

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



June 7, 2011

Advice Letter 3749-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: Q3 2010 Procurement Transaction Quarterly Compliance Filing

Dear Ms. Yura:

Advice Letter 3749-E is effective June 2, 2011.

Sincerely,

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

Julie A. Fitch, Director
Energy Division

October 29, 2010

Advice 3749-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, 2010)

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 2010, 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 2010 (Q3-2010)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 2010 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 2010 Transactions
- Appendix B – Third Quarter 2010 Counter-Party Information
- Appendix C – Third Quarter 2010 Electric Transactions Summary
- Appendix D – Third Quarter 2010 Natural Gas Transactions Summary
- Appendix E – Third Quarter 2010 Other Transactions
- Appendix F – Third Quarter 2010 Key Briefing Packages
- Appendix G – Third Quarter 2010 Independent Evaluator Reports
- Appendix H – Third Quarter 2010 New Contracts Executed/Contracts Amended
- Appendix I – Summary of Retained Generation Investments Completed During Third Quarter 2010
- 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 18, 2010**, 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:

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

Facsimile: (415) 973-6520
E-mail: PGETariffs@pge.com

Effective Date

In accordance with D.02-10-062, the effective date of this advice letter is **October 29, 2010**.

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. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.



Vice President – Regulation and Rates

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

Attachments

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) #: **3749-E**

Tier: 2

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q3, 2010)

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: John Whitlow (415) 973-1127

Resolution Required? Yes No

Requested effective date: **10/29/2010**

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: Jane K. Yura

Vice President, Regulation and Rates

77 Beale Street, Mail Code B10B

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**DECLARATION OF JOHN WHITLOW
IN SUPPORT OF THE CONFIDENTIAL TREATMENT OF
CONFIDENTIAL ATTACHMENTS E, H, AND I**

I, John Whitlow, make this declaration under penalty of perjury to support the confidential treatment of certain energy procurement information contained in Attachments E, H, and I of the Quarterly Compliance Report of Pacific Gas and Electric Company (PG&E), filed at the California Public Utilities Commission (CPUC) for the Third Quarter 2010, on or about October 29, 2010:

1. I am a Senior 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 (QCR) and related data. This declaration is based on my personal knowledge of PG&E's electric energy procurement practices and my understanding of the Commission's decisions protecting the confidentiality of market-sensitive information concerning energy procurement by an investor-owned utility¹.
2. Information relating to energy procurement transactions in other categories, summaries and non-confidential terms of newly executed agreements, and utility generation investments made during the Quarter is not confidential and has been circulated in the public portion of PG&E's Quarterly Procurement Report.
3. Confidential Attachments E, H, and I describe the confidential terms and conditions of the electric and gas transactions that PG&E entered into during the Third Quarter of 2010.
4. The following table indicates how each type of data provided in Confidential Attachments E, H, and I are described falls within one or more categories of data described in

¹ The confidentiality provisions are set forth in *Interim Opinion Implementing Senate Bill No. 1489, Relating to Confidentiality of Electric Procurement Data Submitted to the Commission*, Decision (D.) 06-06-066 (June 29, 2006) Ordering Paragraph (O.P.) 2 and the *Decision Adopting Model Protective Order and Non-Disclosure Agreement, Resolving Petition For Modification and Ratifying Administrative Law Judge Ruling*, D.08-04-023 (April 18, 2008), O.P. 8.

D.06-06-066 as utility information that may be protected from public disclosure if specific conditions are met:

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|--|---|---|---|
| Attachment E Other Transactions | Electricity and Natural Gas | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | This type of information is provided to Energy Division on a confidential basis per AB 57 and must be protected here to preserve confidentiality of the AB 57 report. | Confidential for three years |
| Attachment H New Contracts Executed/Contracts Amended | Summary of RFO, bilateral contracts and significant exchange-placed trades executed/ signed during the quarter and filed for CPUC approval via this quarterly advice letter. Copies of contracts subject to this QCR filing is included | VII) B) Bilateral Contract Terms and Conditions – contracts and power purchase agreements between utilities and non-affiliated third parties; Matrix page 15. Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | PG&E provides counterparty name, execution date, product, term, volume, price, and nominal value. Data required to be presented in this form to fully comply with CPUC request | 3 years from initial delivery date specified in contract or 1 year after termination of deliveries, whichever is less |
| Attachment I Not Confidential (noted here for benefit of the reader) | Retained Generation Investments Completed During the Quarter | Not Confidential | Name of Facility, Alteration, Date Started, Date Completed, and Investment are were all disclosed during CPUC approval process. | Not Confidential |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--------------------------|---|--|---|--|
| Attachment I | Multiple Contracts of Less Than Five Years in Duration Executed During the Quarter with the Same Supplier, Resource or Facility | CPUC General Order 66-C | The terms of contracts between PG&E and third parties constitute confidential non-utility business information protected under GO 66-C. | No expiration. No time limit on protection afforded non-utility businesses under G.O. 66-C |
| Attachment I | Multiple Contracts of Less Than Five Years in Duration Executed During the Quarter with the Same Supplier, Resource or Facility | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | This information is the basis for PG&E's purchase and hedging plans and must remain confidential to avoid disclosing PG&E's market strategy | Confidential for three years |

5. The information in Attachments E, H, and I conform to the limitations on confidentiality specified in the Matrix for that type of data.
6. The information contained in Attachments E, H, and I is not already public.
7. Attachments E, H, and I provide information about PG&E's electric and gas procurement activities at the level of detail required by the staff of the CPUC and thus the information in Attachments E, H, and I cannot be masked, aggregated, partially redacted, or summarized in a way that allows partial disclosure without losing its informational value to the Commission and its staff.
8. Confidential protection of the information in Attachments E, H, and I is authorized by D.06-06-066 and D.08-04-023.

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

Executed on October 29, 2010 at San Francisco, California.

/s/

John Whitlow
Sr. Analyst
Energy Procurement Department
PACIFIC GAS AND ELECTRIC COMPANY

**DECLARATION OF SHARON K. TATAI
IN SUPPORT OF THE CONFIDENTIAL TREATMENT OF
CONFIDENTIAL ATTACHMENTS A, B, C, F, G, J, K, L, AND M**

I, Sharon K. Tatai, make this declaration under penalty of perjury to support the confidential treatment of certain energy procurement information contained in Attachments A, B, C, F, G, J, K, L, and M of the Quarterly Compliance Report of Pacific Gas and Electric Company (PG&E), filed at the California Public Utilities Commission (CPUC) for the Third Quarter 2010, on or about October 29, 2010:

1. I am a principal for Pacific Gas and Electric Company (“PG&E”). I am responsible for managing the preparation of the electric procurement information which PG&E is required to submit in Confidential Attachments A, B, C, F, G, J, K, L, and M as part of its Quarterly Procurement Plan Compliance Report (“QCR”). This declaration is based on my personal knowledge of PG&E’s electric energy procurement practices and my understanding of the Commission’s decisions protecting the confidentiality of market-sensitive information concerning energy procurement by an investor-owned utility¹.
2. Confidential Attachments A, B, C, F, G, J, K, L, and M identify the terms and conditions of the electric and gas transactions that PG&E entered into during the Third Quarter of 2010.
3. The following table indicates how each type of data provided in Confidential Attachments A, B, C, F, G, J, K, L, and M are described falls within one or more categories of data described in D.06-06-066 as utility information that may be protected from public disclosure if specific conditions are met:

¹ The confidentiality provisions are set forth in *Interim Opinion Implementing Senate Bill No. 1489, Relating to Confidentiality of Electric Procurement Data Submitted to the Commission*, Decision (D.) 06-06-066 (June 29, 2006) Ordering Paragraph (O.P.) 2 and the *Decision Adopting Model Protective Order and Non-Disclosure Agreement, Resolving Petition For Modification and Ratifying Administrative Law Judge Ruling*, D.08-04-023 (April 18, 2008), O.P. 8.

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|---|---|--|--|
| Attachment A | Physical Electric Deals | Item VI) E) and F) Utility Planning Area Matrix Net Open (Electric); Matrix page 13 | Disclosure of monthly and daily data provide an understanding of PG&E's strategy for closing out its net open position. | Confidential for three years |
| Attachment A | Physical Natural Gas Deals | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Each transaction is a factor in PG&E's long term buying and hedging strategies. | Confidential for three years |
| Attachment A | Physical Natural Gas Deals | Item I) B) 2) Utility recorded gas procurement and cost information; Matrix page 3 | Actual quantity and cost of procured gas are protected. | One year |
| Attachment A | Physical Electric and Natural Gas Deals -- | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | This information reveals procurement cost categorized by transaction type, which is provided to Energy Division per AB 57 and is confidential for three years. | Confidential for three years |
| Attachment B Counterparty information, including non-investment grade counterparties | Table "List of Non-Investment Grade Counterparties" | CPUC General Order 66-C | The credit status of counterparties constitutes confidential non-utility business information protected under GO 66-C. | No expiration because PG&E will be purchasing from non-utility businesses for the foreseeable future. There is no time limit on protection afforded non- |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|---|--|---|---|--|
| | | | | utility businesses under G.O. 66-C |
| Attachment B Counterparty information, including counterparty concentration | Table “List of Top Ten Counterparties” by transaction volume and dollar value | CPUC General Order 66-C | Counterparty sales revenues constitute confidential non-utility business information protected under GO 66-C. | No expiration because PG&E will be purchasing from non-utility businesses for the foreseeable future. There is no time limit on protection afforded non-utility businesses under G.O. 66-C |
| Attachment C Electric Transactions | Tables “Electric Physical”, “Electric Locational Spreads (Physical) and “Electric Financial” | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix page 22 | These analyses are the basis of the monthly variable cost of energy and utility operation, which must be protected to preserve the confidentiality of ERRA documentation. | Confidential for three years |
| Attachment C Electric Transactions | Tables “Electric Physical”, “Electric Locational Spreads (Physical) and “Electric Financial” | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | This information is provided to Energy Division on a confidential basis per AB 57 and must be protected here to preserve confidentiality of the AB 57 report. | Confidential for three years |
| Attachment F PRG Material | Table – “Key Briefing | Item VII) E) New non-utility | Presentations to the PRG provide | 3 years from initial delivery |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|---------------------------|---|---|---|--|
| | Packages and PRG Presentations” and attachments | affiliated bilateral contracts – Electric; Matrix page 16, etc. | confidential bilateral contract terms, including price and performance terms. Confidentiality protection depends on type of material presented, see, <i>infra</i> . | date specified in contract or 1 year after termination of deliveries, whichever is less |
| Attachment F PRG Material | Table – “Key Briefing Packages and PRG Presentations” and attachments | Item I) A) Natural Gas Information – Forecasts (gas)utility specific gas price and demand forecasts, forecasts, long-term gas buying and hedging plans, and Monthly DWR procurement; Matrix pages 1-3 | Gas procurement presentations to PRG recommend action based on PG&E’s confidential and proprietary gas forecasts and strategies | Confidential for three years |
| Attachment F PRG Material | Table – “Key Briefing Packages and PRG Presentations” and attachments | Item II) B) 2) Utility recorded gas procurement and cost information; Matrix page 3 | Covers actual quantity and cost of procured natural gas | One year after conclusion of deliveries |
| Attachment F PRG Material | Table – “Key Briefing Packages and PRG Presentations” and attachments | CPUC General Order 66-C | The terms of contracts between PG&E and third parties constitute confidential non-utility business information protected under | No expiration. No time limit on protection afforded non-utility businesses under G.O. 66-C |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|--|---|---|---|
| | | | GO 66-C. | |
| Attachment G Independent Evaluator Reports | Confidential Version of IE Reports | VII) B) Bilateral Contract Terms and Conditions – contracts and power purchase agreements between utilities and non- affiliated third parties,;Matrix page 15 | Terms required to be made public have been disclosed in the public version of each IE Report and are not subject to this request. The IE reports also rely on Matrix - protected confidential PG&E price, notional value, competitive solicitation scoring and results, and demand forecasts to evaluate the reasonableness of the proposed transaction. | Confidential for three years from date of issuance; three year confidentiality period re- commences when facility being evaluated begins deliveries |
| Attachment G Independent Evaluator Reports | Confidential Version of IE Reports | CPUC General Order 66-C | The terms of contracts between PG&E and third parties constitute confidential non-utility business information protected under GO 66-C. | No expiration. No time limit on protection afforded non- utility businesses under G.O. 66- C |
| Attachment J Residual Net Short/Residual Net Long | Electricity | Item VI) Utility Bundled Net Open Position (Electric); Matrix page 13 | Residual net short/long is key input to PG&E's confidential | 3 years |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|---------------------------------------|--|---|---------------------------------|
| | | | forecast of net open position | |
| Attachment J Residual Net Short/Residual Net Long | Electricity | Item VI) Utility Planning Area Net Open; Matrix page 14 | Monthly data confidential | 3 years |
| Attachment J Residual Net Short/Residual Net Long | Electricity and Natural Gas | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | The residual net short/long is information is provided to Energy Division on a confidential basis per AB 57 and must be protected here to preserve confidentiality of the AB 57 report. | 3 years |
| Attachment J Residual Net Short/Residual Net Long | Natural gas | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | This information is the basis for PG&E's purchase and hedging plans and must remain confidential to avoid disclosing PG&E's market strategy, | Confidential for three years |
| Attachment K Risk Management | Attachments | Item XII) Monthly Portfolio Risk Assessment; Matrix page 22 | TVAR and supporting forecasts and analysis are confidential | Confidential for three years |
| Attachment K Risk Management | Attachments | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | This information is the basis for PG&E's purchase and hedging plans and must remain confidential to avoid disclosing PG&E's market strategy | Confidential for three years |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|---------------------------------------|---|--|------------------------------|
| Attachment L Reasonable Number of Analyses | Attachments | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix page 22 | These analyses are the basis of the monthly variable cost of energy and utility operation, which must be protected to preserve the confidentiality of ERRA documentation | Confidential for three years |
| Attachment M Transactions subject to Strong Showing | | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix page 22 | These analyses are the basis of the monthly variable cost of energy and utility operation, which must be protected to preserve the confidentiality of ERRA documentation | Confidential for three years |

4. The information in Attachments A, B, C, F, G, J, K, L, and M conform to the limitations on confidentiality specified in the Matrix for that type of data.

5. The information contained in Attachments A, B, C, F, G, J, K, L, and M is not already public.

6. Attachments A, B, C, F, G, J, K, L, and M provide information about PG&E's electric and gas procurement activities at the level of detail required by the staff of the CPUC and thus the information in Attachments A, B, C, F, G, J, K, L, and M cannot be masked, aggregated, partially redacted, or summarized in a way that allows partial disclosure without losing its informational value to the Commission and its staff.

7. Confidential protection of the information in Attachments A, B, C, F, G, J, K, L, and M is authorized by D.06-06-066 and D.08-04-023.

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

Executed on October 29, 2010 at San Francisco, California.

_____/s/_____
Sharon K. Tatai
Principal
Energy Policy, Planning, and Analysis
PACIFIC GAS AND ELECTRIC COMPANY

**DECLARATION OF PETER E. KOSZALKA
IN SUPPORT OF THE CONFIDENTIAL TREATMENT OF
CONFIDENTIAL ATTACHMENTS A, B, D, J, AND M**

I, Peter E. Koszalka, make this declaration under penalty of perjury to support the confidential treatment of certain energy procurement information contained in Attachments A, B, D, J, and M of the Quarterly Compliance Report of Pacific Gas and Electric Company (PG&E), filed at the California Public Utilities Commission (CPUC) for the Third Quarter 2010, on or about October 29, 2010:

1. I am the Sr. Manager of Electric Gas Supply for Pacific Gas and Electric Company (“PG&E”). I am responsible for managing the preparation of Confidential Attachments A, B, D, J, and M relating to PG&E’s natural gas procurement activity, which PG&E is required to submit as part of its Quarterly Procurement Plan Compliance Report (“QCR”). This declaration is based on my personal knowledge of PG&E’s natural gas procurement practices and my understanding of the Commission’s decisions protecting the confidentiality of market-sensitive information concerning energy procurement by an investor-owned utility¹.
2. Confidential Attachments A, B, D, J, and M identify the terms and conditions of certain natural gas transactions that PG&E entered into during the Third Quarter of 2010.
3. The following table indicates how each type of data submitted to the Commission in Confidential Attachments A, B, D, J, and M fall within one or more categories of data described in D.06-06-066 Attachment as utility information that may be protected from public disclosure if specific conditions are met:

¹ The confidentiality provisions are set forth in *Interim Opinion Implementing Senate Bill No. 1489, Relating to Confidentiality of Electric Procurement Data Submitted to the Commission*, Decision (D.) 06-06-066 (June 29, 2006) Ordering Paragraph (O.P.) 2 and the *Decision Adopting Model Protective Order and Non-Disclosure Agreement, Resolving Petition For Modification and Ratifying Administrative Law Judge Ruling*, D.08-04-023 (April 18, 2008), O.P. 8.

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|---|--|--|--|
| Attachment A | Physical Natural Gas Spot Transactions | Item I) B) 2) Utility recorded gas procurement and cost information; Matrix page 3 | Actual quantity and cost of procured gas are protected. | One year |
| Attachment A | Physical Natural Gas Term Transactions | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Each transaction is a factor in PG&E's long term buying and hedging strategies. With the entire set of transactions PG&E's counterparties could reconstruct PG&E's gas buying and hedging plans. | Confidential for three years |
| Attachment A | Financial Natural Gas Transactions -- | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | This information reveals procurement cost categorized by transaction type, which is provided to Energy Division per AB 57 and is confidential for three years. | Confidential for three years past expiration of the last trade executed under the hedging plan. (Resolution E-4276, Finding 8) This date is December 1, 2016. |
| Attachment B Counterparty information, including counterparty concentration | Table "List of Top Ten Counterparties" by transaction volume and dollar value | CPUC General Order 66-C | Counterparty sales revenues constitute confidential non-utility business information protected under GO 66-C. | No expiration because PG&E will be purchasing from non-utility businesses for the foreseeable future. There is no time limit on protection afforded non-utility businesses under G.O. 66-C |

| Confidential Data | Specific Location in Documents | Confidentiality Category | Explanation | Period Protected |
|--|---|---|---|---|
| Attachment D Gas Transactions | Tables “Gas Physical” and “Gas Financial” | Item I) A) 4), Long-term fuel (gas) buying and hedging plans; Matrix, page 3 | PG&E’s hedging strategies may be deduced through an analysis of PG&E’s summarized transactions. | Confidential for three years past expiration of the last trade executed under the hedging plan. (Resolution E-4276, Finding 8) This date is December 1, 2016. |
| Attachment J Residual Net Short/Residual Net Long | Natural Gas Documents | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | The residual net short/long is information is provided to Energy Division on a confidential basis per AB 57 and must be protected here to preserve confidentiality of the AB 57 report. | 3 years |
| Attachment J Gas Transactions | Natural gas Documents | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | This information includes detailed information on PG&E’s implementation of its purchase and hedging plans and must remain confidential to avoid disclosing PG&E’s market strategy. The plans are imbedded in these documents. | Confidential for three years past expiration of the last trade executed under the hedging plan. (Resolution E-4276, Finding 8) This date is December 1, 2016. |

| | | | | |
|---|----------------------------|---|---|---|
| Attachment M Transactions subject to Strong Showing | Gas Physical Transactions | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix page 22 | These analyses are the basis of the monthly variable cost of energy and utility operation, which must be protected to preserve the confidentiality of ERRA documentation | Confidential for three years |
| Attachment M Transactions subject to Strong Showing | Gas Financial Transactions | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | This information includes detailed information on PG&E's implementation of its purchase and hedging plans and must remain confidential to avoid disclosing PG&E's market strategy. The plans are imbedded in these documents. | Confidential for three years past expiration of the last trade executed under the hedging plan. (Resolution E-4276, Finding 8) This date is December 1, 2016. |

4. The information in Attachments A, B, D, J, and M conform to the limitations on confidentiality specified in the Matrix for that type of data.
5. The information contained in Attachments A, B, D, J, and M is not already public.
6. Attachments A, B, D, J, and M provide information about PG&E's electric and gas procurement activities at the level of detail required by the staff of the CPUC and thus the information in Attachments A, B, D, J, and M cannot be masked, aggregated, partially redacted, or summarized in a way that allows partial disclosure without losing its informational value to the Commission and its staff.
7. The information in Attachments A, B, D, J, and M is entitled to confidentiality protection

pursuant to D.06-06-066 and D.08-04-023.

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

Executed on October 29, 2010 at San Francisco, California.

/s/

Peter E. Koszalka
Sr. Manager, Electric Gas Supply
Energy Supply Management
PACIFIC GAS AND ELECTRIC COMPANY

PACIFIC GAS AND ELECTRIC COMPANY
PROCUREMENT PLAN COMPLIANCE REPORT
FOR THE THIRD QUARTER OF 2010

October 29, 2010

List of Attachments

- Confidential Attachment A: Third Quarter 2010 Transactions
- Confidential Attachment B: Third Quarter 2010 Counterparty Information
- Confidential Attachment C: Third Quarter 2010 Electric Transactions Summary
- Confidential Attachment D: Third Quarter 2010 Natural Gas Transactions Summary
- Confidential Attachment E: Third Quarter 2010 Other Transactions
- Confidential Attachment F: Third Quarter 2010 Key Briefing Packages
- Confidential Attachment G: Third Quarter 2010 Independent Evaluator Reports
- Confidential Attachment H: Third Quarter 2010 New Contracts Executed/Contracts Amended
- Confidential Attachment I: Summary of Retained Generation Investments Completed During Third Quarter 2010
- 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, 2010 through September 30, 2010 (Quarter), 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 approved by Resolution E-3951, Resolution E-4177, and Resolution E-4276.

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

B. Summary

During the 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 would be disclosed in Confidential Attachment A, *Transactions*; however, there were no affiliate transactions executed during the Quarter. 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 volume are also listed in Confidential Attachment B, *Counterparty Information*.

Confidential Attachment C, *Electric Transactions Summary* and Confidential Attachment D, *Natural Gas Transactions Summary* are summaries of the electric and gas transactions executed during the Quarter. Confidential Attachment E, *Other Transactions*, is a summary of any additional transactions that occurred during the Quarter. There were no *Other Transactions* executed 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, Roy Kuga, Vice President, Energy Supply Management, or Gary Jeung, Senior Director, Renewable Energy 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 included in Confidential Attachment F, *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, *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 Monthly Congestion Revenue Right (CRR) Allocation and Auction Process – In July, PG&E participated in Tier 1 and Tier 2 of the CAISO’s monthly allocation process and the CAISO’s monthly auction process to procure CRRs for August 2010. In August, PG&E participated in Tier 1 and Tier 2 of the CAISO’s monthly allocation process and the CAISO’s monthly auction process to procure CRRs for September 2010. In September, PG&E participated in Tier 1 and Tier 2 of the CAISO’s monthly allocation process and the CAISO’s monthly auction process to procure CRRs for October 2010.
- CAISO 2011 CRR Allocation and Auction Process – PG&E participated in Tier 1 of the CAISO’s annual release process for 2011 CRRs. PG&E also procured Long-Term (LT) CRRs in Tier LT.
- Intermediate-Term Request for Offers (ITRFO) – PG&E issued an ITRFO on July 27, 2010 to obtain Resource Adequacy (RA) from resources located within specific Local Capacity Requirement (LCR) Areas or from elsewhere within the CAISO control area for a portion of the period 2011 through 2015. PG&E is currently considering offers it received prior to the due date of August 31, 2010.
- 2011 RA Request for Offers (RFO) – PG&E issued an RFO on September 22, 2010 to purchase system RA for some 2011 summer months and purchase or sell 2011 local RA. PG&E is currently considering offers it received by the due date of October 1, 2010.
- Auction – On July 12, 2010 and again on August 25, 2010, PG&E requested via email, offers for financial energy products. Responses were required within an

accelerated timeframe. The requests, results and supporting documentation are disclosed in Confidential Attachment J, *System Load Requirements/Conditions*.

- Voice and On-Line Brokers – PG&E continued the use of voice and on-line 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 the Quarter.
- 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.
- Bilateral - Direct with Counterparties – While PG&E executes the majority of its transactions through brokers and electronic exchanges, there are instances when PG&E transacts directly with counterparties. These transactions may include intra-day, day-ahead, and forward transactions.

b) Justification for Procurement Processes

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

- During the Quarter, no new RFO contracts were executed subject to approval via this quarterly advice letter.

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

- CAISO Monthly CRR Allocation and Auction Process – PG&E determined that with the implementation of the CAISO’s Market Redesign and Technology Upgrade (MRTU), PG&E 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 2010 remained exposed to congestion risk, and therefore it participated in the CAISO's Monthly Allocation and Auction Process to obtain CRRs to mitigate this risk. PG&E sought CRRs to fulfill the following objectives: (1) 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 (2) 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 monthly 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 CRR auctions and studies, as well as an internal assessment of LMP congestion prices. PG&E provided information regarding its CRR strategy to the PRG.

- CAISO 2011 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 2011 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 2011 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, Electronic Exchanges, and Bilateral – Direct with Counterparties – 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. PG&E maintains flexibility in its procurement activities by transacting in various forums, e.g., voice and on-line brokers, electronic exchanges,

and directly with counterparties. As not all counterparties participate in a single forum, transacting in various forums gives PG&E the opportunity to transact with many counterparties.

For all competitive solicitations that involve affiliate transactions or utility-owned or utility turnkey bids and for all competitive RFOs seeking products greater than two years in length (and subject to QCR filings) regardless of the bidders, Independent Evaluator (IE) Reports will be included in Confidential Attachment G, *Independent Evaluator Reports*. For Third Quarter 2010, there were no IE Reports related to electric products.

For transactions subject to a strong showing standard per D.07-12-052, a discussion will be provided and the transactions will be disclosed separately in Confidential Attachment M, *Transactions Subject to a Strong Showing*. For Third Quarter 2010, PG&E did not execute electric transactions that were subject to a strong showing.

Presentations of those activities presented to the PRG are in Confidential Attachment F, *Key Briefing Packages*. For Third Quarter 2010, there were presentations presented to the PRG.

Executed agreements are in Confidential Attachment H, *New Contracts Executed/Contracts Amended*. For Third Quarter 2010, there were no executed agreements related to electric products that apply to this QCR.

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 bilaterally. 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.

- 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 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 (BOM and longer) is purchased at fixed prices, daily index (Gas Daily) or bidweek index (CGPR, NGI, and Inside FERC).
- Bilateral - Gas Hedges – PG&E executed hedges in the bilateral gas market for natural gas options and cleared those trades through the NYMEX exchange. PG&E calculates the live market value of the options using an option pricing tool offered by SuperDerivatives, Inc. (www.superderivatives.com). PG&E uses an electronic auction process to solicit offers directly from several counterparties using instant messaging. If the offers that PG&E receives from the counterparties are close to or below those calculated using Superderivatives, PG&E will lift the lowest price offer from a counterparty and then PG&E and the counterparty submit the trade to NYMEX for financial clearing
- 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).

- During the Quarter, 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 - Gas Hedges – PG&E uses the bilateral market to purchase natural gas options because there is no widely used electric trading platform for gas options and because the bilateral market is an alternative to voice brokers. The only exchange-traded gas options are traded in the trading pits of the NYMEX exchange

in New York. The commodity underlying the NYMEX pit-traded options is the NYMEX futures contract, which if held to expiration, result in physical gas delivered at Henry Hub, Louisiana. PG&E prefers over-the-counter options because they settle in cash. PG&E's approach to trading options in the bilateral market uses an electronic auction process through instant messaging, which provides the benefits of a live auction without the time overhead of a formal RFO process (the time delay in the RFO process causes option sellers to increase their offers to cover the risk of price movements).

- 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.

For all competitive solicitations that involve affiliate transactions or utility-owned or utility turnkey bids and for all competitive RFOs seeking products greater than two years in length (and subject to QCR filings) regardless of the bidders, IE Reports will be included in Confidential Attachment G, *Independent Evaluator Reports*. During the Quarter, there were no IE Reports related to gas products.

For transactions subject to a strong showing standard per D.07-12-052, a discussion will be provided and the transactions will be disclosed separately in Confidential

Attachment M, *Transactions Subject to a Strong Showing*. During the Quarter, PG&E did execute gas transactions that were subject to a strong showing.

Presentations of those activities presented to the PRG are in Confidential Attachment F, *Key Briefing Packages*. During the Quarter, there were presentations presented to the PRG.

Executed agreements will be provided in Confidential Attachment H, *New Contracts Executed/Contracts Amended*. For Third Quarter 2010, there were executed agreements related to gas products that apply to this QCR.

e) Other Commodities

This section is not applicable to PG&E Third Quarter 2010.

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

Throughout the Quarter, PG&E attempted to enter into electric transactions needed to reduce its net open position. 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, BOM, day-ahead, and hour-ahead transactions, etc., employing both standard and non-standard products. When selecting electric transactions, 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. 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.

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

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, Tolling Arrangements with "Merchant Plants," and market purchases, while accounting for all resource requirements and constraints (must-run, must-take and operating constraints).

Term and BOM purchases and sales may be transacted to close the net open position and to reduce PG&E's reliance on the spot market. PG&E may also conduct locational basis spread transactions to manage its position at different delivery locations. 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 and other market and system conditions 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. The CAISO requires that scheduling coordinators 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 reduce 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 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 the Quarter, 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 2010

The third quarter of the year is typically a very dry period and second quarter 2010 was drier than normal with only 1.54 inches of the normal 2.86 inches of precipitation.

However, healthy spring runoff allowed PG&E to enter the Quarter with nearly full reservoirs. Hydroelectric operations focused on generating to meet summer demand.

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. Minor maintenance was performed on Helms 2 and 3 in September 2010 and Helms 1 started a major turbine overhaul in September 2010.

Significant planned maintenance on conventional hydro during the quarter included work on Chicago Park (41.5 MW), Drum Unit 5 (49.5 MW), Dutch Flat 2 (26 MW), Narrows 2 (55 MW), Pit 5 Units 1 and 2 (40 MW each), Salt Springs Unit 2 (34 MW), and Tiger Creek 1 (40 MW).

Significant forced outages on conventional hydro during the quarter included: Kerckhoff 2 (155 MW) due to bearing cooling trouble and Ralston (88 MW) with bearing vibration.

No significant planned or forced outages took place on PG&E's retained fossil generation (Gateway Generating Station (617 MW) and Humboldt Generating Station (135 MW) at four units). However, in August 2010, PG&E removed from service in the Humboldt area two combustion turbine units each with a capacity of 15 MW. At the end of September, PG&E removed from service two standard gas-fired boiler units in the Humboldt area with a total capacity of 105 MW. Concurrently PG&E put into commercial operation the new Humboldt Bay Generating Station comprised of nine 16.3 MW dual fuel marine engines. One additional engine will be put into operation in January 2011.

No significant planned or forced outages took place at Diablo Canyon Power Plant (two units 1,150 MW each).

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.

During 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 Long-Term Procurement Plan (Resolution E-3951, Resolution E-4177 and Resolution E-4276). 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*.

On July 2, 2010 PG&E submitted an advice letter to the Commission to modify the hedging plan to increase the Liquidity Limit (Advice Letter 3699-E). This was necessary to provide PG&E with the necessary short-term borrowing capacity to support the hedging plan because of recent declines in electricity and gas prices. The Commission approved this request on September 23, 2010 (Resolution E-4362).

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, *New Contracts Executed/Contracts Amended*. Copies of the contracts that were not separately filed are also included 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, *Independent Evaluator Reports* 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, *New Contracts Executed/Contracts Amended*.

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 Confidential Attachment J, *System Load Requirement/Conditions*.

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, *Key Briefing Packages*.

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. Energy Division has requested that PG&E provide transparent exchange traded prices. PG&E has included this information in Confidential Attachment M, *Transactions Subject to Strong Showing*.

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.) During Third Quarter 2010, this section does not apply to PG&E.

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, *Independent Evaluator Reports*. For Third Quarter 2010, 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 LLP | Dept of General Services | North Coast SolarResources |
| Ameresco | Division of Business Advisory Services | Northern California Power Association |
| Anderson & Poole | Douglass & Liddell | Occidental Energy Marketing, Inc. |
| Arizona Public Service Company | Downey & Brand | OnGrid Solar |
| BART | Duke Energy | Praxair |
| Barkovich & Yap, Inc. | Dutcher, John | R. W. Beck & Associates |
| Bartle Wells Associates | Economic Sciences Corporation | RCS, Inc. |
| Bloomberg | Ellison Schneider & Harris LLP | Recurrent Energy |
| Bloomberg New Energy Finance | Foster Farms | SCD Energy Solutions |
| Boston Properties | G. A. Krause & Assoc. | SCE |
| Braun Blaising McLaughlin, P.C. | GLJ Publications | SMUD |
| Brookfield Renewable Power | Goodin, MacBride, Squeri, Schlotz & Ritchie | SPURR |
| CA Bldg Industry Association | Green Power Institute | San Francisco Public Utilities Commission |
| CLECA Law Office | Hanna & Morton | Santa Fe Jets |
| CSC Energy Services | Hitachi | Seattle City Light |
| California Cotton Ginners & Growers Assn | In House Energy | Sempra Utilities |
| California Energy Commission | International Power Technology | Sierra Pacific Power Company |
| California League of Food Processors | Intestate Gas Services, Inc. | Silicon Valley Power |
| California Public Utilities Commission | Lawrence Berkeley National Lab | Silo Energy LLC |
| Calpine | Los Angeles Dept of Water & Power | Southern California Edison Company |
| Cardinal Cogen | Luce, Forward, Hamilton & Scripps LLP | Spark Energy, L.P. |
| Casner, Steve | MAC Lighting Consulting | Sunshine Design |
| Chris, King | MBMC, Inc. | Sutherland, Asbill & Brennan |
| City of Palo Alto | MRW & Associates | Tabors Caramanis & Associates |
| City of Palo Alto Utilities | Manatt Phelps Phillips | Tecogen, Inc. |
| Clean Energy Fuels | McKenzie & Associates | Tiger Natural Gas, Inc. |
| Coast Economic Consulting | Merced Irrigation District | TransCanada |
| Commercial Energy | Modesto Irrigation District | Turlock Irrigation District |
| Consumer Federation of California | Morgan Stanley | United Cogen |
| Crossborder Energy | Morrison & Foerster | Utility Cost Management |
| Davis Wright Tremaine LLP | NLine Energy, Inc. | Utility Specialists |
| Day Carter Murphy | NRG West | Verizon |
| Defense Energy Support Center | Navigant Consulting | Wellhead Electric Company |
| Department of Water Resources | Norris & Wong Associates | Western Manufactured Housing Communities Association (WMA) |
| | North America Power Partners | eMeter Corporation |