



Brian K. Cherry
Vice President
Regulation and Rates

Pacific Gas and Electric Company
77 Beale St., Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Fax: 415-973-6520

January 30, 2012

Advice 3999-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, 2011)

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 2011, 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 2011 (Q4-2011)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 2011 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 2011 Transactions
- Appendix B – Fourth Quarter 2011 Counter-Party Information
- Appendix C – Fourth Quarter 2011 Electric Transactions Summary
- Appendix D – Fourth Quarter 2011 Natural Gas Transactions Summary
- Appendix E – Fourth Quarter 2011 Other Transactions
- Appendix F – Fourth Quarter 2011 Key Briefing Packages
- Appendix G – Fourth Quarter 2011 Independent Evaluator Reports
- Appendix H – Fourth Quarter 2011 New Contracts Executed/Contracts Amended
- Appendix I – Summary of Retained Generation Investments Completed During Fourth Quarter 2011
- 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 20, 2011**, which is 21 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: 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:

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

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, California 94177

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

Effective Date

In accordance with D.02-10-062, the requested effective date of this advice letter is **January 30, 2012.**

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 Lists R.01-10-024 and R.04-04-003
PG&E's Procurement Review Group

Public Attachments: Attachment 1 – Declarations
Attachment 2 – QCR Narrative

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 E)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Greg Backens

Phone #: 415-973-4390

E-mail: gab4@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) #: **3999-E**

Tier: 2

Subject of AL: **Procurement Transaction Quarterly Compliance Filing (Q4, 2011)**

Keywords (choose from CPUC listing): Compliance, Procurement

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D. 03-12-062

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 AL: N/A

Is AL requesting confidential treatment? Yes. If so, what information is the utility seeking confidential treatment for: Please see page 2

Confidential information will be made available to those who have executed a nondisclosure agreement.

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: Sharon Tatai (415) 973-2788

Resolution Required? Yes No

Requested effective date: January 30, 2012

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 proposed: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Brian K. Cherry, Vice President, Regulation and Rates

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

**DECLARATION OF SHARON K. TATAI
SEEKING CONFIDENTIAL TREATMENT OF FOR CERTAIN DATA AND
INFORMATION CONTAINED IN PG&E'S ADVICE LETTER 3999-E REGARDING
CONFIDENTIAL ATTACHMENTS A, B, C, E, F, G, H, J, K, L, AND M**

I, Sharon K. Tatai, declare:

1. I am presently employed by Pacific Gas and Electric Company ("PG&E"), and have been an employee at PG&E since 1980. My current title is Manager in the Energy Compliance and Reporting Department, which is within PG&E's Energy Procurement organization. In this position, my responsibilities include review of regulatory reports. In carrying out these responsibilities, I have acquired knowledge of PG&E's regulatory reporting and have also gained knowledge of electric energy procurement data, processes, and practices. Through this experience, I have become familiar with the type of information that would affect the regulatory filing, as well as with the type of information that would be considered confidential and proprietary.
2. Based on my knowledge and experience, and in accordance with Decision ("D.") 08-04-023 and the August 22, 2006 "Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066," I make this declaration seeking confidential treatment of PG&E's January 30, 2012 PG&E'S Advice Letter 3999-E, Confidential Attachments A, B, C, E, F, G, H, J, K, L. By this Application, PG&E is seeking the Commission's approval Quarter Three, 2011 Quarterly Procurement Transaction Compliance Report, submitted by PG&E.
3. Attached to this declaration is a matrix identifying the data and information for which PG&E is seeking confidential treatment. The matrix specifies that the material PG&E is seeking

to protect constitutes the particular type of data and information listed in Appendix I of D.06-06-066 and Appendix D.08-04-023 (the "IOU Matrix"), and/or constitutes information that should be protected under General Order 66-C. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix that is pertinent to this submittal.

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

Executed on January 30, 2012 at San Francisco, California.

_____/s/_____
Sharon K. Tatai
Manager
Energy Compliance and Report
Energy Procurement
PACIFIC GAS AND ELECTRIC COMPANY

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
PROPOSAL REGARDING ADVISE LETTER 3999-E
QUARTERLY PROCUREMENT TRANSACTION COMPLIANCE REPORT OF QUARTER THREE 2011
January 30, 2012**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

| Redaction Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N) | 2) Which category or categories in the Matrix the data correspond to: | 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N) | 4) That the information is not already public (Y/N) | 5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N) | PG&E's Justification for Confidential Treatment | Length of Time |
|--|---|---|---|---|---|--|--|
| Attachment A – Physical and Financial Electric Deals | Y | Item VI) E) and F) Utility Planning Area Matrix Net Open (Electric); Matrix page 13 | Y | Y | N | Disclosure of monthly and daily data provide an understanding of PG&E's strategy for closing out its net open position. | 3 Years |
| Attachment A – Physical and Financial Electric Deals | Y | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | Y | Y | N | This information reveals procurement cost categorized by transaction type, which is provided to Energy Division per AB 57 and is confidential for three years. | 3 Years |
| Attachment B Counterparty information, including non-investment grade counterparties – Table - "List of Non-Investment Grade Counterparties" | Y | CPUC General Order 66-C | Y | Y | N | 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-utility businesses |

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
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|---|---|---|---|---|---|---|--|
| | | | | | | | under G.O. 66-C |
| Attachment B Counterparty information, including counterparty concentration – Table “List of Top Ten Counterparties” by transaction volume and dollar value | Y | CPUC General Order 66-C | N | Y | Y | 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”, “Electr | Y | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix | Y | Y | N | 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. | 3 Years |

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January 30, 2012**

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|---|---|--|---|---|---|--|---|
| ic Financial”, ”Electric-Physical-HA Only”, “List of Top Ten Counterparties” – all by transaction volume and dollar value | | page 22 | | | | | |
| Attachment C Electric Transactions (see above) | Y | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | Y | Y | N | 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. | 3 Years |
| Attachment E Other Transactions | Y | VII) B) Bilateral Contract Terms and Conditions – contracts and power purchase agreements between utilities and non-affiliated third parties.;Matrix page 15 | Y | Y | N | Disclosure of information would provide counterparty name, volume, and price and would provide market sensitive information regarding bid strategy and selection. | 3 Years |
| Attachment F PRG Material | Y | Item VII) E) New non-utility affiliated bilateral contracts – Electric; Matrix page 16, etc. | Y | Y | N | Presentations to the PRG provide confidential bilateral contract terms, including price and performance terms. Confidentiality protection depends on type of material presented, see, <i>infra</i> . | 3 Years from initial delivery date specified in contract or 1 |

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|------------------------------|---|---|---|---|---|---|--|
| | | | | | | | Year after termination of deliveries, whichever is less |
| Attachment F PRG Material | Y | 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 | Y | Y | N | Gas procurement presentations to PRG recommend action based on PG&E's confidential and proprietary gas forecasts and strategies | 3 Years |
| Attachment F PRG Material | Y | Item II) B) 2) Utility recorded gas procurement and cost information; Matrix page 3 | Y | Y | N | Covers actual quantity and cost of procured natural gas | One year after conclusion of deliveries |
| Attachment F PRG Material | Y | CPUC General Order 66-C | Y | Y | N | 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 |

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|---|---|--|---|---|---|---|--|
| | | | | | | | under G.O. 66-C |
| Attachment G Independent Evaluator Reports | Y | VII) B) Bilateral Contract Terms and Conditions – contracts and power purchase agreements between utilities and non- affiliated third parties,;Matrix page 15 | Y | Y | N | 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. | 3 Years from date of issuance; 3 years confidentiality period recommences when facility being evaluated begins deliveries |
| Attachment G Independent Evaluator Reports | Y | CPUC General Order 66-C | Y | Y | N | 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 H Executed | | VII) B) Bilateral Contract Terms and Conditions – contracts | | | | Disclosure of information would provide counterparty name, volume, and price and would provide market sensitive information regarding bid | 3 Years |

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|--|--|--|--|--|--|---|-----------------------|
| Contracts | Y | and power purchase agreements between utilities and non-affiliated third parties.;Matrix page 15 | Y | Y | N | strategy and selection. | |
| Attachment J Residual Net Short/Residual Net Long | Y | Item VI) Utility Bundled Net Open Position (Electric); Matrix page 13 | Y | Y | N | Residual net short/long is key input to PG&E's confidential forecast of net open position | 3 Years |
| Attachment J Residual Net Short/Residual Net Long | Y | Item VI) Utility Planning Area Net Open; Matrix page 14 | Y | Y | N | Monthly data confidential | 3 Years |
| Attachment J Residual Net Short/Residual Net Long | Y | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | Y | Y | N | 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 | Y | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Y | Y | N | 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, | 3 Years |
| Attachment K Risk Management | Y | Item XII) Monthly Portfolio Risk Assessment; Matrix page 22 | Y | Y | N | TeVAr and supporting forecasts and analysis are confidential | 3 Years |

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
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|---|--|---|--|--|--|---|-----------------------|
| Attachment K Risk Management | | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Y | Y | N | 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 | 3 Years |
| Attachment L Reasonable Number of Analyses | Y | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix page 22 | Y | Y | N | These analyses are the basis of the monthly variable cost of energy and utility operation, which must be protected to preserve details which would reveal PG&E in the market place. | 3 Years |
| Attachment M Transactions subject to Strong Showing | Y | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix page 22 | Y | Y | N | These analyses are the basis of the monthly variable cost of energy and utility operation, which must be protected to preserve the details which would reveal PG&E in the market place. | 3 Years |

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

**DECLARATION OF PETER E. KOSZALKA
SEEKING CONFIDENTIAL TREATMENT OF FOR CERTAIN DATA AND
INFORMATION CONTAINED IN PG&E'S ADVICE LETTER 3999-E REGARDING
CONFIDENTIAL ATTACHMENTS A, B, D, J, and M**

I, Peter E. Koszalka, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 2003 (and was previously employed by PG&E from 1983 to 1998). My current title is Director, Electric Gas Supply in the Energy Supply Management Department which is within PG&E's Energy Procurement Department. In this position, my responsibilities include physical and financial trading of gas in support of PG&E's allocated DWR contracts, PG&E's company-owned generating facilities, and PG&E's tolling agreements. In carrying out these responsibilities, I have acquired knowledge of gas supply and gas hedging for electric generation, the markets for physical and financial products for gas supply and hedging, and the various types of transactions involved.

2. Based on my knowledge and experience, and in accordance with Decision ("D.") 08-04-023 and the August 22, 2006 "Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066," I make this declaration seeking confidential treatment of PG&E's January 30, 2012 PG&E'S Advice Letter 3999-E, Confidential Attachments A, B, D, J, M. By this Application, PG&E is seeking the Commission's approval Quarter Four, 2011 Quarterly Procurement Transaction Compliance Report, submitted by PG&E.

3. Attached to this declaration is a matrix identifying the data and information for which PG&E is seeking confidential treatment. The matrix specifies that the material PG&E is seeking to protect constitutes the particular type of data and information listed in Appendix I of D.06-06-

066 and Appendix D.08-04-023 (the "IOU Matrix"), and/or constitutes information that should be protected under General Order 66-C. The matrix also specifies the category or categories in the IOU Matrix to which the data and information corresponds, and why confidential protection is justified. Finally, the matrix specifies that: (1) PG&E is complying with the limitations specified in the IOU Matrix for that type of data or information; (2) the information is not already public; and (3) the data cannot be aggregated, redacted, summarized or otherwise protected in a way that allows partial disclosure. By this reference, I am incorporating into this declaration all of the explanatory text in the attached matrix that is pertinent to this submittal.

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

Executed on Janaury 30, 2012 at San Francisco, California.

/s/

Peter E. Koszalka
Director, Gas Supply
Energy Supply Management
PACIFIC GAS AND ELECTRIC COMPANY

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
PROPOSAL REGARDING ADVISE LETTER 3999-E
QUARTERLY PROCUREMENT TRANSACTION COMPLIANCE REPORT OF QUARTER FOUR 2011
January 30, 2012**

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|---|---|--|---|---|---|--|--|
| Attachment A – Physical Natural Gas Spot Transactions | Y | Item I) B) 2) Utility recorded gas procurement and cost information; Matrix page 3 | Y | Y | N | Actual quantity and cost of procured gas are protected. | 3 Years |
| Attachment A – Physical Natural Gas Term Transactions | Y | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Y | Y | N | 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. | 3 Years |
| Attachment A – Financial Natural Gas Transactions -- | Y | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | Y | Y | N | This information reveals procurement cost categorized by transaction type, which is provided to Energy Division per AB 57 and is confidential for three years. | One Year |
| Attachment B Counterparty information, including counterparty concentration – Table “List of Top Ten Counterparties” by transaction volume and dollar value | Y | CPUC General Order 66-C | Y | Y | Y | 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 |

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
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|---|---|---|---|---|---|---|---|
| | | | | | | | limit on protection afforded non-utility businesses under G.O. 66-C |
| Attachment D – Natural Gas Transactions | Y | 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. | |
| Attachment J Residual Net Short/Residual Net Long - Natural Gas Documents | Y | Item XIII) Energy Division Monthly Data Request (AB 57); Matrix page 22 | Y | Y | N | 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 Transaction - Natural gas Documents | Y | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Y | Y | N | 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. | 3 Years |
| Attachment M Transactions subject to Strong Showing - Gas Financial | Y | XI) Monthly Procurement Costs (Energy Resource Recovery Account [ERRA] Filings); Matrix | Y | Y | N | 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 | 3 Years |

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 E)
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 January 30, 2012**

IDENTIFICATION OF CONFIDENTIAL INFORMATION

| Redaction Reference | 1) The material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D.06-06-066 (Y/N) | 2) Which category or categories in the Matrix the data correspond to: | 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N) | 4) That the information is not already public (Y/N) | 5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N) | PG&E's Justification for Confidential Treatment | Length of Time |
|--|--|--|--|--|--|--|--|
| Transactions | | page 22 | | | | | |
| Attachment M Transactions subject to Strong Showing – Gas Financial Transactions | Y | Item I) A) 4) Long-term fuel (gas) buying and hedging plans; Matrix page 2 | Y | Y | N | | 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 |

**PACIFIC GAS AND ELECTRIC COMPANY
PROCUREMENT PLAN COMPLIANCE REPORT
FOR THE FOURTH QUARTER OF 2011**

January 30, 2012

List of Attachments

- Confidential Attachment A: Fourth Quarter 2011 Transactions
- Confidential Attachment B: Fourth Quarter 2011 Counterparty Information
- Confidential Attachment C: Fourth Quarter 2011 Electric Transactions Summary
- Confidential Attachment D: Fourth Quarter 2011 Natural Gas Transactions Summary
- Confidential Attachment E: Fourth Quarter 2011 Other Transactions
- Confidential Attachment F: Fourth Quarter 2011 Key Briefing Packages
- Confidential Attachment G: Fourth Quarter 2011 Independent Evaluator Reports
- Confidential Attachment H: Fourth Quarter 2011 New Contracts Executed/Contracts Amended
- Confidential Attachment I: Summary of Retained Generation Investments Completed During Fourth Quarter 2011
- 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 (OP) 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 October 1, 2011 through December 31, 2011 (Quarter), were in compliance with the 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 Resolutions E-3951, E-4177, E-4276 and E-4362, as well as D.10-12-034 in which the Commission authorized PG&E participation in convergence bidding. 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. A summary of the information included in each confidential attachment are:

Confidential Attachment A, *Transactions*, provides a summary of all transactions executed during the Quarter, which are less than five years in length and that have not been filed through a separate advice filing or application.

Confidential Attachment B, *Counterparty Information*, provides a summary of all non-investment grade counterparties with whom PG&E transacted and also the top 10 counterparties by volume during the Quarter.

Confidential Attachment C, *Electric Transactions Summary* provides a summary of the electric transactions executed during the Quarter.

Confidential Attachment D, *Natural Gas Transactions Summary* provides a summary of the gas transactions executed during the Quarter.

Confidential Attachment E, *Other Transactions*, provides the executed transactions resulting from non-energy related products (for Quarter Four, this is not applicable).

Confidential Attachment F, *Key Briefing Packages*, provides a summary of all relevant Procurement Review Group (PRG) agendas and presentations presented.

Confidential Attachment G, *Independent Evaluator Reports*, provides any relevant Independent Evaluator (IE) report completed in the Quarter (for Quarter Four, this is not applicable).

Confidential Attachment H, *New Contracts Executed/Contracts Amended*, provides a summary of all agreements executed in the Quarter.

Confidential Attachment I, *Summary of Retained Generation Investments Completed*, provides a summary of any investments completed related to new retained generation facilities.

Confidential Attachment J, *System Load Requirements/Conditions*, provides a summary of all information related to addressing PG&E's residual net open position in relation to the transactions included in Confidential Attachment A, *Executed Transactions*.

Confidential Attachment K, *Risk Management Strategy Communication and Management Disclosure*, provides a summary of all risk strategies and issues communicated to PG&E's senior management and its PRG.

Confidential Attachment L, *Reasonable Number of Analyses Models, Description of Models, and How Models Work*, provides a summary of any models related to the relevant transactions identified in this filing.

Confidential Attachment M, *Transactions Subject to a Strong Showing*, provides a summary and supporting documentation of strong showing transactions, which are disclosed in this attachment.

Finally, during the Quarter, PG&E engaged in other procurement activities which are approved through a separate regulatory process. This includes the continued to conduct wholesale competitive solicitations relating to the following programs: (1) its 2011 Renewable Portfolio Standard and (2) Qualifying Facility/Combined Heat and Power (QF/CHP) Settlement,

which became effective on November 23, 2011. Consistent with the QF/CHP Settlement, on December 7, 2011, PG&E issued its first of three CHP-only Request for Offers (RFO).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, Gary Jeung, Senior Director, Renewable Energy, and Marino Monardi, Director, Portfolio Management consistent with the delegation of authority effective for the period.

2. The briefing package provided to the ultimate decision maker.

The “decision-maker” for a particular contemplated transaction depends on many factors, such as term, volume, and notional value. 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 transactions that required senior management approval are included in Confidential Attachment K, *Risk Management Strategy Communication and Management Disclosure*.

In addition, copies of presentations made by PG&E to its PRG during the Quarter are included in Confidential Attachment F, *Key Briefing Packages*.

¹ The QF/CHP Settlement Agreement indicates that each IOU shall conduct three RFOs during the “Initial Program Period” (or 48 months following the Settlement Effective Date) exclusively for CHP resources as a means of achieving its megawatt and greenhouse gas emissions reduction targets (see Term Sheet, Sections 4.2 and 5.1).

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 CRR Allocation and Auction Process – In October 2011, PG&E participated in Tier 1, Tier 2, and Auction of the California Independent System Operator’s (CAISO) monthly Congestion Revenue Rights (CRR) allocation process to procure CRRs for November 2011. In November 2011, PG&E participated in Tier 1, Tier 2, and Auction of the CAISO’s monthly CRR allocation process to procure CRRs for December 2011. In December 2011, PG&E participated in Tier 1, Tier 2, and Auction of the CAISO’s monthly CRR allocation process to procure CRRs for January 2012. Relevant information is included in Confidential Attachment F, Key Briefing Packages, Confidential Attachment K, *Risk Management Strategy Communication and Management Disclosure*, and Confidential Attachment L, *Reasonable Number of Analyses Models, Description of Models, and How Models Operate*.
- CAISO 2012 CRR Allocation, Tiers 2 and 3 and Auction Process – PG&E participated in Tier 2 (submitted nominations on October 13, 2011), Tier 3 (submitted nominations on October 27, 2011), and the Annual Auction (submitted on November 10, 2011) of the CAISO’s annual release process for 2012 CRRs. Relevant information is included in Confidential Attachment F, Key Briefing Package and Confidential Attachment K, *Risk Management Strategy Communication and Management Disclosure*.
- Convergence Bidding – The CAISO initiated its convergence bidding market on February 1, 2011. In D.10-12-034, the Commission authorized PG&E’s participation in convergence bidding using three specific strategies. PG&E monitored the activities in this market during the Quarter. In addition, as required

in D.10-12-034, PG&E submitted its monthly convergence bidding reports: October 14, 2011 (for September 2011 activities); November 14, 2011 (for October 2011 activities); and December 14, 2011 (for November activities). Additional relevant information is included in Confidential Attachment F, Key Briefing Packages.

- 2012 Resource Adequacy Solicitation (issued on September 14, 2011) – PG&E issued a Resource Adequacy (RA) Solicitation on September 14, 2011 for:
(1) Offers for PG&E to Buy (System RA – July through August 2012); and
(2) Bids for PG&E to Sell (Bay Area and Other Areas Local RA – January through December 2012 and System RA – January through April and October through December 2012). PG&E executed transactions resulting from the 2012 RA Solicitation during the Quarter. Relevant information is included in Confidential Attachment E, *Other Transactions*, Confidential Attachment F, *Key Briefing Packages*, and Confidential Attachment H, *New Contracts Executed Contracts Amended*.
- Electronic Auctions – On November 15-17, 2011 and December 13-15, 2011, PG&E issued a request for (1) Intercontinental Exchange (ICE) Cleared Financial Products and (2) Physical inter-SC trades. For the financial product, PG&E requested that all products sought will be cleared on ICE and participants must have this ability currently established. Products sought by PG&E include swaps and options having a delivery period within the next 12 months. For the physical inter-SC trades, PG&E stated that it is requesting to buy firm energy as described by and with delivery terms prescribed by WSPP Service Schedule C for Firm Capacity/Energy Sale or Exchange. Relevant information is included in Confidential Attachment F, *Key Briefing Package* and Confidential Attachment H, *New Contracts Executed Contract Amended*, and Confidential Attachment J – *System Conditions*.

- RA Solicitation – On December 12-14, 2011, PG&E also issued a solicitation for system RA products for February 2012. Relevant information is included in Confidential Attachment F, Key Briefing Package and Confidential Attachment H, *New Contracts Executed Contract Amended, and Confidential Attachment J – System Conditions*.
- Voice and On-Line Brokers – PG&E evaluates 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. Activities include forward transactions with deliveries starting within the next quarter and up to one quarter in duration in various markets such as term, balance of month (BOM), day-ahead, and hour-ahead transactions.
- Bilateral - Direct with Counterparties – While PG&E executes its transactions through brokers and electronic exchanges, PG&E also executes exercises directly with counterparties. These transactions may include intra-day, day-ahead, term, and forward transactions for various products.
- Agreements Arising from the QF/CHP Program Settlement (For informational purposes only) – On December 16, 2010, the Commission adopted D.10-12-035 approving the QF/CHP Program Settlement that resolves past commercial and payment disputes among the Investor-Owned Utilities and QF counterparties² and establishes a future program for developing new CHP resources in California. The

² The Settlement Parties include Southern California Edison Company, PG&E, San Diego Gas & Electric Company; representatives from the California Cogeneration Council, the Independent Energy Producers Association, the Cogeneration Association of California, and the Energy Producers and Users Coalition representing QFs/CHP facilities; and The Utility Reform Network and the Division of Ratepayer Advocates representing consumers.

QF/CHP Program Settlement became effective in November 2011. PG&E executed and the Commission approved several new Power Purchase Agreements (PPA) and/or amendments to existing QF PPAs that are consistent with the QF/CHP Program Settlement. These new PPAs and amended existing QF PPAs became effective on December 1, 2011.³ On December 7, 2011, PG&E issued its first CHP RFO.

b) *Justification for Procurement Processes*

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

- 2012 RA RFO (issued on September 14, 2011) – PG&E’s requested offers including: (1) Offers for PG&E to Buy (System RA – July through August 2012); and (2) Bids for PG&E to Sell (Bay Area and Other Areas Local RA – January through December 2012 and System RA – January through April and October through December 2012). PG&E reviewed and evaluated the offers, selected offers based on lowest price and then executed the specific offers that filled PG&E’s RA needs identified for this RFO. Relevant information is included in Confidential Attachment F, Key Briefing Packages, Confidential Attachment E, *Other Transactions*, and Confidential Attachment H, *New Contracts Executed Contracts Amended*.

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

³ Twelve new transactions were bilaterally negotiated during the QF/CHP Program Settlement. In Q1-2011, Commission approved seven new PPAs in D.11-03-010 (known as the “Westside PPAs”) and D.11-03-011 (known as the “Competitive Asset Management PPAs”). In Q2-2011, the Commission approved five PPA amendments with existing QF counterparties—three amendments converting “must-take” generation from existing QF facilities to utility-prescheduled facilities in D.11-06-029 and two PPA amendments with Berry Petroleum in Resolution E-4413.

serve bundled customer load. PG&E estimated that a portion of its generation, imports and load in the months of November 2011, December 2011, and January 2012, remained exposed to congestion risk, and therefore 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 PG&E's energy procurement costs due to electric transmission congestion as measured by the electric To-expiration-Value-at-Risk; and (2) reduce the expected congestion costs that PG&E would incur in its operations. PG&E only sought CRRs that were consistent with PG&E'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 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. Relevant information is included in Confidential Attachment F, Key Briefing Package and Confidential Attachment K, *Risk Management Strategy Communication and Management Disclosure*.

- 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 2012 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 2012 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 and the likelihood of obtaining the CRRs in the monthly CRR processes.

- Convergence Bidding – PG&E continues to monitor and assess its involvement in the convergence bidding markets. Additional relevant information is included in Confidential Attachment F, *Key Briefing Packages*.
- Electronic Auctions – For the auctions issued on November 15-17, 2011 and December 13-15, 2011, PG&E stated that it is requesting to buy firm energy as described by and with delivery terms prescribed by WSPP Service Schedule C for Firm Capacity/Energy Sale or Exchange. PG&E evaluated the submitted offers based on the combination of price, offer constraints, and PG&E need and then executed the appropriate offer. Relevant information is included in Confidential Attachment F, *Key Briefing Package* and Confidential Attachment H, *New Contracts Executed Contract Amended, and Confidential Attachment J – System Conditions*.
- RA Solicitation – On December 12-14, 2011, PG&E also issued a solicitation for system RA products for February 2012. PG&E evaluated the submitted bids based on the combination and price and PG&E need and then executed the appropriate bids. Relevant information is included in Confidential Attachment F, *Key Briefing Package* and Confidential Attachment H, *New Contracts Executed Contract Amended, and Confidential Attachment J – System Conditions*.

- 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. 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 either involve affiliate transactions or utility-owned or utility turnkey bids, and for all competitive RFOs seeking products to satisfy service area need and supply-side resources 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*. However, for the Quarter, there were no IE Reports written related to electric products filed in this report.

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*.

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 the 2012 RA Solicitation conducted in June 2011 and executed agreements and strategies resulting from this solicitation.

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 ICE and the ICE Natural Gas Exchange (ICE/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 month in duration, 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 Federal Energy Regulatory Commission (IFERC) Gas Market Report.
- Bilateral - Commodity Purchases/Sales – PG&E bought and sold gas directly with counterparties in the bilateral market. Spot gas is traded at fixed prices and Gas Daily or CGPR index. Term gas (longer than one-forward-month) is purchased at fixed prices, daily index (Gas Daily or CGPR) or monthly or bid week index (CGPR, NGI, or IFERC) prices.

- 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 accept 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 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.

d) *Justification for Procurement Processes*

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

- 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. PG&E uses the real-time ICE bid/ask prices and ICE weighted average transacted prices, as well as broker quotes and prices from multiple counterparties, as benchmarks for trading. For gas for delivery periods longer than one month, PG&E trades at either a Gas Daily or a monthly or bidweek index (CGPR, NGI, or IFERC) price.

- 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 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/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, IE Reports are required and will be included in Confidential Attachment G, *Independent Evaluator Reports*. PG&E does not have any IE reports to include for Fourth Quarter of 2011.

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 executed term physical gas transactions.

Applicable 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 two agreements related to gas products that apply to this QCR.

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*.

e) ***Other Commodities***

This section is not applicable.

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

Throughout the Quarter, PG&E entered 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 and assessment of products that include Term, such as BOM, and month-ahead transactions, employing both standard and non-standard products, bidding into the Integrated Forward Market (IFM) to meet day-ahead, and real-time short positions. 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.

For daily physical gas transactions, timing of execution is primarily driven by the requirement to match fuel usage and supply on a daily and monthly basis, and by the availability of information impacting expectations for daily dispatch of electric generating units. For transactions one month or longer, PG&E typically fills its forecast short gas positions in month-ahead, seasonal, or annual blocks, depending on the liquidity and prices available in each of these markets.

Detailed explanation/justification for the timing of the transactions is included in 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-Owned Generation resources, PPAs 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 is authorized to 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 (RTM) 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, price forecasts, dispatch costs and current bilateral electric market and forecasts of the CAISO’s IFM prices. The results of this analysis will determine the price PG&E is willing to pay the CAISO to have it meet PG&E’s

forecasted hourly load in the Day-Ahead Market and the costs of each of its dispatchable resources to use to bid these resources into the IFM and Hour-Ahead Scheduling Process/RTM. The CAISO then assures least cost dispatch by considering all resources simultaneously with all transmission constraints.

In the RTM, 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.

Market opportunities in the RTM have been limited 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 monitors the CAISO's Hour-Ahead and RTMs and also submit bids and schedules resources as needed to optimize its generation and market transactions to reduce costs.

c) *Locational Spreads*

During the Quarter, PG&E did not engage in any day-ahead locational basis 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 basis spread transactions in the bilateral market.

d) *PG&E-Owned Generation and Partnership Agreements Conditions During Fourth Quarter 2011*

PG&E received 33 percent of normal rainfall during the Quarter.

Helms was used throughout the quarter as unit availability, system conditions and economics allowed. Helms 2 continued an outage that started in late September. Helms 3 began a maintenance outage on November 12. Helms 1 was forced out while in the pump mode on November 19.

Planned maintenance on conventional hydro during the quarter included work on Balch 1, 2, and 3 (33, 54, and 54 MW, respectively), Caribou 2 and 3 (25 MW ea.), Colgate 2 (175 MW), Cresta 1 and 2 (35 MW ea.), Drum 5 (49.5 MW), Electra 1, 2 and 3 (31, 31, and 37 MW, respectively), Exchequer (89 MW), Haas 1 and 2 (72 MW ea.),

Black 1 and 2 (86 MW ea.), Kerckhoff 2 (155 MW), Kings River (52 MW), Middle Fork 1 (68 MW), Poe 1 and 2 (69 MW ea.), Ralston (88 MW), Rock Creek 1 and 2 (56 MW ea.), Salt Springs 2 (34 MW), and Stanislaus (91 MW).

Forced outages lasting longer than 24 hours at conventional hydro facilities greater than 30 MW in capacity were incurred at Narrows 2 (55 MW) related to governor issues, at Pit 4 Unit 1 (47.5 MW) related to Pressure Release Valve software issues, at Salt Springs Unit 2 (33 MW) due to external line trouble, at Middle Fork Unit 2 (68 MW) and at Ralston (88 MW) both related to external transmission system problems other than catastrophes.

For PG&E's owned fossil generation, maintenance took place at Gateway Generating Station and Colusa Generating Station. At the Humboldt Generating Station, maintenance was done on several of the 10 engines (16.3 MW each). Engine 8 was forced out during the Quarter.

No outages took place at Diablo Canyon Nuclear Plant Units 1 and 2 during the Quarter.

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

e) ***Other Conditions Related to Pipeline Capacity***

- Daily Balancing on California Gas Transmission – Due to reduced pressure on the California Gas Transmission (CGT) pipeline system, CGT issued simultaneous high and low inventory operational flow orders every day from July 8, 2011 through November 30, 2011, requiring shippers to balance gas supply with demand daily. In response, PG&E as gas supplier for electric generation made numerous changes to its daily operating procedures attempting to manage daily imbalances within these new tolerances.

Daily balancing within these tight tolerances is especially difficult for an electric generator, such as PG&E, whose gas-fired generators are dispatched in

day-ahead and real time electricity markets run by the CAISO. Day-ahead generation schedules are not known until after noon the day prior to gas flow, when the CAISO publishes the results of its IFM. This is several hours after the primary markets for day-ahead gas have concluded. Also, the last chance to make changes to gas nominations is 3:00 p.m. on the day of gas flow, prior to the peak hours for electric generation. Gas-fired generators, especially peaking combustion turbines, may be dispatched incrementally or decrementally by the CAISO after 3:00 p.m., changing demand without any ability to manage supply correspondingly.

- Path Cuts – Due to reduced operating pressures, pipeline hydrotesting and maintenance, CGT Redwood and Baja path capacity was reduced during 2011, at times resulting in cuts to PG&E’s supplies flowing on firm transportation contracts.
- Ruby Pipeline Outage and Force Majeure – On December 11, 2011, Ruby Pipeline experienced a fire at a valve yard in a remote area of Cache County, Utah. Ruby declared this an event of force majeure, and shut service on Ruby pipeline starting with the Intraday 1 nomination cycle on December 11, 2011. The outage continued until repairs were made and service restored December 18, 2011, with the Intraday 1 nomination cycle.

Confidential discussion of PG&E’s actions are 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 CPUC-approved Hedging Plan. PG&E executed hedges in accordance with its approved Plan. Financial hedges were 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 IFERC. A list of information regarding Consumer Risk Tolerance notifications and management disclosures is included in Confidential Attachment K, *Risk Management Strategy*.

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, *New Contracts Executed/Contracts Amended*. All final RFO contracts subject to QCR filings along with the IE reports, if any, are reported in both Confidential Attachments G, *Independent Evaluator Reports* and Confidential Attachment H, *New Contracts Executed/Contracts Amended*.

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 OP 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 Fourth 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 Fourth Quarter, this section does not apply to PG&E.

E. Cost Allocation Mechanism

For the Quarter, PG&E did not transact for any Cost Allocation Mechanism (CAM)-elected resources. However, on November 8, 2011, PG&E held a joint PRG-CAM meeting to discuss its QF/CHP RFO.

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

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