

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



August 3, 2011

Advice Letter 3798-E

Brian K. Cherry
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Subject: Q4 2010 Procurement Transaction Quarterly Compliance Filing

Dear Mr. Cherry:

Advice Letter 3798-E is effective July 29, 2011.

Sincerely,

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

Julie A. Fitch, Director
Energy Division



**Pacific Gas and
Electric Company**[®]

Jane K. Yura
Vice President
Regulation and Rates

Pacific Gas and Electric Company
77 Beale St., Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

Fax: 415-973-6520

January 31, 2011

Advice 3798-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Procurement Transaction Quarterly Compliance Filing (Q4, 2010)

Pacific Gas and Electric Company ("PG&E") hereby submits to the California Public Utilities Commission ("Commission" or "CPUC") its compliance filing for the fourth 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 October through December 2010 (Q4-2010)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 fourth 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 – Fourth Quarter 2010 Transactions
- Appendix B – Fourth Quarter 2010 Counter-Party Information
- Appendix C – Fourth Quarter 2010 Electric Transactions Summary
- Appendix D – Fourth Quarter 2010 Natural Gas Transactions Summary
- Appendix E – Fourth Quarter 2010 Other Transactions
- Appendix F – Fourth Quarter 2010 Key Briefing Packages
- Appendix G – Fourth Quarter 2010 Independent Evaluator Reports
- Appendix H – Fourth Quarter 2010 New Contracts Executed/Contracts Amended
- Appendix I – Summary of Retained Generation Investments Completed During Fourth 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 **February 22, 2011**, which is 22 days after the date of this filing.² The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

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

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

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

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

² Because the protest period ends on a weekend, PG&E is therefore moving the end of the protest period to the next business day.

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, California 94177

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

Effective Date

In accordance with D.02-10-062, PG&E requests that the CPUC approve this advice filing with an effective date of **January 31, 2011**.

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) #: **3798-E**

Tier: 2

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q4, 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: 1/31/2011

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 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 Fourth Quarter 2010, on or about January 31, 2011:

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 Fourth 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 January 31, 2011 at San Francisco, California.

/s/

Peter E. Koszalka
Sr. Manager, Electric Gas Supply
Energy Supply Management
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 Fourth Quarter 2010, on or about January 31, 2011:

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 Fourth 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 January 31, 2011 at San Francisco, California.

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

**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 Fourth Quarter 2010, on or about January 31, 2011:

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 Fourth 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 January 31, 2011 at San Francisco, California.

/s/

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

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

January 31, 2011

List of Attachments

- Confidential Attachment A: Fourth Quarter 2010 Transactions
- Confidential Attachment B: Fourth Quarter 2010 Counterparty Information
- Confidential Attachment C: Fourth Quarter 2010 Electric Transactions Summary
- Confidential Attachment D: Fourth Quarter 2010 Natural Gas Transactions Summary
- Confidential Attachment E: Fourth Quarter 2010 Other Transactions
- Confidential Attachment F: Fourth Quarter 2010 Key Briefing Packages
- Confidential Attachment G: Fourth Quarter 2010 Independent Evaluator Reports
- Confidential Attachment H: Fourth Quarter 2010 New Contracts Executed/Contracts Amended
- Confidential Attachment I: Summary of Retained Generation Investments Completed During Fourth 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 or the Utility) hereby provides its report demonstrating that its procurement-related transactions during the period October 1, 2010 through December 31, 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, Resolution E-4276 and Resolution E-4362.

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. During the Quarter, PG&E executed *Other Transactions* resulting from the 2011 Resource Adequacy (RA) Request for Offers (RFO). 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 trading 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*.

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 October 2010, PG&E participated in Tier 1 and Tier 2 of the CAISO’s monthly CRR allocation and auction process to procure CRRs for November 2010. In November 2010, PG&E participated in Tier 1 and Tier 2 of the CAISO’s monthly CRR allocation and auction process to procure CRRs for December 2010. In December 2010, PG&E participated in Tier 1 and Tier 2 of the CAISO’s monthly CRR allocation and auction process to procure CRRs for January 2011.
- CAISO 2011 Annual CRR Allocation and Auction Process – PG&E participated in Tier 2 and Tier 3 of the CAISO’s annual CRR allocation and auction process for 2011 CRRs. PG&E submitted nominations for long-term CRRs in the Third Quarter and results were posted in the Fourth Quarter.
- Intermediate-Term Request for Offers (ITRFO) – PG&E issued an ITRFO on July 27, 2010 to obtain RA from resources located within specific Local Capacity Requirement Areas or from elsewhere within the CAISO control area for a portion of the period 2011 through 2015. PG&E executed transactions from the ITRFO in the Fourth Quarter.
- 2011 RA RFO – PG&E issued an RA RFO on September 22, 2010 to (1) purchase system RA during certain 2011 summer months and (2) purchase or sell 2011 local RA. PG&E executed transactions from the RA RFO during the Fourth Quarter.
- 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 ratepayers’ 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 term transactions. PG&E also executed an intermediate term bilateral transaction.

b) Justification for Procurement Processes

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

- During the Quarter, PG&E executed new contracts resulting from RFOs and are 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 November 2010, December 2010, and January 2011, remained exposed to congestion risk, and therefore it participated in the CAISO’s Monthly CRR 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 (TeV_aR); and (2) reduce the expected congestion costs that the Utility would incur in its operations. PG&E only sought CRRs that were consistent with the Utility's actual congestion position. 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 Annual 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 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 TeVaR and (2) reduce the expected congestion costs that the Utility would incur in its operations. PG&E only sought CRRs that were consistent with the Utility's assessment of congestion between its resources and load. 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 the Quarter, there were two IE Reports related to electric products.

For the Quarter, PG&E executed two electric transactions that are subject to a strong showing standard. A discussion is provided and the transactions are disclosed separately in Confidential Attachment M, *Transactions Subject to a Strong Showing*.

Presentations of those activities presented to the PRG are in Confidential Attachment F, *Key Briefing Packages*.

Executed agreements are in Confidential Attachment H, *New Contracts Executed/Contracts Amended*. For the Quarter, there were executed agreements related to electric products that apply to this QCR:

- 2011 RA RFO
- 2010 ITRFO
- Two bilateral agreements

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 bought and sold 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 bid week index (CGPR, NGI, and Inside FERC).
- Bilateral - In-state Pipeline Capacity Purchase – PG&E purchased 30,000 MMBtu/day of firm pipeline capacity on PG&E’s Baja path for the term January 1, 2011 through November 30, 2011. This transaction was a front-end extension to an existing agreement for 30,000 MMBtu/day of pipeline capacity on PG&E CGT’s Baja path for the term December 1, 2011 through May 31, 2014 (30 months). PG&E was awarded this capacity in 2009 by participating in PG&E CGT’s open season for expansion of its Baja path. PG&E presented this transaction to its PRG on August 8, 2010 and formally executed the agreement for this transaction on December 10, 2010.
- Electronic Auctions - Gas Hedges – PG&E executed natural gas options using an electronic auction process 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 settled bilaterally or cleared through NYMEX or ICE. The broker market trades the same financial products as the bilateral market.

- Rockies Supply Solicitation – On October 26, 2010, PG&E issued a Request for Offers for Rocky Mountain Gas Supply for the electric portfolio (Rockies RFO). The Rockies RFO was issued to secure gas supply to complement PG&E’s firm gas pipeline capacity on the upcoming Ruby Gas Pipeline. Publicly shared information regarding this RFO remains online at www.pge.com/b2b/energysupply/electricfuels/storage/index.shtml. The results of the Rockies RFO are described in Confidential Attachment H, *New Contracts Executed/Contracts Amended* and the IE reports are included in Confidential Attachment G, *Independent Evaluator Reports*.

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 conduct a solicitation for gas products, reviewed bids and selected transactions for execution.
- 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 a 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 CGT gas department is the only provider of such services.
- Electronic Auctions - Gas Hedges – PG&E uses an electronic auction process using instant messaging to purchase natural gas options. The only exchange-traded gas options in the market 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, results in physical gas delivered at Henry Hub, Louisiana. PG&E prefers over-the-counter options because they settle in cash and cannot result in physical gas delivered to an unsuitable location. 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. 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 was one IE Report on the Rockies RFO related to gas products.

For transactions subject to a strong showing standard, a discussion is provided and the transactions are disclosed separately in Confidential Attachment M, *Transactions Subject to a Strong Showing*. During the Quarter, PG&E did execute term physical gas transactions.

Presentations of those activities presented to the PRG are in Confidential Attachment F, *Key Briefing Packages*.

Executed agreements are provided in Confidential Attachment H, *New Contracts Executed/Contracts Amended*. For the Quarter, there are thirteen agreements (in 11 documents) from the Rockies RFO related to gas products that apply to this QCR. In addition, there is one bilateral related to in-state pipeline capacity.

e) Other Commodities

This section is not applicable.

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 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) PG&E Participation in the CAISO Markets

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 costs of each of its dispatchable resources to use to bid these resources into the IFM and Hour Ahead Scheduling Process/Real Time Market. The

CAISO then assures least cost dispatch by considering all resources simultaneously with all transmission constraints.

The CAISO requires that scheduling coordinators clear at least 85 percent of their load in the CAISO's day-ahead IFM.

In the real-time market, similar to the day-ahead market, PG&E submits resource bids and schedules into CAISO markets and those resources that clear the market will be obligated to operate in real time.

PG&E 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 7:00 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 Inter-Scheduling Coordinator Trades. 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.

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.

c) 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.

d) PG&E-Owned Generation Conditions During Fourth Quarter 2010

PG&E received 164 percent of normal rainfall for the Quarter. As a result, hydro generation output was higher than normal and multiple reservoirs ended the Quarter with significantly more storage than normal. Hydroelectric operations focused on using the above normal runoff and managing reservoirs to position them for the normal runoff season.

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. The major turbine overhaul of Helms 1 continued through the Fourth Quarter.

Significant planned maintenance on conventional hydro during the quarter included work on Butt Valley (41 megawatts (MW)), Colgate Units 1 and 2 (175 MW each), Cresta Units 1 and 2 (35 MW each), Electra Units 1, 2, and 3 (31 MW, 31 MW and 37 MW, respectively), Haas Units 1 & 2 (72 MW each), James Black Units 1 and 2 (86 MW each), Kerckhoff 2 (155 MW), Middle Fork Units 1 and 2 (68 MW each), Pit 1 Units 1 and 2 (31.5 MW each), Pit 5 Units 3 and 4 (40 MW each), Poe Units 1 and 2 (69 MW each), Ralston (88 MW), Rock Creek Units 1 and 2 (56 MW each), Salt Springs 2 (34 MW), and Stanislaus (91 MW).

Significant forced outages on conventional hydro during the quarter included: Buck Creek 2 with bearing trouble, Colgate 2 with breaker trouble, and James Black 2 with transformer trouble.

For PG&E's retained fossil generation, the Gateway Generating Station (579 MW) took a short maintenance outage and was forced out due to a cooling water leak.

Diablo Canyon 1 (1150 MW) was out of service 35 days for a refueling.

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, Resolution E-4276 and Resolution E-4362). Financial hedges are executed directly on the ICE, through a broker and cleared through an exchange (ICE or the NYMEX) or through an electronic auction and cleared through an exchange. 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*.

PG&E modified its implementation of the hedging plan during the Quarter due to liquidity concerns. A description of these modifications is included in confidential Attachment D.

7. Copy of each contract.

A list of contracts executed and/or modified by PG&E during the Quarter is 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 the Quarter, this section does not apply to PG&E.

E. Cost Allocation Mechanism

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