

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



May 18, 2009

Advice Letter 3358-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 Transaction Quarterly Compliance Filing (Q3, 2008)

Dear Mr. Cherry:

Advice Letter 3358-E is effective May 14, 2009.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



October 30, 2008

Advice 3358-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Procurement Transaction Quarterly Compliance Filing (Q3, 2008)

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 2008, Pursuant to Pacific Gas and Electric Company's (PG&E) Conformed 2006 Long-Term Procurement Plan (LTPP), submitted in Advice 3233-E, as amended by Advice 3233-E-A. PG&E's submittal of this Procurement Transaction Quarterly Compliance Report for record period July through September 2008 (Q3-2008)¹ is in accordance with Decision (D.) 03-12-062, O.P. 19, which 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.² 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.

More recently, D.07-12-052 directed Energy Division and the Investor Owned Utilities (IOU)s to continue the collaborative effort to develop a reformatted QCR. The Commission authorized Energy Division to implement a reformatted QCR and to make ministerial changes to the content and format of the report as needs arise. PG&E's submittal of its Third Quarter 2008 QCR constitutes the first submittal conforming to the reformatted QCR authorized by Energy Division.

¹ PG&E's 2006 Conformed Long-Term Procurement Plan, Cal. P.U.C. Sheet No. 87.

² 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

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

The Attachment and related Confidential Appendices conform to the reformatted QCR authorized by Energy Division.

The supporting Confidential Appendices are:

- Appendix A – Third Quarter 2008 Transactions
- Appendix B – Third Quarter 2008 Counterparties' Information
- Appendix C – Third Quarter 2008 Electric Transactions
- Appendix D – Third Quarter 2008 Natural Gas Transactions
- Appendix E – Third Quarter 2008 Other Transactions
- Appendix F – Third Quarter 2008 Key Briefing Packages
- Appendix G – Third Quarter 2008 RFO Independent Evaluator Reports
- Appendix H – Third Quarter 2008 New Contracts Executed / Contracts Amended
- Appendix I – Summary of Retained Generation Investments Completed During Quarter
- Appendix J – Forward Contracts
- Appendix K – system Load Requirements / Conditions
- Appendix L – Risk Management Strategy Communication and Management Disclosure
- Appendix M – Reasonable Number of Analyses, Models, Description of Models, and How Models Operate
- Appendix N – Transaction Subject to Strong Showing

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 **November 19, 2008**, which is 20 days after 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:

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

Facsimile: (415) 703-2200
E-mail: jjj@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:

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 **October 30, 2008**.

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

Attachment and Related Confidential Appendices A through N

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: Linda Tom-Martinez

Phone #: (415) 973-4612

E-mail: lmt1@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) #: **3358-E**

Tier: 2

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q3, 2008)

Keywords (choose from CPUC listing): Procurement Compliance

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

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

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: Yes. See page 2 of advice letter for the complete list of confidential information.

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: Sharon Tatai (415) 973-2788

Resolution Required? Yes No

Requested effective date: **10/30/08**

No. of tariff sheets: N/A

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 Ave.,

San Francisco, CA 94102

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

**ADVICE LETTER FILING OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)**

**DECLARATION OF SHARON K. TATAI IN SUPPORT OF ADVICE LETTER FILING
3358-E, THE THIRD QUARTER QUARTERLY PROCUREMENT TRANSACTION
COMPLIANCE REPORT**

I, Sharon K. Tatai, declare:

1. I am a Senior Energy Compliance and Reporting Analyst of the Electric Contracts Management and Settlements Department within the Energy Procurement Department at Pacific Gas and Electric Company (PG&E). I am responsible for the coordination of the quarterly procurement transaction compliance report and related data. In carrying out these responsibilities, I have acquired knowledge of the transactions identified, in PG&E's electric portfolio, which are the subject of this advice letter. I have reviewed PG&E's advice filing and was responsible for supervision of 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, experience, information, and belief.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued in Rulemaking 05-06-040 on August 22, 2006, I make this declaration seeking confidential treatment for certain information in a specific attachment in Advice Letter 3358-E, submitted on October 30, 2008.

3. Attached to this declaration is a matrix identifying the data and information for which PG&E is seeking confidential treatment. The matrix specifies that the material PG&E is seeking to protect constitutes the particular type of data and information listed in Appendix 1 (the "IOU Matrix") of Decision 06-06-066. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential

protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text that is pertinent to my testimony in the attached matrix.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on October 30, 2008, at San Francisco, California.

/s/

SHARON K. TATAI

| | | | | | | | | |
|----|--|--|---|--|--|--|--|------------------------------|
| 1 | PACIFIC GAS AND ELECTRIC COMPANY | | | | | | | |
| 2 | Document: Advice 3358-E | | | | | | | |
| 3 | IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066 | | | | | | | |
| 4 | Date: October 30, 2008 | | | | | | | |
| 5 | | | | | | | | |
| 6 | Redaction Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N) | 2) Which category or categories in the Matrix the data correspond to: | 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N) | 4) That the information is not already public (Y/N) | 5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N) | PG&E's Justification for Confidential Treatment | Length of Time |
| 7 | Confidential Attachment A | Y | Page 13, Item VI, Open Net Position (Electric) | Y | N | N | Reveals PG&E's position in the energy procurement market. Identification of strategies-leading to transactions that close our net open position. | 3 yrs |
| 8 | | | Page 2, Item I.A.4 - Long-term fuel (gas) buying and hedging plans; Page 3, Item II.B.2 Utility recorded gas procurement and cost information | Y | N | N | Identification of hedging strategies. | 3 yrs |
| 9 | Confidential Attachment B | Y | Under Public Utilities Code Section 583 and General Order 66-C | N | N | N | Strategies provide specific strategy that PG&E employs for closing its net open position, including specific planned purchasing strategy. | No quantification in GO 66-C |
| 10 | Confidential Attachment C | Y | Page 13, Item VI, Open Net Position; (Electric) | Y | N | N | Reveals PG&E's position in the energy procurement market. Identification of strategies-leading to transactions that close our net open position. | 3 yrs |
| 11 | Confidential Attachment D | Y | Page 2, Item I.A.4 - Long-term fuel (gas) buying and hedging plans; Page 3, Item II.B.2 Utility recorded gas procurement and cost information | Y | N | N | Identification of hedging strategies. | 3 yrs |
| 12 | Confidential Attachment E | No QCR-related material submitted | | | | | | |

| | | | | | | | | |
|----|--|---|---|---|---|---|---|------------------------------|
| 1 | PACIFIC GAS AND ELECTRIC COMPANY | | | | | | | |
| 2 | Document: Advice 3358-E | | | | | | | |
| 3 | IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066 | | | | | | | |
| 4 | Date: October 30, 2008 | | | | | | | |
| 5 | | | | | | | | |
| 6 | Redaction Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N) | 2) Which category or categories in the Matrix the data correspond to: | 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N) | 4) That the information is not already public (Y/N) | 5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N) | PG&E's Justification for Confidential Treatment | Length of Time |
| 13 | Confidential Attachment F | Y | Page 15, Section VII - Bilateral Contract Terms and Conditions - Electric, Section B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS) and Public Utilities Code 583 and General Order 66-C | Y | N | N | Presentations specifically relate to bilateral agreement of settlement reached between PG&E and counterparty | 3 yrs |
| 14 | Confidential Attachment G | No QCR-related material submitted | | | | | | |
| 15 | Confidential Attachment H | Y | Page 15, Section VII - Bilateral Contract Terms and Conditions - Electric, Section B - Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS) and Public Utilities Code 583 and General Order 66-C | Y | N | N | Specific agreements related to price, counterparty, and volumes | 3 yrs |
| 16 | Confidential Attachment I | | N/A | | | | | |
| 17 | Confidential Attachment J | Y | Page 22, Item XIII, Energy Division Monthly Data Request (electric) | Y | N | N | Identification of amounts that contribute to the Monthly Energy Division Report and identification | |
| 18 | | Y | Page 2, Item I.A.4 - Long-term fuel (gas) buying and hedging plans; Page 3, Item II.B.2 Utility recorded gas procurement and cost information | Y | N | N | Identification of hedging strategies. | 3 yrs |
| 19 | Confidential Attachment K | N | Under Public Utilities Code Section 583 and General Order 66-C | N | N | N | Strategies provide specific strategy that PG&E employs for closing its net open position, including specific planned purchasing strategy. | No quantification in GO 66-C |

| | | | | | | | | |
|----|--|--|--|--|--|--|--|------------------------------|
| 1 | PACIFIC GAS AND ELECTRIC COMPANY | | | | | | | |
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| 3 | IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066 | | | | | | | |
| 4 | Date: October 30, 2008 | | | | | | | |
| 5 | | | | | | | | |
| 6 | Redaction Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N) | 2) Which category or categories in the Matrix the data correspond to: | 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N) | 4) That the information is not already public (Y/N) | 5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N) | PG&E's Justification for Confidential Treatment | Length of Time |
| 20 | Confidential Attachment L | N | Under Public Utilities Code Section 583 and General Order 66-C | N | N | N | Strategies provide specific strategy that PG&E employes for closing its net open position, including specific planned purchasing strategy. | No quantification in GO 66-C |
| 21 | Confidential Attachment M | N | Under Public Utilities Code Section 583 and General Order 66-C | N | N | N | Strategies provide specific strategy that PG&E employes for closing its net open position, including specific planned purchasing strategy. | No quantification in GO 66-C |
| 22 | Confidential Attachment N | No QCR-related material submitted | | | | | | |

PACIFIC GAS AND ELECTRIC COMPANY
PROCUREMENT PLAN COMPLIANCE REPORT
FOR THE THIRD QUARTER OF 2008

October 30, 2008

List of Attachments

- Confidential Attachment A: Third Quarter 2008 Transactions
- Confidential Attachment B: Third Quarter 2008 Counterparties Information
- Confidential Attachment C: Third Quarter 2008 Electric Transactions
- Confidential Attachment D: Third Quarter 2008 Natural Gas Transactions
- Confidential Attachment E: Third Quarter 2008 Other Transactions
- Confidential Attachment F: Third Quarter 2008 Key Briefing Packages
- Confidential Attachment G: Third Quarter 2008 RFO Independent Evaluator Reports
- Confidential Attachment H: Third Quarter 2008 New Contracts Executed / Contracts Amended
- Confidential Attachment I: Summary of Retained Generation Investments Completed During Quarter
- Confidential Attachment J: Forward Contracts
- Confidential Attachment K: System Load Requirements / Conditions
- Confidential Attachment L: Risk Management Strategy Communication and Management Disclosure
- Confidential Attachment M: Reasonable Number of Analyses Models, Description of Models, and How Models Operate
- Confidential Attachment N: Transactions Subject to Strong Showing

Article I. Introduction

As required by Ordering Paragraph 8 of Decision (D.) 02-10-062, and clarified in D.03-06-076, D.03-12-062, D.04-07-028, D.04-12-048 and D.07-12-052, Pacific Gas and Electric Company (PG&E) hereby provides its report demonstrating that its procurement-related transactions during the period July 1, 2008 through September 30, 2008 (Third Quarter), were in compliance with the latest California Public Utilities Commission (CPUC or Commission)-approved Assembly Bill (AB) 57 Long-Term Procurement Plan (Plan), adopted by the Commission in D.07-12-052 and amended March 19, 2008, effective December 21, 2007, and were in compliance with the most recent hedging authority as cited in D.07-12-052 and approved on June 26, 2008 by Resolution E-4177.

Material deviations from the Plan are explained herein or in a separate letter to be filed with this advice letter.

Article II. Summary

During the Third Quarter, PG&E engaged in competitively priced transactions consistent with its Plan. All transactions were conducted using processes specified in the Plan. If any transactions were executed with affiliates, those transactions would be disclosed in Confidential Attachment A and Advice Letter(s). All non-investment grade counterparties that PG&E transacted with during the Quarter are shown in Confidential Attachment B, *Counterparty Information*. Furthermore, the top 10 counterparties transacted with by dollar value or volume is also listed in Confidential Attachment B, *Counterparty Information*.

Confidential Attachments C, *Electric Transactions Summary* and D, *Natural Gas Transactions Summary* are summaries of the electric and gas transactions executed during the Quarter. Confidential Attachment E, *Third Quarter 2008 Other Transactions*, is a summary of any additional transaction that occurred during the quarter. The quantities shown in these attachments are based on the period during which the transactions were executed. Therefore, volumes received during the Quarter pursuant to transactions executed in prior quarters are excluded. Also excluded are transactions in the California Independent System

Operator's (CAISO) real-time energy and ancillary services markets, since these transactions are, for the most part, made by the CAISO on behalf of PG&E and are made without regard to the Plan.¹

Article III. Master Data Request Documentation

D.02-10-062, Appendix B, as clarified by D.03-06-076, sets forth specific elements to be addressed in this report. Each element is discussed below.

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

All procurement-related activity during the Quarter was approved and executed either by, or under the direction of Fong Wan (Vice President, Energy Procurement) or Roy Kuga (Vice President, Energy Supply), consistent with the delegation of authority effective for the period.

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

The "decision-maker" for a particular contemplated transaction depends on many factors, including term, volume, notional value, etc. For many of the transactions during the Quarter, the "decision-maker" was a PG&E employee in PG&E's Energy Procurement department, authorized to execute transactions on behalf of PG&E (e.g., day-ahead or hour-ahead power purchases and sales) per an established plan or to achieve a particular objective (such as balancing the portfolio supply and demand). For such transactions, briefing packages are not prepared. Briefing packages prepared during the Quarter for large or unusual transactions that required senior management approval are listed in Confidential Attachment F, *Third Quarter 2008 Key Briefing Packages*.

In addition, copies of presentations made by PG&E to its Procurement Review Group (PRG) during the quarter are included in Confidential Attachment F, *Third Quarter 2008 Key Briefing Packages*. To the extent that senior management decision maker briefing packages are the same as presentations made to the PRG, presentations are marked to reflect this fact.

¹ All CAISO real-time transactions are excluded from the QCR.

3. Description of and justification for the procurement processes used to select the transactions.

a) Electric

Description of Procurement Processes

The approved procurement processes used during the Quarter were as follows:

- California Independent System Operator (CAISO) 2009 CRR Allocation & Auction Process – PG&E participated in the CAISO’s 2008 Congestion Revenue Rights (CRR) release process to procure 2009 CRRs.
- Request for Offers (RFO) – PG&E issued an RFO to purchase and sell system and local RA based on a need assessment performed in late June 2008. The RFO had two phases of procurement. The first procurement phase was completed on July 31, 2008. The second phase of procurement will be completed in October 2008.
- Request for Offers (RFO) – PG&E issued an RFO for Fixed for Floating price hedges in early July. A Summary of the Hedge Transactions was filed by Advice Letter 3334-E.
- Voice Brokers – PG&E continued the use of voice and broker market for non-standard products, such as trading in day-ahead markets for individual hours, blocks or strips of hours, on specific days of the week during Third Quarter 2008.
- Electronic Exchanges – PG&E engaged in electronic broker market transactions to manage its 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.

Justification for Procurement Processes

For competitive solicitations, describe the process used to rank offers and select winning bid(s).

- Resource Adequacy (RA) RFO – The June 2008 needs assessment highlighted a need to cover system RA during 2009. Procurement was split between this RFO and short-term procurement. As part of the competitive solicitation process, PG&E issued the RFO on June 25, 2008, to over 250 potential bidders. The RFO requested 2009 RA capacity products consistent with the RA capacity product put forward by a multi-party working group in 2006. The RFO also requested offers to purchase system and local RA from PG&E. The transactions were to be made pursuant to an Edison Electric Institute (EEI) Master or Western Systems Power Pool (WSPP) Agreement with credit requirements consistent with other solicitations PG&E has issued.
- Fixed for Floating Hedge RFO – This was separately filed through Advice Letter 3334-E and approved on October 17, 2008.

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

- California Independent System Operator (CAISO) 2009 Congestion Revenue Rights (CRR) Allocation & Auction Process – PG&E determined that with the implementation of Market Redesign and Technology Upgrade (MRTU), the Utility would be exposed to congestion risk on the electric transmission grid as power is delivered from its generating resources to serve bundled customer load. PG&E estimated that a significant portion of its generation in 2009 would be exposed to congestion risk, and therefore it participated in the CAISO's 2009 Annual Allocation & Auction process to obtain CRRs to mitigate this risk. PG&E sought CRRs to fulfill the following objectives:
 - Narrow the distribution of the Utility's energy procurement costs due to electric transmission congestion as measured by the electric To-expiration-Value-at-Risk (TeVAr); and

- Reduce the expected congestion costs that the Utility would incur in its operations.

Furthermore, PG&E sought only CRRs that were consistent with the Utility's actual congestion position, instead of seeking the CRRs with the highest market value irrespective of the Utility's needs. Therefore only known portfolio positions, including existing and executed supply arrangements, were considered in the selection of CRR candidates in the 2009 CRR allocation & auction process. In all its detailed analysis and CRR selection strategy, PG&E used Locational Marginal Pricing (LMP) congestion prices and risk characteristics from CAISO's LMP3C study and the 2008 CRR auction as MRTU had not been implemented to date and hence historical or forward LMP congestion values were unavailable.

- Voice and on-line brokers – The dynamic environment of the short-term electric markets requires that traders have the ability to transact when market conditions are within parameters described by a particular trading strategy. The structure that allows for trading in this type of environment is built around standard enabling agreements such as EEI and WSPP, counterparties that can be contacted directly, and brokers that solicit bids from potential buyers and offers from potential sellers that allows for market transparency and enhances market efficiency. When a buyer's bid and seller's offer match, a transaction can be executed. The standing enabling agreement between the counterparties allows the transaction to be executed, and the broker (voice or on-line) matches the buyer with the seller. Soliciting bids and offers in this fashion is what constitutes the electric market. Prices vary during a trading session as buyers and sellers adjust their prices in response to items such as electric system conditions, market responses, industry news and weather forecasts. As a result, it is common to see trades executed at different prices over the course of a trading session. The key aspect is that the transaction was executed within the parameters described by the trading strategy.

- Affiliate Transactions or utility-owned or utility turnkey bids – For all solicitation that involve affiliate transactions or utility-owned or utility turnkey bids and for all competitive RFOs seeking products greater than three months in length (and subject to QCR submittals) regardless of the bidders, list the Independent Evaluator (IE) reports in Attachment G, *RFO Independent Evaluator Reports*, along with a list of the workpaper citations.
 - PG&E has no Third Quarter 2008 electric transactions in this category.
- Transactions subject to a strong showing – For transactions subject to a strong showing standard per D.07-12-052, provide a discussion for any relevant transactions, compliance to the investor-owned utilities (IOU) LTPP, and the approved Advice Letter numbers.
 - These transactions are disclosed separately in Confidential Attachment N, Transactions Subject to Strong Showing.
- PRG Presentations and executed contracts – Presentations of those activities presented to the Procurement Review Group (PRG) are in Confidential Attachment F. The executed agreements are in Confidential Attachment H, *Third Quarter 2008 New Contracts Executed / Contracts Amended*.

b) Natural Gas

Description of Procurement Processes

The approved procurement processes used during the Quarter were as follows:

- Supply of Natural Gas to Utility-Owned Generation and Tolling Agreements – During the Third Quarter 2008, 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. PG&E tolling arrangements include an agreement with Dynegy (formerly LS Power) for Moss Landing Power Plant and an agreement with Mirant for Contra Costa and Pittsburg Power Plants. PG&E executed these transactions through Intercontinental Exchange (ICE) and through

bi-lateral trades. Confidential Appendix A summarizes the daily and term gas purchases PG&E transacted as well as local transportation costs (the cost of delivering gas from the PG&E Citygate to the generating facilities).

- Pipeline Capacity – PG&E signed a 59-month arrangement with PG&E’s Gas Transmission and Distribution Department for 49,350 Million British Thermal Units (MMBtu)/day² for firm pipeline capacity beginning July 1, 2009.
- Electric Gas Hedging – In accordance with D.07-12-052, PG&E submitted its revised Electricity and Gas Hedging Plan to the CPUC on May 12, 2008 (Advice Letter 3233-E-A). The Commission approved this Plan on June 26, 2008 (Resolution E-4177). PG&E designates this Plan GHP 2008-2. PG&E began implementation of GHP 2008-1 in July 2008 and continued implementation throughout the third quarter. These transactions were executed through the ICE Exchange, the New York Mercantile Exchange (NYMEX) Clearing, bilateral trades, and through voice brokers. The hedge transactions that PG&E executed in the Third Quarter 2008, are summarized in Confidential Attachment A.

Justification for Procurement Processes

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

- Short Term Physical Gas Procurement (intraday, next day, balance of month and prompt month) – Primarily procured over the ICE and Bilateral counterparties as this is the most liquid and efficient means to procure gas in the short-term markets. ICE is the primary market and provides liquid products that trade against the industry benchmark indices, including Canadian Gas Price Reporter (CGPR), Gas Daily, Natural Gas Intelligence (NGI) and Inside Federal Energy Regulatory Commission (FERC). As an exchange ICE provides access to anonymous bids and offer from both bilateral parties and cleared counterparties establishing a very liquid and robust market. Longer-term physical gas is generally procured at an

² This volume represents delivery capacity at the PG&E Citygate.

industry benchmark Index plus or minus a premium. Index premiums are related to market conditions. Index premiums are established by broker(s) or by contacting several bilateral counterparties. The forward gas price is hedged using financial products.

- Pipeline Capacity – PG&E signed a 59-month arrangement with PG&E’s Gas Transmission and Distribution Department for 49,350 MMBtu/day³ for firm tariff service pipeline capacity beginning July 1, 2009. This capacity completes the transportation path from Alberta, Canada to the PG&E Citygate for pipeline capacity that PG&E acquired as part of the settlement of Gas Transmission Northwest’s (GTN) rate case at the FERC. This settlement was filed with the FERC on October 31, 2007 and approved on January 7, 2008. The CPUC was a party to this settlement and endorsed PG&E’s capacity commitments “as being reasonable and in the public interest.”
- Electric Gas Hedging – PG&E executed Hedges in accordance with its approved revised Plan per Resolution E-4177. Financial hedges are executed directly on the ICE, through a broker and cleared through an exchange (ICE or the NYMEX) or directly with a bilateral counterparty. ICE and the brokers provide access to anonymous bids and offer from both bilateral parties and cleared counterparties establishing both a liquid and robust market for financial products, and a benchmark for bilateral products. These products include Henry Hub swaps and options, and basis swaps against the industry benchmark indices, including CGPR, Gas Daily, NGI and Inside FERC.
- Daily Gas Purchases – Daily gas purchases are purchased are consistent with the principle of least cost dispatch and gas is purchased at the Gas Daily index or that days spot prices. Monthly base load purchasers are at the first of month index to be

³ This volume represents delivery capacity at the PG&E Citygate.

consistent with the financial hedges executed. Gas hedges are consistent with CPUC-approved Procurement Plan.

- RFOs that require using an Independent Evaluator – For all solicitations that involve affiliate transactions or utility-owned or utility turnkey bids and for all competitive RFOs seeking products greater than three months in length (and subject to QCR submittals) regardless of the bidders, list the IE reports in Attachment G, *RFO Independent Evaluator Reports*, along with a list of the workpaper citations.
 - PG&E has no Third Quarter 2008 gas transactions in this category.
- Transactions subject to a strong showing – For transactions subject to a strong showing standard per D.07-12-052, provide a discussion for any relevant transactions, compliance to the IOU's LTPP, and the approved Advice Letter numbers. These transactions are disclosed separately in Confidential Attachment N, *Transactions Subject to Strong Showing*.
 - PG&E has no Third Quarter 2008 gas transactions in this category.
- PRG Presentations and executed contracts – Presentations of activities presented to the PRG are in Confidential Attachment F. The executed agreements are in Confidential Attachment H, *Third Quarter 2008 New Contracts Executed / Contracts Amended*.

c) Other Commodities (if applicable)

This is not applicable to PG&E for Third Quarter 2008.

4. Explanation/justification for the timing of the transactions.

Throughout the Quarter, PG&E's objective was to enter into electric transactions to maintain its open position within tolerances. This objective was achieved by gradually reducing the forecast open (i.e., short or long) energy position through the use of term, balance-of-month, day-ahead, and hour-ahead transactions, employing both standard and non-standard products. When selecting electric transactions to match forecast supply and demand, the best-priced

bids/offers were selected first (merit-order selection) among those available for the required products at the time of the transaction, subject to credit and other limitations and operational constraints. Such operational constraints include the local area reliability requirements of the CAISO, as set forth in D.04-07-028.

The timing of gas transactions was largely driven by the requirement to ensure that the delivery of fuel to the gas-fired electric facilities managed by PG&E matched such facilities' forecast burn.

Detailed explanation/justification for the timing of the transactions is included in the workpapers Confidential Attachment K, *System Load Requirements / Conditions*.

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

a) 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, Utility Retained Generation (URG) resources (for simplicity, Power Purchase Agreements with dispatchability are included in this category (e.g., Crockett)), 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 spread 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.

b) 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 in order 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 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 (SC) 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, Qualifying Facilities (QF) 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, PG&E must also 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 to match changes in electric demand—such as 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 incremental, decremental and other costs associated with the changes between day-ahead and hour-ahead forecasted conditions, and thereby

reduces costs overall to consumers. The specific agreements have been addressed in PG&E's Q2-2005 Quarterly Procurement Compliance advice letter (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 5:30 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 addition to "standard" on-peak and off-peak "packages" of multiples of 25-megawatt (MW) blocks of energy with specified delivery points, the day-ahead market has become more liquid in the trading of non-standard products, with individual-hourly transactions as well as custom packages of hours.

c) 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 market. 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 in order 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. To balance its portfolio during this time frame, PG&E's hour-ahead staff has several resources at its disposal. Generation, including 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 based on operating

requirements and market opportunity costs will decide if available generating resources should be adjusted to minimize system costs, and whether market transactions are required or beneficial.

The hour-ahead 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.

d) Locational Spreads

During Third Quarter 2008, PG&E engaged in day-ahead locational spread transactions, authorized by PG&E's approved Plan, in order to manage its position, reduce risk of congestion costs, and maximize the value of its purchased firm transmission rights assets.

e) PG&E-Owned Generation Conditions During Third Quarter 2008

Dry conditions continued in the Third Quarter with only 10.4 percent of normal precipitation. PG&E's conventional hydroelectric resources used natural runoff and withdrawals from storage to meet daily peak loads and to provide ancillary service reserves.

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. Helms 1 and 2 were unavailable briefly for minor maintenance and inspections. Helms 3 began a major overhaul at the end of September. Helms 2 was forced out for two days due to circuit breaker trouble.

Significant planned maintenance on conventional hydro in the quarter included work on Bucks Creek 2 (25 MW), Butt Valley (40 MW), Chicago Park (41.5 MW), Drum Unit 5 (49.5 MW), Dutch Flat 1 (22 MW), Dutch Flat 2 (26 MW), Narrows 2

(55 MW), Pit 1 Units 1 & 2 (31.5 MW each), Pit 3 Units 1 & 2 (23 MW each), Salt Springs 2 (34 MW), and Tiger Creek 1 & 2 (30 MW each).

Significant forced outages on conventional hydro during the quarter included: Caribou 1 Unit 1 (23.8 MW) for 21 days due to governor trouble, Caribou 1 Unit 3 (23.8 MW) for 14 days due to a bearing oil leak, James Black Units 1 & 2 (86 MW each) ongoing starting September 19 due to a penstock leak, Pit 3 Unit 1 (23 MW) for 7 days due to governor trouble, Tiger Creek Unit 2 (30 MW) 11 days due to generator winding trouble.

For PG&E's retained fossil generation, Humboldt Unit 2 (conventional steam, 53 MW) completed a 22 day overhaul on September 21.

Diablo Canyon Unit 2 was forced out of service for 20 days due to a main transformer bank bushing failure. No other significant outages took place at Diablo Canyon.

6. Discussion of how the quarter's transactions meet the goals of the risk management strategy reflected in the Plan.

Throughout the Quarter, PG&E executed transactions in accordance to its risk management strategy and approved Plan. A list of information regarding CRT notifications and management is included in Confidential Attachment L, *Risk Management Strategy Communication and Management*.

PG&E executed Hedges in accordance with its approved revised Plan per Resolution E-4177. Financial hedges are executed directly on the ICE, through a broker and cleared through an exchange (ICE or the NYMEX) or directly with a bilateral counterparty. ICE and the brokers provide access to anonymous bids and offer from both bilateral parties and cleared counterparties establishing both a liquid and robust market for financial products, and a benchmark for bilateral products. These products include Henry Hub swaps and options, and basis swaps against the industry benchmark indices, including CGPR, Gas Daily, NGI and Inside FERC.

7. Copy of each contract.

A list of contracts executed and/or modified by PG&E during the Quarter are included in Confidential Attachment H. Copies of these contracts that were not separately Advice-filed are also included in Confidential Attachment H. Master agreements are listed in Confidential Attachment G. All Final RFO contracts subject to QCR submittals along with the IE reports are included in Confidential Attachments G and F, respectively. PG&E does not have any applicable IE reports.

8. The valuation results for the contract(s) three months or greater duration.

PG&E provides the valuation results for the contracts submitted in this QCR in Attachment H, *Third Quarter 2008 New Contracts Executed/Contracts Amended* with details of the valuation method contained in the workpapers.

9. An electronic copy of any data or forecasts used to analyze the transactions.

Because transaction personnel are continuously monitoring a wide range of market information on a 24-hour-per-day, 7-day-per-week basis, it is not feasible to provide all the data and forecasts used to analyze all potential and executed transactions. However, key analysis data utilized during the Quarter is contained in the workpapers in Confidential Attachment K, *System Load Requirements/Conditions*.

10. Provide a reasonable number of analyses requested by the Commission or the Procurement Review Group (PRG) and provide the resulting outputs.

To the extent any analyses requested by the Commission or PRG during the Quarter were not already included as a part of PG&E's response to Items 1 through 9 above, such additional analyses are contained in the workpapers. For any such analyses, the models used, analytic processes, and how the models operate are described in Confidential Attachment M, *Reasonable Number of Analyses*.

- PG&E has included analysis for the CRR transactions and a description for RA RFO in Appendix M.

11. Any other information sought by the Commission under the Public Utilities Code.

To the extent the Commission requested information for the Quarter not already provided in the Master Data Request, such information is included in the workpapers.

- PG&E does not have any requests that qualify under this definition.

12. Additional Reporting Requirement Pursuant to Decision 07-01-039.

As required by Ordering Paragraph 12 of D.07-01-039, PG&E has included in Confidential Attachment I, *Summary of Retained Generation Investments*, investments in retained generation that were completed during the Quarter, as well as any multiple contracts of less than five years with the “same supplier, resource or facility.” (Section 5.1, p. 152.)

- PG&E does not have any agreements to disclose for Third Quarter 2008 applicable to this decision.

13. Cost Allocation Mechanism (CAM)

The costs and revenues associated with Cost Allocation Mechanism (CAM) elected resources should be identified separately.

- PG&E does not have any CAM elected resources to report for Third Quarter 2008 applicable to this decision.

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

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| Aglet | Department of the Army | Northern California Power Association |
| Agnews Developmental Center | Dept of General Services | Occidental Energy Marketing, Inc. |
| Alcantar & Kahl | Division of Business Advisory Services | OnGrid Solar |
| Ancillary Services Coalition | Douglas & Liddell | PPL EnergyPlus, LLC |
| Anderson & Poole | Douglass & Liddell | Pinnacle CNG Company |
| Arizona Public Service Company | Downey & Brand | Praxair |
| BART | Duke Energy | R. W. Beck & Associates |
| BP Energy Company | Duncan, Virgil E. | RCS, Inc. |
| Barkovich & Yap, Inc. | Dutcher, John | RMC Lonestar |
| Bartle Wells Associates | Ellison Schneider & Harris LLP | Recon Research |
| Blue Ridge Gas | Energy Management Services, LLC | SCD Energy Solutions |
| Braun & Associates | FPL Energy Project Management, Inc. | SCE |
| C & H Sugar Co. | Foster Farms | SESCO |
| CA Bldg Industry Association | Foster, Wheeler, Martinez | SMUD |
| CAISO | Franciscan Mobilehome | SPURR |
| CLECA Law Office | G. A. Krause & Assoc. | Santa Fe Jets |
| CSC Energy Services | GLJ Publications | Seattle City Light |
| | Goodin, MacBride, Squeri, Schlotz & Ritchie | Sempra Utilities |
| California Cotton Ginners & Growers Assn | Green Power Institute | Sequoia Union HS Dist |
| California Energy Commission | Hanna & Morton | Sierra Pacific Power Company |
| California League of Food Processors | Heeg, Peggy A. | Silicon Valley Power |
| California Public Utilities Commission | Hitachi | Smurfit Stone Container Corp |
| Calpine | Hogan Manufacturing, Inc. | Southern California Edison Company |
| Cameron McKenna | Imperial Irrigation District | St. Paul Assoc. |
| Cardinal Cogen | Innercite | Sunshine Design |
| Casner, Steve | International Power Technology | Sutherland, Asbill & Brennan |
| Cerox | Intestate Gas Services, Inc. | TFS Energy |
| Chamberlain, Eric | J. R. Wood, Inc. | Tabors Caramanis & Associates |
| Chevron Company | JTM, Inc. | Tecogen, Inc. |
| Chris, King | Los Angeles Dept of Water & Power | Tioga Energy |
| City of Glendale | Luce, Forward, Hamilton & Scripps LLP | TransCanada |
| City of Palo Alto | MBMC, Inc. | Turlock Irrigation District |
| City of San Jose | MRW & Associates | U S Borax, Inc. |
| Clean Energy Fuels | Manatt Phelps Phillips | United Cogen |
| Coast Economic Consulting | Matthew V. Brady & Associates | Utility Cost Management |
| Commerce Energy | McKenzie & Associates | Utility Resource Network |
| Commercial Energy | Meek, Daniel W. | Utility Specialists |
| Constellation | Merced Irrigation District | Vandenberg Air Force |
| Constellation New Energy | Mirant | Verizon |
| Consumer Federation of California | Modesto Irrigation District | Wellhead Electric Company |
| Crossborder Energy | Morgan Stanley | Western Manufactured Housing Communities Association (WMA) |
| | | White & Case |
| Davis Wright Tremaine LLP | Morrison & Foerster | eMeter Corporation |
| Day Carter Murphy | New United Motor Mfg., Inc. | |
| Defense Energy Support Center | Norris & Wong Associates | |
| Department of Water Resources | North Coast SolarResources | |