

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



May 5, 2010

Advice Letter 3550-E

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

Subject: Procurement Transaction Quarterly Compliance Filing (Q3, 2009)

Dear Ms. Yura:

Advice Letter 3550-E is effective October 30, 2009.

Sincerely,

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

Julie A. Fitch, Director
Energy Division



October 30, 2009

**Advice 3550-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, 2009)

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 2009, pursuant to PG&E’s Conformed 2006 Long-Term Procurement Plan, submitted in Advice 3233-E and amended by Advice 3233-E-A. PG&E’s submittal of this Procurement Transaction Quarterly Compliance Report (QCR) for record period July through September 2009 (Q3-2009)¹ is in accordance with Decision (D.) 03-12-062, Ordering Paragraph 19, which requires that the Quarterly Procurement Plan Compliance Reports be submitted within 30 days of the end of the quarter.

Background

D.07-12-052 directed Energy Division and the Investor Owned Utilities (IOUs) 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. Energy Division and the IOUs have finalized the QCR format. PG&E’s submittal of its third Quarter 2009 QCR is in the final format authorized by Energy Division on December 15, 2008.

Compliance Items

An Attachment (the narrative) with supporting Confidential Appendices conforms to the reformatted QCR and is being submitted to the Energy Division.

The supporting Confidential Appendices are:

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

- Appendix A – Third Quarter 2009 Transactions
- Appendix B – Third Quarter 2009 Counter-Party Information
- Appendix C – Third Quarter 2009 Electric Transactions
- Appendix D – Third Quarter 2009 Gas Transactions
- Appendix E – Third Quarter 2009 Other Transactions
- Appendix F – Third Quarter 2009 Key Briefing Packages
- Appendix G – Third Quarter 2009 RFO Independent Evaluator Reports
- Appendix H – Third Quarter 2009 New Contracts Executed/Contracts Amended
- Appendix I – Summary of Retained Generation Investments Completed During Third Quarter 2009
- Appendix J – System Load Requirements/Conditions
- Appendix K – Risk Management Strategy Communication and Management Disclosure
- Appendix L – Reasonable Number of Analyses Models, Description of Models, and How Models Operate
- Appendix M – Transactions 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, 2009**, 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: jj@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 accordance with D.02-10-062, the effective date of this advice letter is **October 30, 2009**.

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 and all electronic approvals should be sent to e-mail PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.

A handwritten signature in cursive script that reads "Brian Cherry /mt".

Vice President - Regulatory Relations

cc: Service List - R.01-10-024, R.04-04-003
PG&E's Procurement Review Group

Attachments and Related Confidential Appendices A through M

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) #: **3550-E**

Tier: 2

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q3, 2009)

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

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: 10/30/09

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
3550-E, THE THIRD QUARTER 2009 QUARTERLY PROCUREMENT TRANSACTION
COMPLIANCE REPORT**

I, Sharon K. Tatai, declare:

1. I am a Principal Analyst of the Energy Policy, Planning, and Analysis 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 response to the data request from the Division of Ratepayer Advocates (DRA) and was responsible for supervision of the preparation of the 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 3550-E, submitted on October 30, 2009.

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, 2009, at San Francisco, California.

/s/

SHARON K. TATAI

1	PACIFIC GAS AND ELECTRIC COMPANY							
2	Document: Advice 3550-E							
3	IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066							
4	Date: October 30, 2009							
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		N/A					

1	PACIFIC GAS AND ELECTRIC COMPANY							
2	Document: Advice 3550-E							
3	IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066							
4	Date: October 30, 2009							
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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 agreements between PG&E and counterparties	3 yrs
		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 and transactions	3 yrs
14	Confidential Attachment G		N/A					
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	

1	PACIFIC GAS AND ELECTRIC COMPANY							
2	Document: Advice 3550-E							
3	IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066							
4	Date: October 30, 2009							
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
		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
18	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 employees for closing its net open position, including specific planned purchasing strategy.	No quantification in GO 66-C
19	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 employees for closing its net open position, including specific planned purchasing strategy.	No quantification in GO 66-C
20	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 employees for closing its net open position, including specific planned purchasing strategy.	No quantification in GO 66-C

PACIFIC GAS AND ELECTRIC COMPANY
PROCUREMENT PLAN COMPLIANCE REPORT
FOR THE THIRD QUARTER OF 2009

October 30, 2009

List of Attachments

- Confidential Attachment A: Third Quarter 2009 Transactions
- Confidential Attachment B: Third Quarter 2009 Counterparty Information
- Confidential Attachment C: Third Quarter 2009 Electric Transactions
- Confidential Attachment D: Third Quarter 2009 Natural Gas Transactions
- Confidential Attachment E: Third Quarter 2009 Other Transactions
- Confidential Attachment F: Third Quarter 2009 Key Briefing Packages
- Confidential Attachment G: Third Quarter 2009 Independent Evaluator Reports
- Confidential Attachment H: Third Quarter 2009 New Contracts Executed / Contracts Amended
- Confidential Attachment I: Summary of Retained Generation Investments Completed During Third Quarter 2009
- Confidential Attachment J: System Load Requirements / Conditions
- Confidential Attachment K: Risk Management Strategy Communication and Management Disclosure
- Confidential Attachment L: Reasonable Number of Analyses Models, Description of Models, and How Models Operate
- Confidential Attachment M: Transactions Subject to Strong Showing

A. 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, 2009 through September 30, 2009, were in compliance with the latest California Public Utilities Commission (CPUC or Commission)-approved Assembly Bill 57 Long-Term Procurement Plan (Plan) adopted by the Commission in D.07-12-052, 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, 2009 by Resolution E-4177. Material deviations from the LTPP are explained herein or in a separate letter to be filed with this advice letter.

B. 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. Any transactions executed with affiliates are disclosed in Confidential Attachment A, *Transactions*. 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 are also listed in Confidential Attachment B, *Counterparty Information*.

Confidential Attachment C, *Electric Transactions Summary* and Confidential Attachment D, *Natural Gas Transactions Summary* contain summaries of the electric and gas transactions executed during the Quarter. Confidential Attachment E, *Third Quarter 2009 Other Transactions*, is a summary of any additional transactions that occurred during the quarter. The quantities shown in these attachments are based on the delivery period specified in the transactions. 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) Integrated Forward, real-time 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

C. 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, Senior Vice President, Energy Procurement or Roy Kuga, Vice President, Energy Supply Management, 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 gas or power transaction employee executing transactions (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. These briefing packages are included in the workpapers.

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 2009 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 Quarterly Compliance Report (QCR) process; other real-time transactions are included as applicable.

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:

- CAISO 2009 Congestion Revenue Rights (CRR) Monthly Allocation and Auction Process – PG&E participated in the CAISO’s CRR release process to procure CRRs for August, September and October 2009.
- CAISO 2010 CRR Allocation and Auction Process – PG&E participated in Tier 1 of the CAISO’s annual release process for 2010 CRRs. PG&E also procured Long-Term (LT) CRRs in Tier LT.
- 2010 Resource Adequacy (RA) Request for Offers (RFO) – PG&E issued an RFO to purchase system and local RA June 29, 2009. The first phase of the RFO was completed September 15, 2009.
- Voice Brokers – PG&E continued the use of voice and broker-markets for non-standard products, such as trading in the day-ahead market for individual hours, blocks or strips of hours, on specific days of the week as well as standard products during Third Quarter 2009.
- Electronic Exchanges – PG&E engaged in electronic broker market transactions to manage its physical net open position and to participate in economic transactions designed to reduce ratepayer’s exposure to market volatility. Transactions include forward transactions with deliveries starting within the next quarter and up to one quarter in duration, monthly, balance of month (BOM), day-ahead, and hour-ahead transactions.
- Contract Extension Option – During the Third Quarter PG&E exercised its option to extend the term of the Mirant Delta LLC Pittsburg unit 7 tolling agreement for one year, January through December 2010. This option was set forth in the Mirant

multi-year tolling agreement approved by the Commission on April 12, 2007 in Resolution E-4077.

- 2009 RPS RFO (For Informational Purposes Only) – On June 29, 2009, PG&E issued its 2009 RPS RFO Solicitation. The Bidders Conference was held on July 21, 2009, the Bidders Workshop was held on August 3, 2009, and bids were due August 24, 2009. PG&E will select its shortlist by October 28, 2009.
- 2008 LT RFO (For Informational Purposes Only) – On April 1, 2008, PG&E issued its 2008 LT RFO. During the Quarter, PG&E executed four agreements resulting from the 2008 LT RFO.

b) Justification for Procurement Processes

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

- 2010 RA RFO – RA offers are ranked by price separately for system RA, Bay Area local RA and Other Area local RA and by the month of the offer. Each shortlisted offer allowed selection of RA for individual months in conformance with the RFO protocols. Winning offers were those offers with the lowest prices and the amounts selected were consistent with PG&E's identified need.

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

- CAISO 2009 CRR Monthly Allocation and 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 and imports to serve bundled customer load. PG&E estimated that a portion of its generation, imports and load in the months of August, September and October 2009 remained exposed to congestion risk, and therefore it participated in the CAISO's 2009 Monthly Allocation and 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).
- 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 and 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 2009 CRR annual auction.

- CAISO 2010 CRR Allocation and Auction Process – PG&E determined that the Utility would be exposed to congestion risk on the electric transmission grid as power is delivered from its generating resources and contracts to serve bundled customer load. As a result, PG&E participated in the CAISO’s 2010 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 TeVaR.
 - 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 assessment of congestion between its resources and load, rather than seeking the CRRs with the highest market value irrespective of the Utility’s needs. This assessment included existing and executed supply arrangements, which were then

applied to the 2010 CRR allocation and auction process. In all its detailed analysis and CRR selection strategy, PG&E used LMP congestion prices and risk characteristics from CAISO's CRR auctions and studies, as well as an internal assessment of LMP congestion prices.

- 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 Edison Electric Institute and Western Systems Power Pool, 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.
- Contract Extension Option – PG&E compared its option to extend the Pittsburgh Tolling agreement to other alternatives received for similar products in PG&E's 2008 intermediate-term RFO and shared its analysis with the PRG. The results of PG&E's analysis are contained in Confidential Attachment L - Reasonable Number of Analyses Models and its PRG presentation is contained in Confidential Attachment F - Key Briefing Packages.

- Independent Evaluator Reports – There were no Independent Evaluator (IE) Reports for the Third Quarter 2009.
- Transactions Subject to a Strong Showing – For Third Quarter 2009, PG&E did not execute transactions that were subject to a strong showing.
- PRG Presentations – Presentations of those activities presented to the PRG are in Confidential Attachment F.
- Executed Agreements – The executed agreements are in Confidential Attachment H, *Third Quarter 2009 New Contracts Executed / Contracts Amended*.

c) Natural Gas

Description of Procurement Processes

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

- Electronic Exchanges - Commodity Purchases/Sales – PG&E bought and sold physical natural gas on the Intercontinental Exchange (ICE) and the ICE Natural Gas Exchange (NGX) physical clearing service. ICE is an electronic system that matches buyers and sellers of natural gas products. Once buyer and seller are matched, ICE trades become bilateral trades. ICE/NGX trades are cleared by NGX rather than bilateral. Transactions include forward transactions with deliveries starting within the next quarter and up to one quarter in duration, monthly, BOM, day-ahead, and same-day. In addition, PG&E executed two transactions on the ICE/NGX exchange for index-priced, physical gas in Alberta, Canada with delivery terms of one year (November 1, 2009 through October 31, 2010).
- Electronic Exchanges - Gas Hedges – PG&E executed hedges (swaps and options) directly on the ICE, and cleared through exchanges (ICE or the New York Mercantile Exchange (NYMEX)). ICE and NYMEX provide access to anonymous bids and offers 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

Canadian Gas Price Reporter (CGPR), Gas Daily, Natural Gas Intelligence (NGI) and Inside Federal Energy Regulatory Commission (FERC).

- Bilateral - Commodity Purchases/Sales – PG&E buys and sells some gas directly with counterparties in the bilateral market. Day-ahead gas is traded at fixed prices and Gas Daily index. Term gas (balance of month and longer) is purchased at fixed prices, daily index (Gas Daily) or bidweek index (CGPR, NGI, and Inside FERC).
- Bilateral – In-state Pipeline Capacity Purchase – PG&E purchased 2,000 Millions of British thermal units per day (MMBtu/day) of firm pipeline capacity on PG&E’s Baja path for the term December 1, 2009 through November 30, 2010. This capacity supports the transportation of biogas from PG&E’s contract with Microgy from the California border at Topock to the PG&E Citygate. The term of this pipeline capacity purchase is one year because PG&E’s annual firm tariff (G-AFT) provides the lowest tariff rate available to PG&E’s electric portfolio on the Baja path (roughly \$0.32/MMBtu).
- Voice Brokers - Gas Hedges – PG&E executed hedges (swaps and options) through voice brokers that resulted in bilateral and exchange-cleared trades. Brokers provide access to anonymous bids and offers from both bilateral parties and cleared counterparties. After a broker matches a buyer and a seller in a trade, the parties will determine whether the trade will be cleared bilaterally or cleared through NYMEX or ICE. The broker market trades the same financial products as the bilateral market.

d) Justification for Procurement Processes

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

- For Third Quarter 2009, PG&E did not conduct any solicitations for gas products.

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

- Electronic Exchanges - Commodity Purchases/Sales – ICE and ICE/NGX provide access to anonymous bids and offers establishing both a liquid and robust market for physical products, and benchmarks for bilateral products. PG&E makes extensive use of ICE and ICE/NGX for term, day-ahead and same-day gas.
- Electronic Exchanges - Gas Hedges – ICE and NYMEX provide access to anonymous bids and offers establishing both liquid and robust markets for financial products, and benchmark for bilateral products. PG&E makes extensive use of both exchanges for financial swaps and options.
- Bilateral - Commodity Purchases/Sales – PG&E uses the bilateral markets for physical gas trading to supplement spot gas trades on ICE/NGX and for delivery periods not actively traded on ICE or ICE/NGX (such as term gas). For spot gas, PG&E uses the real-time ICE bid/ask prices and the ICE weighted average price as a benchmark for trading. For term gas, PG&E trades at either Gas Daily or a bidweek index (CGPR, NGI, or Inside FERC).
- Bilateral – In-state Pipeline Capacity Purchase – PG&E executed a bilateral transaction for the purchase of firm pipeline capacity on PG&E’s Baja path because PG&E’s California Gas Transmission (CGT) Department is the only provider of such services.
- Voice Brokers - Gas Hedges – PG&E uses voice brokers for gas financial trading to supplement trades directly through ICE, NYMEX. Voice brokers are beneficial because they are anonymous, offer a wide range of counterparties, and provide critical price discovery across a wide variety of products. PG&E primarily uses voice brokers to trade products that are less liquid on ICE or NYMEX. PG&E tends to use ICE or NYMEX clearing services in conjunction with voice brokers in order to get the best prices—through clearing we can be matched with any counterparty without having to be concerned about counterparty credit risk. When

trading through voice brokers, PG&E uses real-time ICE and NYMEX bid/ask and last trade prices as benchmarks for trading. In addition, voice brokers provide live bids and offers from anonymous buyers and sellers, very similar to the electronic exchanges.

- Transactions Subject to a Strong Showing – For Third Quarter 2009, PG&E did not execute any transactions that were subject to a strong showing.
- PRG Presentations – PG&E made several presentations on electric and gas hedging to the PRG during the record period. In addition, PG&E provided a written strategy for its proposed bid on PG&E CGT Baja pipeline capacity to the PRG. The presentations and written strategy are in Confidential Attachment F.
- Executed Agreements – The executed agreements are in Confidential Attachment H, *Third Quarter 2009 New Contracts Executed / Contracts Amended*.

e) Other Commodities

This section is not applicable to PG&E for Third Quarter 2009.

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

Throughout the Third Quarter, PG&E attempted to enter into electric transactions needed to match forecast supply and demand. This objective was achieved by gradually reducing the forecast open (i.e., short or long) energy positions through the use of products such as month-ahead, balance-of-month, day-ahead, and hour-ahead transactions, etc., 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 physical 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. The timing of the one-year gas supply transactions was driven by the need to

match physical gas supply starting in November of 2009 with PG&E's firm pipeline capacity from Alberta, Canada. (This pipeline capacity is from a set of 59-month agreements with TransCanada, Gas Transmission Northwest, and PG&E that started delivery on July 1, 2009.) The timing of the PG&E CGT Baja pipeline capacity was driven by the expiration of PG&E's existing Baja pipeline capacity agreement. The timing of financial gas transactions was specified in PG&E's approved hedging plan.

Detailed explanation/justification for the timing of the transactions is included in the workpapers Confidential Attachment J.

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 resources, Power Purchase Agreements with dispatchability (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 on the electrical system subsequent to day-ahead trading. On a daily basis, PG&E conducts a least-cost analysis to forecast unit dispatch and determine market transactions to meet energy and ancillary services requirements. This process integrates all regulatory, environmental, safety and legal requirements.

PG&E’s day-ahead planning and procurement incorporates weather-adjusted load forecasts, resource availability, dispatch costs and current bilateral electric market and forecasts of the CAISO’s Integrated Forward Market (IFM) 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 in its model whose variable costs are expected to be below the CAISO’s IFM market price, hedge a portion of the open position subject to the CAISO’s IFM market price at the bilateral energy market price or, alternatively, sell excess energy in the bilateral energy market via financial swaps or Inter-SC Trades (IST).

After the bilateral day-ahead energy market trading is complete, PG&E submits its bids and schedules to the CAISO for incorporation into the CAISO’s day-ahead IFM that ultimately determines generation resource schedules for the next day. With the launch of the CAISO’s MRTU market, scheduling coordinators are required to schedule at least 85 percent of their load in the CAISO’s day-ahead IFM.

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.

PG&E actively participates in the daily bilateral energy market using a combination of brokered transactions, exchange-based transactions and direct transactions with

counterparties. Bilateral day-ahead trading generally occurs between 5:30 a.m. and 7 a.m. on the business day prior to the operating day. The bilateral day-ahead market continues to evolve in terms of participants, products and characteristics. The majority of transactions executed were either financial swaps or ISTs. PG&E transacts both products. PG&E executed transactions in the bilateral day-ahead market and participated in the CAISO's MRTU day-ahead market by bidding and scheduling its load and resources.

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 fossil, hydro, Helms PGP, certain QF generators, and 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 bilateral hour-ahead market, while active, is far less transparent and dynamic than that of the bilateral day-ahead market. As there are few brokers operating in this market and limited electronic exchange opportunities, the bulk of transactions are executed directly with counterparties. Market opportunities have been further reduced with the advent of MRTU and the volatility of the CAISO's real-time energy market.

Though bilateral market opportunities have been reduced, PG&E still constantly participates in the hour-ahead market via bidding and scheduling its resources into the CAISO's real-time market in order to optimize its generation and market transactions to reduce costs.

d) Locational Spreads

During Third Quarter 2009, PG&E did not engage in day-ahead locational spread transactions. This was primarily due to the MRTU market which reduced the need for PG&E to manage its physical position by executing locational spread transactions in the bilateral market.

e) PG&E-Owned Generation Conditions During Third Quarter 2009

Dry conditions continued with only 29 percent of normal precipitation in the Third Quarter. 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 2 was out of service in late September for a generator inspection and circuit breaker work.

Significant planned maintenance on conventional hydro in the quarter included work on Cresta Unit 2 (35 MW), Narrows 2 (55 MW), Pit 1 Unit 2 (31.5 MW), Pit 5 Unit 3 (40 MW), and Salt Springs Unit 2 (34 MW).

Significant forced outages on conventional hydro during the quarter included: Colgate Units 1 and 2 (175 MW each) due to brush fire under transmission lines, Drum 5 (49.5 MW) on bearing cooling trouble, Exchequer (89 MW) due to seal ring leakage, and Poe Unit 2 (60 MW) due to governor trouble.

For PG&E's retained fossil generation, both Humboldt Units 1 and 2 (52 and 53 MW, respectively) were out on planned annual overhauls. Unit 2 was later forced out due to a tube leak.

Diablo Canyon Unit 1 was forced out for three days due to trouble with a feedwater heater. Diablo Unit 2 was taken out of service for 10 days for unscheduled maintenance on the "A" phase main bank transformer.

Confidential discussion of the monthly system conditions is included in Confidential Attachment J, *System Load Requirements / Conditions*.

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 with its risk management strategy and approved Plan. PG&E executed hedges in accordance with its approved Conformed 2006 LTPP (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 offers 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. A list of information regarding Consumer Risk Tolerance notifications and management disclosures is included in Confidential Attachment K, *Risk Management Strategy Communication and Management Disclosure*.

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 the contracts that were not separately Advice-filed are also included in Confidential Attachment H. Master agreements are listed in Confidential Attachment H. All final RFO contracts subject to QCR filings along with the IE reports, if any are reported in Confidential Attachments H and G, respectively.

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

PG&E provides the valuation method and results for the contracts filed via this QCR in Confidential Attachments H and E.

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 Third Quarter is contained in the workpapers in Confidential Attachment J.

10. Provide a reasonable number of analyses requested by the Commission or the 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 would be contained in Confidential Attachment F.

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 would be included in the workpapers. For Third Quarter, this does not apply to PG&E.

D. 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 Completed*, 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 2009 applicable to this decision.

E. Cost Allocation Mechanism

If applicable, the costs and revenues associated with Cost Allocation Mechanism (CAM) resources should be identified. Any IE report for CAM-elected resources would be included in

Confidential Attachment G, *Third Quarter 2009 Independent Evaluator Reports*. For Third Quarter 2009, PG&E did not transact for any CAM-elected resources.

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

Alcantar & Kahl	Defense Energy Support Center	North Coast SolarResources
Ameresco	Department of Water Resources	Northern California Power Association
Anderson & Poole	Department of the Army	Occidental Energy Marketing, Inc.
Arizona Public Service Company	Dept of General Services	OnGrid Solar
BART	Division of Business Advisory Services	Praxair
BP Energy Company	Douglas & Liddell	R. W. Beck & Associates
Barkovich & Yap, Inc.	Douglass & Liddell	RCS, Inc.
Bartle Wells Associates	Downey & Brand	Recon Research
C & H Sugar Co.	Duke Energy	SCD Energy Solutions
CA Bldg Industry Association	Dutcher, John	SCE
CAISO	Ellison Schneider & Harris LLP	SMUD
CLECA Law Office	FPL Energy Project Management, Inc.	SPURR
CSC Energy Services	Foster Farms	Santa Fe Jets
California Cotton Ginners & Growers Assn	G. A. Krause & Assoc.	Seattle City Light
California Energy Commission	GLJ Publications	Sempra Utilities
	Goodin, MacBride, Squeri, Schlotz & Ritchie	Sierra Pacific Power Company
California League of Food Processors	Green Power Institute	Silicon Valley Power
California Public Utilities Commission	Hanna & Morton	Silo Energy LLC
Calpine	Hitachi	Southern California Edison Company
Cameron McKenna	International Power Technology	Sunshine Design
Cardinal Cogen	Intestate Gas Services, Inc.	Sutherland, Asbill & Brennan
Casner, Steve	Los Angeles Dept of Water & Power	Tabors Caramanis & Associates
Chamberlain, Eric	Luce, Forward, Hamilton & Scripps LLP	Tecogen, Inc.
Chevron Company	MBMC, Inc.	Tiger Natural Gas, Inc.
Chris, King	MRW & Associates	Tioga Energy
City of Glendale	Manatt Phelps Phillips	TransCanada
City of Palo Alto	Matthew V. Brady & Associates	Turlock Irrigation District
Clean Energy Fuels	McKenzie & Associates	U S Borax, Inc.
Coast Economic Consulting	Merced Irrigation District	United Cogen
Commerce Energy	Mirant	Utility Cost Management
Commercial Energy	Modesto Irrigation District	Utility Specialists
Consumer Federation of California	Morgan Stanley	Verizon
Crossborder Energy	Morrison & Foerster	Wellhead Electric Company
Davis Wright Tremaine LLP	New United Motor Mfg., Inc.	Western Manufactured Housing Communities Association (WMA)
		eMeter Corporation
Day Carter Murphy	Norris & Wong Associates	