to its PRG on January 12, 2006, that when it applied a differentiation between local and system RA to the evaluation of offers in the RFO, the [redacted] offer was the 58
most competitive.

On May 4, 2006, while PG&E and [redacted] were continuing with negotiations, [redacted] 59-60
publicly announced that it submitted to the CPUC and CAISO a 90-day notice of its intent to shut down the [redacted] and [redacted] units if [redacted] was unable to secure contracts for 61-63
the units.

PG&E further demonstrated to the PRG on June 15, 2006, that the Agreement fit well into PG&E's portfolio, both with respect to Local RA and shapeable energy. PG&E updated the PRG of the progress in the negotiations, and the PRG requested additional information before agreeing that a contract should go forward. PG&E provided the additional information following the meeting. PG&E asked PRG members to provide any feedback or concerns to PG&E by June 30, 2006. The PRG encouraged PG&E to move forward with finalizing negotiations and did not express any reservations about PG&E entering into the Agreement.

On July 28, 2006, PG&E and [redacted] executed [redacted] contracts for [redacted], 64-66
including [redacted] and [redacted], from 67-68
[redacted] MW of [redacted] units. Due to the timing required for regulatory approval and 69-70
the timing of PG&E's required year-ahead showing for RA, the first contract covered the [redacted] 71
period ("[redacted]") and the [redacted] contract covered the [redacted] period ("Multi-Year 72-74
Term"). The Multi-Year Term was filed for approval on August 4, 2006, via Advice Letter 2874-E. The [redacted] is filed for approval in this Quarterly Procurement Transaction 75
Compliance Filing. The [redacted] purchases are shown in the table below: 76

TABLE 3
PACIFIC GAS AND ELECTRIC COMPANY
RFO 9 CONTRACTS SUMMARY

Counterparty	Units	Delivery Date	MW	Notional Value of Capacity Payments ($millions)	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	77

PG&E notes that [redacted] of the units at the Facility are already under contract with PG&E 78
as part of the [redacted] that the Commission previously 79
approved on January 13, 2005.[3] However, even though the [redacted] has a multi-year term, each 80
unit's inclusion in the [redacted] is dependent on the CAISO's designation of RMR status for such 81
unit, which takes place one year at a time; therefore, the [redacted] does not provide certainty with 82
respect to planning more than a year ahead for PG&E's RA requirements. The pricing for these
three units under the new contract is identical to the previously approved pricing under the [redacted], 83
but the new contract provides certainty of term.

PG&E's decision to enter into this contract, which effectively adds [redacted] and 84
[redacted], in addition to units already otherwise covered by the [redacted], keeps the units in service 85-86
to be available to provide reliable electric capacity as a bridge until new resources are constructed and online.

PG&E entered into the Agreement because the rigorous evaluation process conducted by PG&E demonstrated that the cost of the proposed tolling agreement is competitively priced relative to market. Its value to PG&E customers is superior to PG&E's other alternatives for RA that will also satisfy local Bay Area requirements and shapeable energy.

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[3] The [redacted] was a component of [redacted] settlement of RMR contract claims with PG&E. The 87
settlement was approved by the Commission on January 13, 2005. The units covered under the
[redacted] and also covered under the new contract are [redacted]. 88-89

In addition, PG&E Corporation's RPC and PG&E's URMC approved the execution of these contracts on July 27, 2006. Copies of the committee review documents can be found in Confidential Appendix A.

The executed agreement is included in Confidential Appendix E. Also, all presentations made to the PRG regarding RFO 9 are included in PG&E's Quarterly Procurement Transaction Compliance Report Advice Filing, Advice Letter 2821-E. Presentations made to the PRG related to this agreement are included in Confidential Appendix B.

Other Bilateral Agreements Filed – For Information Purposes

PG&E filed various agreements through the 2004 RFO Renewables, the advice letter process, and an application. A summary of all agreements is provided below.

TABLE 4A
PACIFIC GAS AND ELECTRIC COMPANY
OTHER PROCUREMENT AGREEMENT FILINGS - 2004 RFO RENEWABLES
(AGREEMENTS SEPARATELY ADVICE FILED)

Advice Letter No.	Agreement	Filing Date	MW
2860-E	Military Pass Road, Newbury Volcano, LCC (Geothermal)	July 14, 2006	120 MW

TABLE 4B
PACIFIC GAS AND ELECTRIC COMPANY
OTHER PROCUREMENT AGREEMENT FILINGS - RENEWABLE AGREEMENT
(FILED AS A SEPARATE ADVICE FILING)

Advice Letter No.	Agreement	Filing Date	MW
2865-E	Global Common LLC and PG&E (El Nido Biomass and Chowchilla Biomass)	July 28, 2006	9 MW for each site

TABLE 4C
PACIFIC GAS AND ELECTRIC COMPANY
OTHER PROCUREMENT AGREEMENT FILINGS - ONE MEGAWATT POWER PURCHASE AGREEMENTS (PPA) APPLICATION

Project Name	Type	RPS Eligible	Size (kW)	Expected Deliveries (GWh/yr)
Tunnel Hill Hydro	ERR Hydro	Yes	600	2.1
Buckeye Hydro	ERR Hydro	Yes	400	1.4
Eden Valley Dairy	ERR Biogas	Yes	150	1.3
J. R. Simplot	CHP	No	1,000	6.1

Global Common was originally filed under the 2004 Renewables RFP, but they were unable to operate their plants. Subsequently, Global Common was able to finance its plants and continue constructions. Thus, PG&E continued negotiations, which resulted in an agreement filed under Advice 2865-E. This agreement is pending CPUC approval.

On October 3, 2006, PG&E filed Application 06-10-003 for approval of four power purchase agreements with generators, each producing less than one MW of energy for a 10-year term. These agreements were executed on September 30, 2006.

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 Q3 2006, PG&E executed various qualifying facilities (QF) contracts.

Qualifying Facility Contracts

During the third quarter, PG&E executed 2 Transitional Standard Offer 1 (TSO1) extensions with American Energy, Inc, one agreement for the San Luis Bypass facility and one for the Wolfsen Bypass facility. The original SO4 agreement would have expired on September 1, 2006, but pursuant to Decision 05-12-009, Ordering Paragraph 1, these agreements are in effect between September 2, 2006 through September 1, 2011.

TABLE 5
PACIFIC GAS AND COMPANY
Q3, 2006 QUALIFYING FACILITY CONTRACTS

Qualifying Facility Name	PG&E Log No.	Capacity (kW)
American Energy-Wolfsen Bypass (Extension)	25H038	1,000
American Energy-San Luis Bypass (Extension)	25H038	675
Total		1,675

PG&E and Independent Energy Producers (IEP) Settlement – Qualifying Facilities Agreements

Also executed in Q3-2006, which was not filed with the CPUC for prior approval, was an amendment with another QF, Wineagle Development Company, which contains the exact same pricing and contract terms as the joint settlement negotiated between PG&E and the Independent Energy Producers Association ("IEP") approved through Decision 06-07-032. PG&E and Wineagle Development Company 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 Wineagle amendment.

A copy of each agreement stated above is included in Confidential Appendix G.

Other Qualifying Facilities Agreement Filings, For Informational Purposes

In addition, PG&E filed Advice 2872-E, Fresno Cogen Restructuring Advice Filing, under the Restructuring Advice Letter (RALF) procedure, adopted in Decision 98-12-066. This agreement restructures two existing qualifying facility agreements totaling 33 MW from a "must-take" delivery profile – under which PG&E is required to purchase all power regardless of customer demand market alternatives—to an economic, "as needed" profile. The Amended and Restated PPA will allow PG&E to dispatch the Fresno project when power is needed and economical. This agreement also terminates the Santa Maria Cogen, Inc. PPA.

Broker, Voice and Electronic Exchange Transactions

For electric energy, in addition to competitive procurement and bilateral contracting during the third quarter 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 Decision 04-12-048, transactions include forward transactions with delivery starting within the next quarter and up to one quarter in duration, monthly, balance of month (BOM), day-ahead and hour-ahead transactions. These transactions are included in Table 6 of Section 4.

In the 3Q-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 third quarter 2006. PG&E either reduced or closed its open positions for the months of July 2006 through September 2006, through a series of energy purchases and sales. Table 6 below shows a summary of the strategies that PG&E completed in each month. The aggregate energy volumes are included in Table 7 of Section 4.

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
Q3-2006 TERM AND BALANCE OF MONTH (BOM) ENERGY PURCHASES AND (SALES)

Transaction Month / Delivery Month	July	August	September	
July	[redacted]			90
August		[redacted]		91
September		[redacted]	[redacted]	92
October		[redacted]		93
November		[redacted]		94
December		[redacted]		95

Electric Procurement Planning

Near-Term Planning and Procurement

PG&E's near term planning process is designed to reduce the net open position prior to the operating month to within 5 percent of expected requirements as prescribed by Decision 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 California Department of Water Resources (CDWR) contracts, 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 percent 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 a.m. and 7 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 became more liquid in the trading of non-standard products, with individual-hours transactions as well as custom packages of hours.

During the latter part of July, California, the Western United States and Canada saw an extended period of time when temperatures were well above normal. Beginning on Thursday, July 20 through Wednesday July 26, except for Sunday, July 23, the CAISO recorded loads in excess of 47,000 MW, peaking on Monday, July 24 at approximately 50,200 MW. On July 22, the CAISO declared a Stage 1 Emergency. On July 24, the CAISO declared a Stage 2 Emergency and on July 25, the CAISO declared a Stage 1 Emergency.

PG&E utilized all available resources in its portfolio and purchased from the market to satisfy its load obligations. PG&E also worked with the CDWR to increase the number of hours from 24 to 36 that 200 MW of pumps could be called upon to curtail for the remainder of the month.

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 Decision 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 H and I.

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

Electric Transactions

PG&E's executed transactions and associated volumes (in gigawatt-hours [GWh]) are identified in Table 7 below.[4] Table 7 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.

[4] 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.

TABLE 7
PACIFIC GAS AND ELECTRIC COMPANY
Q2, 2006 FORWARD ELECTRIC TRANSACTIONS

	Term	BOM	Day Ahead	Hour Ahead	Day Ahead Options	Other (Non-standard)	Total	
Purchases and Sales								
Transactions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	96
Volumes (GWh)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	97
Total Purchases								
Transactions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	98
Volumes (GWh)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	99
Total Sales								
Transactions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	100
Volumes (GWh)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	101

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 CAISO purchases and sells energy in order to balance the control area grid without distinguishing an individual participant’s portfolio position.

Confidential Appendices H and I detail PG&E’s quarterly and related monthly energy transactions delivered and received during the quarter, by type, cost and quantity.[5] Confidential Appendix J details PG&E’s monthly CAISO purchase and sales transactions for February, March and April 2006.[6]

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 plant and for several tolling agreements. PG&E-owned generation only includes Humboldt Bay Power Plant (Hunters Point Power Plan was retired in the 3Q-2006). PG&E

5 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.

6 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.

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 8 summarizes the daily and monthly gas purchases PG&E transacted during the 3Q-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.

PG&E made its multi-month supply arrangements for baseload supplies for the summer 2006 season (April 1, 2006 through October 31, 2006) in the 2Q-2006. PG&E made no multi-month gas purchases during the third quarter.

TABLE 8
PACIFIC GAS AND ELECTRIC COMPANY
DAILY AND MONTHLY GAS PURCHASES FOR ELECTRIC GENERATION

Transaction Month	Volume (MMBtu)	Commodity Cost ($ millions)	Transportation Cost ($ millions)	Average Unit Cost ($/MMBtu)	
Transactions for PG&E-owned Generation					
July 2006	[redacted]	[redacted]	[redacted]	[redacted]	102
August 2006	[redacted]	[redacted]	[redacted]	[redacted]	103
September 2006	[redacted]	[redacted]	[redacted]	[redacted]	104
Total Q3	[redacted]	[redacted]	[redacted]		105
Transactions for Tolling Agreements					
July 2006	[redacted]	[redacted]	[redacted]	[redacted]	106
August 2006	[redacted]	[redacted]	[redacted]	[redacted]	107
September 2006	[redacted]	[redacted]	[redacted]	[redacted]	108
Total Q3	[redacted]	[redacted]	[redacted]		109

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 provided 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 continued implementation through the end of the third quarter. Per the plan, PG&E anticipates completing implementation by November 30, 2006.

The hedge transactions that PG&E executed in the 3Q-2006 under Gas Hedging Plan Update 2006-1 are summarized in Table 9. 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.

TABLE 9A
PACIFIC GAS AND ELECTRIC COMPANY
TRANSACTIONS UNDER PG&E'S ELECTRIC PORTFOLIO GAS HEDGING PLAN (UPDATE 1)
SWAPS

Transaction Month	Product	Location	Volume (million MMBtu)	Avg. Swap Price	Notional Value ($ millions)	Delivery Months Beginning	Delivery Months Ending	
July	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	110
July	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	111
July	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	112
July	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	113
August	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	114
August	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	115
August	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	116
September	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	117
September	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	118
September	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	119
September	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	120
Total Q3			[redacted]	[redacted]	[redacted]			121

TABLE 9B
PACIFIC GAS AND ELECTRIC COMPANY
TRANSACTIONS UNDER PG&E'S ELECTRIC PORTFOLIO GAS HEDGING PLAN (UPDATE 1)
CALL OPTIONS

Transaction Month	Product	Location	Volume (million MMBtu)	Avg. Strike Price	Avg. Premium	Notional Value ($ millions)	Delivery Months Beginning	Delivery Months Ending	
July	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	122
August	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	123
September	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	124
Total Q3			[redacted]	[redacted]	[redacted]	[redacted]			125

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

PG&E's hydro system saw very little precipitation in Q3. The quarter ended with precipitation at 14 percent of normal.

PG&E's entered the quarter with its reservoirs very near full. PG&E's hydroelectric system was operated to use natural runoff and releases of stored water to meet heavy summer period energy demands.

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. No planned maintenance was performed at Helms. Unit 2 was forced out of service at the end of September due to trouble with a circuit breaker.

The list of significant planned maintenance in the quarter included work on Cresta 2 (35 MW), Chicago Park (41.5 MW), Colgate 1 (175 MW), Drum 5 (49.5 MW), Pit 4 Unit 1 (47.5 MW), Pit 5 Unit 2 (40 MW), Pit 6 Unit 2 (40 MW), Pit 7 Unit 2 (56 MW). Most of this work took place in September.

No significant forced outages were suffered on conventional hydro during the quarter.

During July 2006, PG&E was a [redacted] in the on peak and off-peak hours in the Day 126
Ahead. In the Hour-Ahead market, PG&E was a [redacted] in the on peak hours and a [redacted] 127-128
in the off-peak hours. Market prices for day-ahead on-peak North of Path 15 (NP-15) delivery ranged from approximately $54.00/MWh to $143.00/MWh. Day-ahead off-peak electric prices

in NP-15 ranged from approximately $40.00 MWh to $64.00/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between $5.00/MMBtu and $7.00/MMBtu.

During August 2006, PG&E was a [redacted] in the on-peak and off-peak hours in the 129
Day-Ahead market. PG&E was a [redacted] in the on-peak and off-peak hours in the Hour-Ahead 130
market. Market prices for day-ahead on-peak NP-15 delivery ranged from approximately $60.00/MHh to $81.00/MWh. Day-ahead off-peak electric prices in NP-15 ranged from approximately 42.00/MWh to $61.00/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between $6.00/MMBtu and $8.00/MMBtu.

During September 2006, PG&E was a [redacted] in the on-peak and off-peak hours in the 131
Day-Ahead market. PG&E was a [redacted] in the off-peak hours and a [redacted] in the on-peak 132
hours in the Hour Ahead markets. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately $42.00/MWh to $67.00/MWh. Day-ahead off-peak electric prices in NP-15 ranged from approximately $30.00/MWh to $52.00/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between $3.00/MMBtu and $6.00/MMBtu.

6. 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 Decision 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.

[redacted] 133

[redacted]

Also, further actions were taken to reduce TeVaR. PG&E made recommendations to CDWR per Gas Supply Plan 7 (AL 2776-E, approved by the Director of the Commission's Energy Division on April 1, 2006) regarding forward gas hedging for certain contracts allocated to PG&E. The results will be further discussed in PG&E's Energy Resource Recovery Account (ERRA) Compliance Filing Application to be filed in February 2007.

7. Copy of each contract.

As discussed in Section 3b, during Q3-2006, PG&E executed contractual documents. Copies of the executed agreements are included in: Participation in RA RFO in Confidential Appendix C, RA - Generator RFB in Confidential Appendix D, RA - Bilateral in Confidential Appendix E, RFO 9 in Confidential Appendix F, and QFs in Confidential Appendix G.

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

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

9. 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 K. This information is also provided to the Commission as part of PG&E's monthly report of Residual Net Open.

10. 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.

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

Confidential Appendix L is a histogram (graph) of energy purchases and sales by price and volume (GWh) for Q3-2006, 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.

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

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