

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



December 6, 2010

Advice Letter 3709-E

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

Subject: Procurement Transaction Quarterly Compliance Filing (Q2, 2010)

Dear Ms. Yura:

Advice Letter 3709-E is effective July 30, 2010.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

July 30, 2010

Advice 3709-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Procurement Transaction Quarterly Compliance Filing (Q2, 2010)

Pacific Gas and Electric Company ("PG&E") hereby submits to the California Public Utilities Commission ("Commission" or "CPUC") its compliance filing for the second 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 April through June 2010 (Q2-2010)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 second 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 – Second Quarter 2010 Transactions
- Appendix B – Second Quarter 2010 Counter-Party Information
- Appendix C – Second Quarter 2010 Electric Transactions
- Appendix D – Second Quarter 2010 Gas Transactions
- Appendix E – Second Quarter 2010 Other Transactions
- Appendix F – Second Quarter 2010 Key Briefing Packages
- Appendix G – Second Quarter 2010 RFO Independent Evaluator Reports
- Appendix H – Second Quarter 2010 New Contracts Executed/Amended
- Appendix I – Summary of Retained Generation Investments Completed During Second 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 **August 19, 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 **July 30, 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>.

A handwritten signature in cursive script that reads "Jane Yura" followed by a slanted line and the word "ent" in a smaller script.

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) #: **3709-E**

Tier: 2

Subject of AL: Procurement Transaction Quarterly Compliance Filing (Q2, 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: **7/30/2010**

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

jn@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 Second Quarter 2010, on or about July 30, 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 Second 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 July 30, 2010 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 Second Quarter 2010, on or about July 30, 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 Second 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 July 30, 2010 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 Second Quarter 2010, on or about July 30, 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 Second 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 July 30, 2010 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 SECOND QUARTER OF 2010

July 30, 2010

List of Attachments

Confidential Attachment A:	Second Quarter 2010 Transactions
Confidential Attachment B:	Second Quarter 2010 Counterparty Information
Confidential Attachment C:	Second Quarter 2010 Electric Transactions
Confidential Attachment D:	Second Quarter 2010 Natural Gas Transactions
Confidential Attachment E:	Second Quarter 2010 Other Transactions
Confidential Attachment F:	Second Quarter 2010 Key Briefing Packages
Confidential Attachment G:	Second Quarter 2010 Independent Evaluator Reports
Confidential Attachment H:	Second Quarter 2010 New Contracts Executed / Contracts Amended
Confidential Attachment I:	Summary of Retained Generation Investments Completed During Second 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 April 1, 2010 through June 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, no transactions were executed with affiliates 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 Steven Malnight, Vice President, 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 April, 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 May 2010. In May, 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 June 2010. In June, 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 July 2010.
- 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 its customer’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 Request for Offers (RFO) were issued subject to approval via this quarterly advice letter, and no 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 May, June, and July 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.

- 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 Second 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 Second Quarter 2010, PG&E did 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 Second Quarter 2010, there were presentations presented to the PRG.

Executed agreements are in Confidential Attachment H, *New Contracts Executed / Contracts Amended*. For Second 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:

- Physical Call Options Request for Offers (RFO) – PG&E conducted an RFO for physical call options (gas peaking products) to meet third quarter demand. PG&E purchased physical call options for delivery in the third quarter of 2010. These call options for physical gas supply give PG&E the right but not the obligation to purchase natural gas at a particular location at a published index price for a specified number of days.
- Gas Pipeline Request for Bids (RFB) – On May 11, 2010, PG&E Electric Fuels Management acquired discounted natural gas pipeline capacity for the month of June 2010 by participating in PG&E Core Gas Supply's capacity release auction. PG&E Electric Fuels Management bid for and was awarded capacity on PG&E's Baja Path and matching capacity on the El Paso pipeline from the San Juan Basin. A copy of the confirmations including the terms of the transactions are included in

Confidential Attachment H. PG&E Core Gas Supply conducts its auctions with many other market participants; any transactions with PG&E Electric Fuels Management are conducted at arm's length.

- 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 the ICE Clear Europe clearinghouse. ICE provides 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 executes hedges in the bilateral gas market for natural gas options and clears those trades through the NYMEX Clearport clearinghouse. PG&E calculates the live market value of the options using an option pricing tool offered by SuperDerivatives, Inc. (www.superderivatives.com). PG&E then uses a competitive process to solicit offers directly from several

counterparties using instant messaging. PG&E will lift the lowest price offer that it receives and then PG&E and the counterparty will both submit the trade to NYMEX Clearport for financial clearing.

- Voice Brokers - Gas Hedges – PG&E executes hedges (swaps and options) through voice brokers that upon execution become bilateral trades which are then cleared through ICE Clear Europe or NYMEX Clearport. 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).

- Physical Call Options RFO – PG&E conducted an RFO for physical call options (gas peaking products) to meet third quarter demand. In response to the RFO announcement, PG&E received numerous offers from suppliers. PG&E selected the best offers based on conformance to the product requested and price. PG&E purchased physical call options for delivery in the third quarter of 2010. These call options on physical gas supply give PG&E the right but not the obligation to purchase natural gas at a particular location at a published index price for a specified number of days. Such products can help PG&E avoid liquidity impacts on days of very high demand, when PG&E may otherwise face prices above index.
- Gas Pipeline RFB – PG&E participated in PG&E Core Gas Supply's capacity release auction in order to supply baseload gas for electric generation and to add supply diversity to the portfolio by purchasing gas in the San Juan supply basin. PG&E participated in PG&E Core Gas Supply's capacity auction because it is a competitive offering and because it offers the complete pipeline path from the

supply basin to the PG&E Citygate. PG&E Electric Fuels Management has participated in Core Gas Supply's auctions numerous times.

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 provides access to anonymous bids and offers establishing both liquid and robust markets for financial products, and benchmarks for bilateral products. PG&E makes extensive use of ICE for trading 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, results in physical gas delivered to Henry Hub, Louisiana. PG&E prefers over-the-counter options because they settle financially, rather than in physical deliveries. PG&E's approach to trading options in the bilateral market using instant messaging 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 between the time they submit their offers and the time their offers are accepted or declined).

- Voice Brokers - Gas Hedges – PG&E uses voice brokers for gas financial trading to supplement bilateral trades and 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. PG&E tends to use ICE or NYMEX clearing services in conjunction with voice brokers in order to get the best prices—through clearing PG&E 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/offer 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*. For Second Quarter 2010, 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*. For Second Quarter 2010, 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*. For Second Quarter 2010, there were presentations presented to the PRG.

Executed agreements will be provided in Confidential Attachment H, *New Contracts Executed / Contracts Amended*. For Second 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 for Second 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 Confidential Attachment J.

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

a) Near-Term Planning and Procurement

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 constantly participates in the hour-ahead market via bidding and scheduling its resources into the CAISO's real-time market in order to optimize its generation and market transactions to reduce costs.

d) Locational Spreads

During 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 Second Quarter 2010

Wet conditions prevailed with 144 percent of normal Q2 precipitation falling in the period. After a dry start to the year, this heavy precipitation allowed PG&E to end the precipitation year (July to June) at 93.3 percent of normal. PG&E's hydroelectric operations focused on maximizing generation while filling reservoirs prior to the summer generating 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. Helms 3 completed its annual maintenance at the start of the Quarter and Helms 1 was forced out for approximately two days due to a leak in the head cover drain piping.

Significant planned maintenance on conventional hydro in the Quarter included work on Balch 1 (34 MW), Balch 3 (54 MW), Belden (118 MW), Bucks Creek Units 1 and 2 (33 MW and 25 MW, respectively), Belden (118 MW), Butt Valley (40 MW), Caribou Unit 5 (60 MW), Pit 7 Unit 1 (56 MW), Salt Springs Unit 2 (34 MW), and Tiger Creek Units 1 and 2 (30 MW each).

Significant forced outages on conventional hydro during the Quarter included: Caribou Units 1, 2, and 3 (23.8 MW, 25 MW, and 25 MW, respectively) due to a water leak in the powerhouse, Cresta PH (35 MW) due to a problem with the TSV, and Poe 2 PH (60 MW) due governor trouble.

For PG&E's retained fossil generation, Gateway Generating Station (617 MW) took its annual planned maintenance outage in April. No significant planned or forced outages occurred at Humboldt Power Plant.

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.

Throughout the Quarter, PG&E executed transactions in accordance with its risk management strategy and approved Plan. PG&E executed hedges in accordance with its approved Conformed 2006 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*.

7. Copy of each contract.

A list of contracts executed and/or modified by PG&E during the Quarter are included in Confidential Attachment H. Copies of the contracts that were not separately 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, 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.

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.

10. Provide a reasonable number of analyses requested by the Commission or the PRG and provide the resulting outputs.

To the extent any analyses requested by the Commission or PRG during the Quarter were not already included as a part of PG&E's response to Items 1 through 9 above, such additional analyses would be contained in Confidential Attachment F.

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

To the extent the Commission requested information for the Quarter not already provided in the Master Data Request, such information would be included in the workpapers. Energy Division has requested that PG&E provide transparent exchange traded prices. PG&E has included this information in Confidential Attachment M.

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