

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



September 25, 2008

Advice Letter 3094-E

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 Transactions Quarterly Compliance Filing (Q2 2007)

Dear Mr. Cherry:

Advice Letter 3094-E is effective August 1, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Lewis".

Kenneth Lewis, Acting Director
Energy Division



Brian K. Cherry
Vice President
Regulatory Relations

Pacific Gas and Electric Company
77 Beale St., Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
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July 30, 2007

**Advice 3094-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, 2007)

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its compliance filing for the first quarter of 2007, 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 first quarter of 2007 is also provided in Confidential Appendix I.

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 - Gas Transportation Contracts
- Appendix C – PG&E's Quarterly Transactions by Type and Quantity
- Appendix D – PG&E's Monthly Transactions by Type and Quantity
- Appendix E – PG&E's Monthly ISO Purchase and Sales Transactions for February, March, and April 2007
- Appendix F – Monthly Reports of Projected Need
- Appendix G – Histogram

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than **August 20, 2007**, which is 20 days after the date of this filing.² 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:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: ijnj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail to (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

² The 20 day protest period concludes on a weekend. PG&E is hereby moving this date to the following business day.

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
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 30, 2007**.

Notice

In accordance with General Order 96-B, Section IV, 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 changes to the General Order 96-B service list should be directed to Rose de la Torre at (415) 973-4716. Send all electronic approvals to PGETariffs@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
PG&E's Procurement Review Group

Attachments

Confidential Attachment and Related Confidential Appendices A through G

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 (ID U39 M)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Michelle Brown

Phone #: (415) 973-4662

E-mail: mtt3@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) #: **3094-E**

Tier: 2

Subject of AL: **Procurement Transaction Quarterly Compliance Filing (Q2, 2007)**

Keywords (choose from CPUC listing):

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: No

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

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: No

Confidential information will be made available to those who have executed a nondisclosure agreement: Yes No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information:

Resolution Required? Yes No

Requested effective date: **July 30, 2007**

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: N/A

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

Protests, dispositions, 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

Tariff Files, Room 4005

DMS Branch

505 Van Ness Avenue

San Francisco, CA 94102

E-mail: jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Brian K. Cherry

Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF ADVICE 3094-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
 - 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 is 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 is entitled to protection as confidential, according to the IOU Matrix for 3 years.

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

The Protected Information in each of these categories is 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 is 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 is 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 is 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 is 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.

PACIFIC GAS AND ELECTRIC COMPANY
Procurement Transaction Quarterly Compliance Report
2nd Quarter—2007
July 30, 2007

Introduction

As required by Ordering Paragraph 8 of Decision (D.) 02-10-062, and clarified in D.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 record period April through June 2007 (Q2-2007).

During Q2-2007, 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 report includes energy delivery and price data for contracts executed within Q2-2007.

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 2007, and is included in Confidential Appendix E. The quarterly advice letter submission to the Energy Division for Q3-2007 will include final CAISO procurement for the months of May, June, and July 2007.

Data Request Items

D.02-10-062, Appendix B, as clarified by D.03-06-076, sets forth specific elements to be addressed in the procurement transaction 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 Q2-2007 include the execution of agreements as a result of the 2006 Renewable Portfolio Standard (RPS); fuel supply for utility-retained generation and contracted resources; gas hedging for both our utility-owned facilities and other contracted facilities; 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 Q2-2007, there are no specific transactions requiring presentation to and approval from 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, CAISO Spot Markets).

To meet electric energy resource requirements during Q2-2007, PG&E engaged in a variety of procurement activities allowed under D.03-12-062 and D.04-01-050.

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 Dynegy Morro Bay Energy and Moss Landing Tolling Agreements. Financial hedging transactions were completed to reduce risk associated with the open gas position. Transaction information is discussed further in Section 4.

The pertinent presentations made by PG&E to its Procurement Review Group (PRG) that specifically relate to transactions executed in the quarter are in Confidential Appendix A.

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

Electric Procurement

PG&E executed agreements under a Request for Offer (RFO) and a Request for Bid (RFB) related to gas transportation. This is discussed under the section entitled “Electric Fuels - Gas Transactions for Utility-owned and Contracted Generation – *Natural Gas Supply*.”

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

Electric Procurement

PG&E pursued and executed agreements in the RPS RFO and renewed qualifying facilities (QF) SO1 agreements. All of these agreements are filed under a separate advice filing and are identified below in Table 1A and Table 1B, for information purposes only.

Other Bilateral Agreements Filed – For Informational Purposes

On April 30, 2007, PG&E filed Advice 3044-E, entitled “Amendments to the Master Power Purchase and Sale Agreements between Global Ampersand, LLC, Successor in Interest to Global Common LLC, and Pacific Gas and Electric Company (Global).” These amendments are intended to give Global the financial and developmental assurances it needs to secure financing and ensure timely re-construction.

On June 27, 2007, PG&E filed Advice 3074-E, which were a set of three agreements from its 2006 RPS RFO. The specific agreements are identified below.

**TABLE 1A
PACIFIC GAS AND ELECTRIC COMPANY
2006 RENEWABLE PORTFOLIO STANDARD REQUEST FOR OFFERS**

<u>Advice Letter (Filing Date)</u>	<u>Agreement</u>	<u>MW</u>
AL 3044-E (June 27, 2007)	Global Common Ampersand, LLC	18
AL 3074-E (April 30, 2007)	Western GeoPower	25
AL 3074-E (April 30, 2007)	Green Volts	2
AL 3074-E (April 30, 2007)	CalRENEW	5

**TABLE 1B
PACIFIC GAS AND ELECTRIC COMPANY
QUALIFYING FACILITIES CONTRACT AMENDMENTS**

Contract	Log Number	Type of Agreement
Chevron USA Fee A	25C130	Amendment to PPA-SO1
Chevron USA Fee C	25C168	Amendment to PPA-SO1
Covanta (Stockton)	16P001	Amendment to PPA-SO4
Covanta (Salinas)	18P014	Amendment to PPA-SO4

Broker, Voice and Electronic Exchange Transactions

For electric energy, in addition to competitive procurement and bilateral contracting during the Q2-2007, 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 up to one quarter in duration, monthly, balance of month (BOM), day-ahead and hour-ahead transactions. These transactions are included in Table 2 of Section 4.

In Q2-2007, 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 expands its trading activities into these markets in order to promote competition for products, so that PG&E can better meet its load-serving obligations and, to the extent practical, procure only the energy PG&E requires (as opposed to limiting its procurement activities to standard products).

As part of its effort to reduce the forward net open position and limit PG&E's reliance on spot market energy transactions, PG&E entered into a series of term and BOM energy purchases and sales during Q2-2007. Table 2 below shows a summary of the strategies that PG&E completed in each month. The aggregate energy volumes are included in Table 3 of Section 4.

**TABLE 2
PACIFIC GAS AND ELECTRIC COMPANY
Q2-2007 TERM AND BALANCE OF MONTH AND ENERGY PURCHASES AND (SALES)**

Transaction Month	Delivery Month				
	April	May	June	July	
April	██████████	██████████			1
		██████████			
May		██████████	██████████		2
June			██████████	██████████	3
			██████████	██████████	
				██████████	4

Electric Procurement Planning

Near-Term Planning and Procurement

As prescribed by D.03-12-062, 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. 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., Dynegy 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 and to reduce PG&E’s 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 that 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 gained Federal Energy Regulatory Commission (FERC) approval on September 2005, 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. On February 23, 2007, CAISO filed a further amendment to Amendment No. 72 to relax the existing minimum load scheduling requirement during off-peak hours from 95 to 75 percent of each Scheduling Coordinator’s demand forecast and to establish specific exemptions to

account for small or infrequent scheduling deviations. FERC accepted CAISO's filing, effective April 26, 2007.

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's daily procurement process incorporates 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, the day-ahead market became more liquid in the trading of non-standard products, with individual-hourly 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 Reliability Must Run (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, CAISO will send decremental energy instructions in rank-bid order to certain generating resources to reduce output.

Locational Spreads

During Q2-2007, 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 rights (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 C and D.

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

Electric Transactions

Table 3 represents PG&E’s executed 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.

**TABLE 3
PACIFIC GAS AND ELECTRIC COMPANY
Q2-2007 FORWARD ELECTRIC TRANSACTIONS**

	<u>Term</u>	<u>BOM</u>	<u>Day Ahead</u>	<u>Hour Ahead</u>	<u>Day Ahead Options</u>	<u>Other (Non-Standard)</u>	<u>Total</u>	
<u>Purchases and Sales</u>								
Transactions	■	■	■	■	■	■	■	5
Volumes (GWh)	■	■	■	■	■	■	■	6
<u>Total Purchases</u>								
Transactions	■	■	■	■	■	■	■	7
Volumes (GWh)	■	■	■	■	■	■	■	8
<u>Total Sales</u>								
Transactions	■	■	■	■	■	■	■	9
Volumes (GWh)	■	■	■	■	■	■	■	10

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 C and D detail PG&E’s quarterly and related monthly energy transactions delivered and received during the quarter, by type, cost and quantity.¹ Confidential Appendix E details PG&E’s monthly CAISO purchase and sales transactions for February, March, and April 2007.²

¹ 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.

² 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.

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

Natural Gas Supply

During Q2-2007, PG&E continued to supply gas for its utility-owned generation plant and for several tolling agreements. PG&E-owned generation includes just Humboldt Bay Power Plant (Hunters Point Power Plan was retired in the second quarter of 2006). PG&E tolling arrangements include an agreement with Dynegy (formerly LS Power) for Morro Bay and Moss Landing Power Plants and an agreement with Mirant for Contra Costa and Pittsburg Power Plants. PG&E also began using natural gas storage capacity which was contracted for in the first quarter of 2007.

On February 15, 2007, PG&E presented its summer gas purchasing plan to the PRG. This plan outlined PG&E's strategy to purchase a variety of gas supply, storage and transportation products to meet its expected gas demand during the summer months. The plan included the addition of two new products to PG&E's electric portfolio: interstate gas pipeline capacity and [REDACTED]. Interstate pipeline capacity

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was added to the portfolio to diversify PG&E's physical gas purchases away from California trading points and the [REDACTED]

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PG&E purchases gas for these obligations as a single portfolio. Table 4 summarizes the spot and term gas purchases PG&E transacted during the Q2-2007 for the portfolio. PG&E made its initial multi-month supply arrangements for baseload supplies for the summer season (April 1, 2007 through October 31, 2007) in Q1-2007. For reporting purposes, gas deliveries in the second quarter are allocated between PG&E-owned generation, tolling arrangements and gas storage based on the volumes delivered to at each facility during the quarter. Local transportation costs are based on actual deliveries in the calendar month gas was delivered. Table 4 includes all gas purchased in the second quarter regardless of term whereas Table 8 includes gas delivered in the second quarter regardless of when it was purchased.

Redwood capacity at a reservation rate of \$ [REDACTED] /Dth. Considering this capacity's \$0.052 volumetric rate, this represents a \$ [REDACTED] /Dth discount to CGT's full tariff rate. A copy of the confirmation is in Confidential Appendix B.

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**TABLE 4
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF Q2-2007 PORTFOLIO GAS SUPPLY PURCHASES**

Term	Purchase Location	Volume (MMBtu)	Total Cost	Unit Cost (\$/MMBtu)	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	33
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	34
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	35
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	36
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	37
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	38
Note: Spot gas listed is net of sales. [REDACTED]					39
[REDACTED]					40

**TABLE 5
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF Q2-2007 PORTFOLIO GAS SUPPLY [REDACTED] PURCHASES**

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Product	Term	Purchase Location	Volume (MMBtu/day)	Total Cost	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	42

**TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF Q2-2007 PORTFOLIO GAS SUPPLY PARKING AND LENDING TRANSACTIONS**

Service Provider	Transaction Type	Delivery Location	Volume (MMBtu)	Total Cost	Unit Cost (\$/MMBtu)	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	43
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	44
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	45

**TABLE 7
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF Q2-2007 INTERSTATE PIPELINE CAPACITY PURCHASES**

Pipeline	Term	Receipt Point	Delivery Point	Volume (MMBtu/day)	Reservation Cost (\$/MMBtu)	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	46
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	47

**TABLE 8
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF Q2-2007 GAS DELIVERIES BY FACILITY OR TOLLING AGREEMENT**

PG&E Facility or Tolling Agreement	Volume (MMBtu)	Commodity Cost (\$/millions)	Transportation Cost (\$/millions)	Total Unit Cost (\$/MMBtu)	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	48
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	49
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	50
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	51
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	52
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	53
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	54

Financial Gas Hedging

On January 31, 2006, PG&E filed an updated Electric Portfolio Gas Hedging Plan (GHP Update 2006-1) with the California Public Utilities Commission (CPUC or Commission). The plan provided minor modifications to the framework that PG&E uses to manage the price risk associated with the gas open position in its electric portfolio. The updated plan augments and is consistent with PG&E's then current Commission approved electric procurement plans and Gas Supply Plans for CDWR Tolling Agreements. GHP Update 2006-1 was approved by the CPUC's Energy Division on April 4, 2006, with an effective date of March 17, 2006. In December 2006, PG&E reviewed the gas hedging strategy in GHP Update 2006-1 and

determined that it was still the appropriate gas hedging strategy to implement in 2007. Thus, PG&E presented to its PRG on December 14, 2006 this proposal to “roll” the gas hedging strategy in GHP Update 2006-1 into 2007 for implementation beginning January (GHP2007-1).

PG&E began implementation of GHP2007-1 in January and continued implementation through the end of the second quarter. Pursuant to the plan, PG&E will complete implementation of GHP2007-1 by [REDACTED].

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The hedge transactions that PG&E executed in the second quarter of 2007 under GHP2007-1 are summarized in Table 9.

**TABLE 9
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF PG&E ELECTRIC PORTFOLIO GAS HEDGES FOR PLAN 2006-1
IN MILLION BRITISH THERMAL UNITS (MMBTU)**

Product	Location	Product Term (Month/Year)	Option Premium (\$/MMBtu)	Price or Strike Price (\$/MMBtu)	Notional Volume in Millions (MMBtu)	Notional Value (\$ millions)	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	56
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	57
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	58
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	59
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	60
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	61
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	62

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 Q1-2007. This dry trend continued into Q2-2007 with the system receiving 53 percent of normal rainfall in the quarter. Cumulative water year (July 1 to June 30) precipitation ended the quarter at 59 percent of normal.

PG&E continued to restrain hydro generation during the quarter due to low runoff and the desire to conserve water for the summer generation period.

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. Pumping was limited by transmission work and unit maintenance. Annual maintenance was performed on Helms Unit 2.

Significant planned maintenance on conventional hydro in the quarter included work on Belden (117 MW), Bowman #1 (41.5 MW), Bucks Creek Units 1 & 2 (58 MW Total), Caribou 3 (25 MW), Haas PH 1 & 2 (72 MW ea), Pit 3 Units 1 & 3 (23 MW ea.), Tiger Creek Units 1 & 2 (30 MW ea.)

Significant forced outages on conventional hydro during the quarter included: Butt Valley (40 MW) due to bad insulator, Helms 2 (404 MW) due to circuit breaker trouble, Pit 7 Unit 1 (56 MW) tripped on field over voltage, Salt Springs #2 (34 MW) due to failed relay.

The conventional steam units at Humboldt (Unit 1, 52 MW and Unit 2, 53 MW) both were out of service for approximately 20 days for annual maintenance.

Diablo Canyon #2 was 100 percent available during Q2. Diablo Canyon #1 was out of service for 30 days to perform a refueling outage.

During April 2007, PG&E was a [REDACTED] in the off-peak and on-peak hours in the day-ahead and on-peak in the hour-ahead market. PG&E was a [REDACTED] in the off-peak in the hour-ahead market. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately \$ [REDACTED]/MWh to \$ [REDACTED]/MWh. Day-ahead off-peak electric prices in NP 15 ranged from approximately \$ [REDACTED]/MWh to \$ [REDACTED]/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between \$ [REDACTED]/MMBtu and \$ [REDACTED]/MMBtu.

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During May 2007, PG&E was a [REDACTED] in the on-peak and off-peak hours in the day-ahead market and in the hour-ahead markets. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately \$ [REDACTED]/MWh to \$ [REDACTED]/MWh. Day-ahead off-peak electric prices in NP 15 ranged from approximately \$ [REDACTED]/MWh to \$ [REDACTED]/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between \$ [REDACTED]/MMBtu and \$ [REDACTED]/MMBtu.

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During June 2007, PG&E was a [REDACTED] in the on peak and off peak hours in the day-ahead and a [REDACTED] in the off peak and on peak hours in the hour-ahead markets. Market prices for day-ahead on-peak NP 15 delivery ranged from approximately \$ [REDACTED]/MWh to \$ [REDACTED]/MWh. Day-ahead off-peak electric prices in NP 15 ranged from approximately \$ [REDACTED]/MWh to \$ [REDACTED]/MWh. Daily gas prices during the month at PG&E Citygate traded in a range between \$ [REDACTED]/MMBtu and \$ [REDACTED]/MMBtu.

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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 D.02-12-074, which equates to a CRT level of \$ [REDACTED] 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 \$ [REDACTED] million tolerance level ([REDACTED] million) to determine if remedial action or revised plans should be filed in order to manage this risk.

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During Q2-2007, PG&E’s position did not exceed the CRT level of \$ [REDACTED] million and the \$ [REDACTED] million notification level. However, PG&E filed a comprehensive gas hedging plan update on January 31, 2006 (AL 2775-E) to address anticipated increases in TeVaR for 2006 and 2007. On March 17, 2006, the Director of the Commission’s Energy Division approved this update. PG&E began implementing that plan update throughout the remainder of 2006. On December 14, 2006, PG&E presented to its PRG a recommendation to continue this strategy in 2007 (extending the hedging delivery period to the end of 2011). PG&E received no objections from the PRG and began implementation of this strategy in January of 2007.³ PG&E continued implementing this strategy in the second quarter of 2007.

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³ Since PG&E’s review of its hedging strategy indicated that no changes were necessary for implementation in 2007, PG&E did not file a gas hedging plan update with the CPUC.

Also, further actions were taken to reduce TeVaR. PG&E made recommendations to DWR per Gas Supply Plan 7 (AL 2978-E, approved by the Director of the Commission's Energy Division on April 1, 2007) regarding forward gas hedging for certain contracts allocated to PG&E. The results will be further discussed in PG&E's 2007 Energy Resource Recovery Account (ERRA) Compliance Filing Application to be filed in February 2008.

7. Copy of each contract.

As discussed in Section 4, during Q2-2007, PG&E did execute contractual documents for this Quarterly Procurement Transaction Compliance Report. It is in Confidential Appendix B.

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

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

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

9. 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. However, these procurement activities were filed under separate advice filings and thus included in them.

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

Confidential Appendix G is a histogram (graph) of energy purchases and sales by price and volume (GWh) for Q2-2007, 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.

11. Compliance with Decision 07-01-039, Greenhouse Gas and Related Agreements Executed in Quarter 1, 2007

PG&E does not have any agreements to disclose for Q2-2007.

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

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