SELF-BALANCING

A new option for Pacific Gas and Electric Company customers

Beginning April 1, 2001, Pacific Gas and Electric Company will offer Self-Balancing, a new option for balancing gas on its pipeline system. This option is available to balancing agents, Core Transport Agents, and noncore customers balancing for themselves alone[1].

During Pacific Gas and Electric Company's Comprehensive Gas OII Settlement discussions, customers requested the option to balance their own supply and demand on a daily basis. This new option, known as Self-Balancing, allows customers to withdraw from the utility's monthly balancing service. Customers choosing this option (Self-Balancers) receive a credit of $0.005 per decatherm (Dth) of billed usage. This credit offsets a portion of balancing costs that are currently bundled in all customers' backbone transportation rates. In exchange for the credit, Self-Balancers must provide their own daily balancing.

As detailed below, interested customers must elect Self-Balancing during the February 2001 open season. Once this choice is made, Self-Balancers are committed to the program for a one year term, from April 2001 through March 2002. For customers that do not make a Self-Balancing election, Pacific Gas and Electric Company will continue to provide monthly balancing. The existing monthly balancing program will not change as a result of the new Self-Balancing option.

Gas rate schedule G-BAL formally defines the Self-Balancing program. These tariffs are available at http://www.pge.com/tariffs/.

[1] Customers balancing for themselves must first obtain a Noncore Balancing Aggregation Agreement (NBAA) to become Self-Balancing. An NBAA has certain credit requirements. Contact your California Gas Transmission (CGT) Account Services Representative for more information. For CGT phone numbers, click *Contact Us* from CGT's Pipe Ranger Web site http://www.pge.com/pipeline.

Self-Balancers Must Balance Daily

Self-Balancers must balance every day by complying with two separate and distinct balancing rules.

Rule No. 1
Daily Balance

Self-Balancers must balance their supply and demand every day within a ten percent tolerance band (+/- 10%). That is, supply cannot exceed 110% of demand or fall below 90% of demand.

Self-Balancers out of compliance with the daily balance rule are subject to a $1.00 per Dth noncompliance charge.

For noncore customers or their balancing agents, demand is defined as daily billed use (adjusted for shrinkage).

For core customers in a Core Procurement Group, demand is defined as the day-ahead usage forecast for the group (adjusted for shrinkage). This forecast is provided to the Core Transport Agent (CTA) supplying the group.

Individual core customers supplied by Pacific Gas and Electric Company are not eligible for Self-Balancing.

Rule No. 2
Cumulative Daily Balance

Each Self-Balancer's cumulative imbalance is calculated daily. Each day, this cumulative imbalance must not exceed one percent (+/- 1%) of the Self-Balancer's Predetermined Monthly Use (PDMU).

Self-Balancers out of compliance with the cumulative daily balance rule are subject to a daily $1.00 per Dth noncompliance charge.

For a noncore customer, the PDMU is equal to the customer's Total Monthly Quantity (TMQ) from Exhibit B of their Natural Gas Service Agreement (NGSA).

For a Noncore Balancing Aggregation Agreement (NBAA) holder (also known as a noncore balancing agent, or NBAA group), the group's PDMU equals the sum of the TMQs of the members of the group.

For a Core Procurement Group, the PDMU is based on the group's customers' actual use in the previous year.

In any case, Pacific Gas and Electric Company will provide each Self-Balancer its PDMU prior to the beginning of each month.

The $1.00 per Dth noncompliance charges are calculated daily for each rule. These two $1.00 per Dth noncompliance charges are independent of one another; noncompliance with both rules will result in two separate and additive $1.00 per Dth noncompliance charges.

Self-Balancers are responsible for tracking their own daily imbalance position. Pacific Gas and Electric Company produces imbalance statements monthly. However, it is not responsible for providing information to Self-Balancers regarding their daily imbalances or daily tolerance levels between statement periods.

Self-Balancing Example

To better understand how daily supply and demand affect the two Self-Balancing rules, consider the following example of a Self-Balancing noncore customer:

The Self-Balancer's daily demand is 50,000 Dth.	*The Self-Balancer's supply varies over the course of four days.*

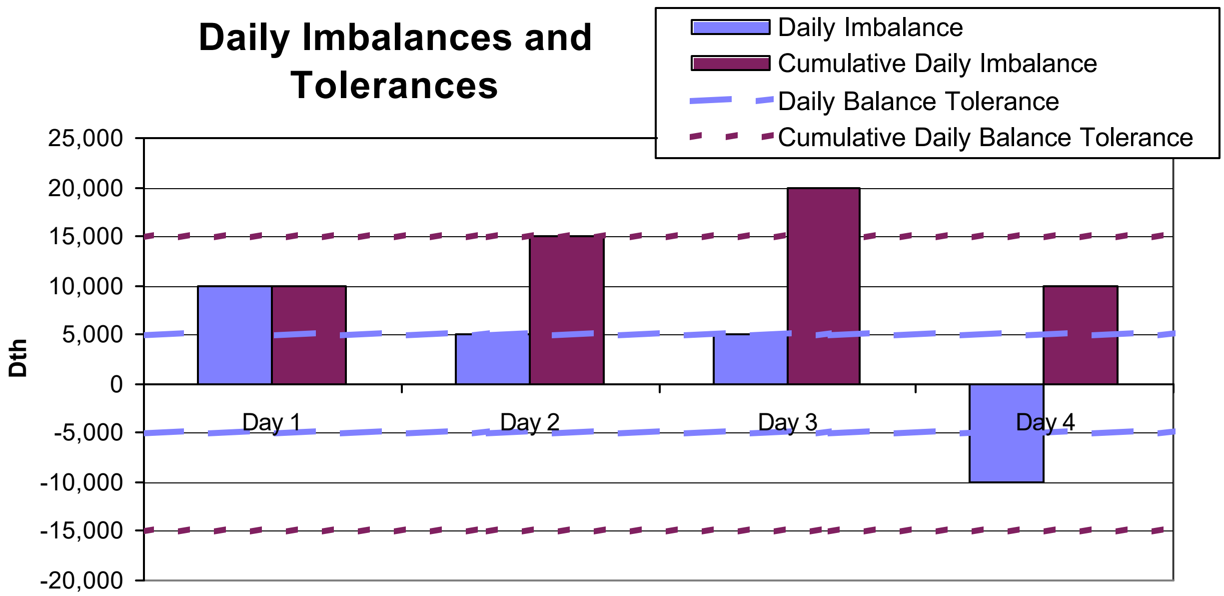
Day	Demand	Supply	Daily Imbalance	Cumulative Daily Imbalance
1	50,000	60,000	+10,000	+10,000 *
2	50,000	55,000	+5,000	+15,000
3	50,000	55,000	+5,000	+20,000
4	50,000	40,000	-10,000	+10,000

** Assuming day 1 is the first of the month and 0 cumulative imbalance or adjustments have been rolled forward from prior months.*

Tolerance Band Definitions				
The Daily Balance (Rule 1) Tolerance Band is defined by the Self-Balancer's daily demand.				
Daily Demand	=	Billed use each day (adjusted for shrinkage)	=	50,000
Daily Balance Tolerance	=	±10% of Daily Demand	=	5,000
The Cumulative Daily Balance (Rule 2) Tolerance Band is defined by the Self-Balancer's PDMU.				
Pre-Determined Monthly Use (PDMU)	Is	Sent to Self-Balancer prior to beginning of month	=	1,500,000
Cumulative Daily Balance Tolerance	=	±1% of PDMU	=	15,000

Self-Balancing Example (continued)

For each day, this chart shows the Self-Balancer's daily imbalance and cumulative daily imbalance relative to the tolerance bands.



Self-Balancing Example (continued)

Noncompliance charges in this Self-Balancing example are calculated as follows:

Daily Imbalance Noncompliance Charges (Rule 1)				
Day	Daily Imbalance (Dth)	Tolerance (Dth)	Imbalance Charge Calculation	Noncompliance Charge ($)
1	+10,000	5,000	$1.00 x 5,000	$5,000
2	+5,000	5,000	0	0
3	+5,000	5,000	0	0
4	-10,000	5,000	$1.00 x 5,000	$5,000

Cumulative Daily Imbalance Noncompliance Charges (Rule 2)				
Day	Cumulative Daily Imbalance (Dth)	Tolerance (Dth)	Imbalance Charge Calculation	Noncompliance Charge ($)
1	+10,000	15,000	0	0
2	+15,000	15,000	0	0
3	+20,000	15,000	$1.00 x 5,000	$5,000
4	+10,000	15,000	0	0

Total Self-Balancing Noncompliance Charges		
Day		Noncompliance Charge ($)
1		$5,000
2		0
3		$5,000
4		$5,000

This example is only one possible scenario. Although not the case here, daily imbalance noncompliance charges and cumulative daily imbalance noncompliance charges may both be incurred on the same gas day.

OFO/EFO Rules

Self-Balancers must balance every day in accordance with the two separate balancing rules described above. This remains true when an Operational or Emergency Flow Order (OFO or EFO) is issued. However, each of the two rules is modified on OFO or EFO days.

Daily Balance Rule (Rule 1) During an OFO or EFO

On an OFO or EFO day, the tolerance and noncompliance charge of the OFO/EFO replace entirely the daily balance rule's ±10% tolerance and $1.00/Dth noncompliance charge.

For example, on a high inventory OFO day, a Self-Balancer's overdeliveries are subject to the tolerance band and noncompliance charge of the OFO.

However, OFO tolerance bands are one-sided. Therefore, a Self-Balancer may underdeliver without daily imbalance (rule 1) noncompliance charges during a high inventory OFO.

Cumulative Daily Balance Rule (Rule 2) During an OFO or EFO

On OFO and EFO days, the cumulative daily balance rule still applies, but only in the direction of the OFO/EFO.

For example, on a high inventory OFO day, a Self-Balancer's daily cumulative imbalance may not exceed 1% of PDMU. However, the daily cumulative imbalance may fall below negative one percent (-1%) of PDMU on this day without noncompliance charge.

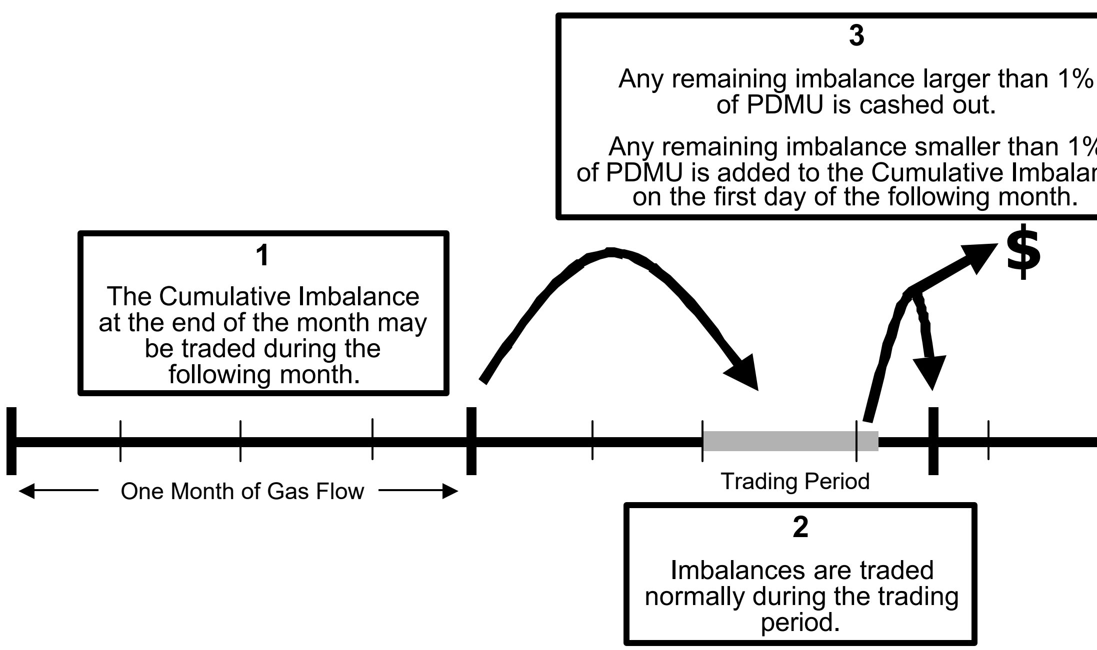
Imbalance Trading for Self-Balancers

Self-Balancers may trade their cumulative and operating imbalances with other balancing entities just like Monthly Balancing entities. However, cumulative imbalance volumes subject to cashout are different for Self-Balancers.

Cashout for Self-Balancing

Any cumulative imbalance remaining at the end of a calendar month is carried into the following month's trading period, where it may be traded against other shippers' balances. After the trading period closes, any imbalance remaining for a Self-Balancer is compared with the tolerance of 1% of PDMU. Any remaining imbalance smaller in magnitude than this tolerance is added to the Self-Balancer's cumulative imbalance on the first calendar day of the month following the trading period. Any remaining imbalance larger in magnitude than this tolerance is cashed out for both the commodity component and the transportation component at the appropriate Tier II cashout as defined in the G-BAL tariff.

Cumulative Imbalance Trading Timeline for Self-Balancers



Self-Balancing Eligibility

To elect Self-Balancing, a balancing entity[2] must meet each of the following criteria:

1. Complete the appropriate application form. A Self-Balancing Amendment (Form No. 79-971) must be completed and delivered to Pacific Gas and Electric Company as described below in *Getting Started*.

2. Noncore customers must have appropriate metering. In order to Self-Balance, or to become part of a Self-Balancing NBAA group, noncore customers must have at least one daily usage recording meter in place prior to February 1, 2001. Noncore customers who have only meters with a capacity of less than 100 Dth per day are exempted from this requirement.

Limits of the Self-Balancing Program

Although Pacific Gas and Electric Company does not expect the limits to be reached, volumes available for Self-Balancing are limited and will be assigned on a first come, first served, basis.

Groups (NBAA groups or Core Procurement Groups) cannot contain a mixture of Self-Balancing and Monthly Balancing customers. The entire group is subject to either Self-Balancing or Monthly Balancing.

Annual Self-Balancing Election Period

Balancing entities may choose Self-Balancing during the annual open season in February. Elections are effective for a one year term beginning the following April 1. Balancing entities may not change their status at any other time during the year. New entities that arise after the February open season may not elect Self-Balancing until the next annual open season.

After the election period, the addition or deletion of customers from a Self-Balancing group is subject to certain restrictions. Refer to schedule G-BAL for details.

[2] Balancing entities are NBAA holders, Core Procurement Groups (CPGs), or noncore end-use customers balancing for themselves alone.

Getting Started

A completed Self-Balancing Amendment (Form 79-971) must be faxed to the California Gas Transmission Contracts Team at 415-973-9247 by 5:00 p.m. Pacific time, February 28, 2001. A blank Amendment is included in this information package and also available online at http://www.pge.com/pipeline/library/forms/sbamend.pdf.

End-use Customers

End-use customers considering Self-Balancing should contact their gas supplier as soon as possible. Since some metering configurations make them ineligible for Self-Balancing, end-use customers may also wish to contact their assigned Pacific Gas and Electric Company Account Manager to verify eligibility.

Balancing Agents

Balancing agents interested in Self-Balancing should contact their California Gas Transmission Account Services Representative prior to February.

Core Transport Agents

Core Transport Agents interested in Self-Balancing should contact their ESP Services Account Manager as soon as possible.