

PUBLIC UTILITIES COMMISSION

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October 6, 2005

Advice Letter 2694-E

Rose de la Torre  
Pacific Gas & Electric  
77 Beale Street, Room 1088  
Mail Code B10C  
San Francisco, CA 94105

Subject: Sixth gas supply plan for the California Department of Water Resources tolling agreements

Dear Ms de la Torre:

Advice Letter 2694-E is effective October 4, 2005. A copy of the advice letter is returned herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director  
Energy Division



**Pacific Gas and  
Electric Company®**

**Brian K. Cherry**  
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August 1, 2005

**Advice 2694-E**  
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Submission of the Sixth Gas Supply Plan (GSP-6) for the California Department of Water Resources (CDWR) Tolling Agreements (October 1, 2005 through March 31, 2006)**

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its sixth Gas Supply Plan (GSP-6), as required by the Commission letter dated July 14, 2005.<sup>1</sup> That letter approved PG&E's Advice Filing 2620-E, PG&E's fifth Gas Supply Plan (GSP-5), and its supplement 2620-E-A. The letter also instructed PG&E to file its sixth Gas Supply Plan (GSP-6) on August 1, 2005 (for the period October 2005 through March 2006).

**Purpose**

Decision (D.) 02-12-069 and D.03-04-029 direct PG&E to consolidate fuel procurement strategies for the CDWR contracts and to submit them to CDWR and the Commission as a "Gas Supply Plan" on a semi-annual basis. PG&E submitted its first Gas Supply Plan (GSP-1) on March 25, 2003 for the period March 1, 2003 through August 31, 2003. The Commission adopted GSP-1 in Resolution E-3825, with modifications. PG&E submitted its second Gas Supply Plan (GSP-2) on August 15, 2003 for the period October 1, 2003 through March 31, 2004. The Commission adopted GSP-2 in Resolution E-3845, with modifications and ordered PG&E to submit GSP-3 no later than February 1, 2004 for the period April 1, 2004 through September 30, 2004. The Commission adopted GSP-3 on May 24, 2004, and ordered the submission of GSP-4 on August 2, 2004. The Commission approved GSP-4 effective December 14, 2004, and ordered the submission of GSP-5 on February 1, 2005, for the April 2005 through September 2005 period. The Commission adopted GSP-5 and its supplement, effective July 14, 2005, and ordered the submission of GSP-6 on August 1, 2005, for the October 2005 through March 2006 period.

Pursuant to Ordering Paragraph (O.P.) 5 of Resolution E-3845, PG&E continues to provide detailed information concerning its analyses used in its decision making process and provides a thorough discussion concerning the analytical tools and resources used

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<sup>1</sup> See July 14, 2005, letter from CPUC Energy Division Director Sean Gallagher approving GSP-5 and its supplement effective July 14, 2005.

to assess future gas market price volatility in connection with its risk management strategies.

GSP-6 follows the same format as PG&E's previously approved plans and includes revisions to the gas hedging strategy to match that proposed in PG&E's Electric Portfolio Gas Hedging Plan which was filed with the CPUC (see Advice 2685-E filed July 15, 2005). GSP-6 also addresses gas supply for the Kings River CDWR contract and the transition of the Coral contract to a tolling agreement.

PG&E provides a confidential copy of GSP-6 in Attachment A to this Advice Letter. Attachments B through D are appendices to GSP-6. Confidential Appendices A, B, and C contain Sample Calculations, additional volume and cost forecasts, additional hedging strategies, and an addition to CDWR's Fuels Protocols to facilitate inter-utility trading on behalf of CDWR.

### **Protest Period**

Anyone wishing to protest this filing may do so by sending a letter by **August 22, 2005**, which is 20 days from 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:

IMC Branch Chief – Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, 4<sup>th</sup> Floor  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: [jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov) and [jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov)

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address. The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company  
Attention: Brian K. Cherry  
Director, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177  
Facsimile: (415) 973-7226  
E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)

**Effective Date**

PG&E is requesting the effective date of this filing be **October 1, 2005**.

**Notice**

In accordance with General Order 96-A, Section III, Paragraph G, 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 list for Rulemaking (R.) 01-10-024, R. 04-04-003. Address change requests should be directed to Rose De La Torre at (415) 973-4716 (RxDd@pge.com). Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs/>



Director - Regulatory Relations

cc: Service List - R. 01-10-024, R.04-04-003

**Attachments**

Confidential Attachment A – Gas Supply Plan (GSP-6) for CDWR Tolling Agreements

Confidential Attachment B – GSP-6 Confidential Appendix A

Confidential Attachment C – GSP-6 Confidential Appendix B

Confidential Attachment D – GSP-6 Confidential Appendix C

# 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)**

Utility type:

ELC       GAS  
 PLC       HEAT     WATER

Contact Person: Bernard Lam

Phone #: (415) 973-4878

E-mail: bxic@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) #: **2694-E**

Subject of AL: Submission of the Sixth Gas Supply Plan (GSP-6) for the California Department of Water Resources (CDWR) Tolling Agreements (October 1, 2005 through March 31, 2006)

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 #:

Decision 02-12-069 and D.03-04-029

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: Not applicable

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: 10/1/2005

No. of tariff sheets: 0

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: None

Service affected and changes proposed<sup>1</sup>: N/A

Pending advice letters that revise the same tariff sheets: N/A

**Protests 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  
Attention: Tariff Unit  
505 Van Ness Ave.,  
San Francisco, CA 94102  
jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Pacific Gas and Electric Company  
Attn: Brian K. Cherry  
Director, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, CA 94177  
E-mail: PGETariffs@pge.com

<sup>1</sup> Discuss in AL if more space is needed.

**PG&E Gas and Electric Advice  
Filing List  
General Order 96-A, Section III(G)**

ABAG Power Pool  
Accent Energy  
Aglet Consumer Alliance  
Agnews Developmental Center  
Ahmed, Ali  
Alcantar & Elsesser  
Anderson Donovan & Poole P.C.  
Applied Power Technologies  
APS Energy Services Co Inc  
Arter & Hadden LLP  
Avista Corp  
Barkovich & Yap, Inc.  
BART  
Bartle Wells Associates  
Blue Ridge Gas  
Bohannon Development Co  
BP Energy Company  
Braun & Associates  
C & H Sugar Co.  
CA Bldg Industry Association  
CA Cotton Ginners & Growers Assoc.  
CA League of Food Processors  
CA Water Service Group  
California Energy Commission  
California Farm Bureau Federation  
California Gas Acquisition Svcs  
California ISO  
Calpine  
Calpine Corp  
Calpine Gilroy Cogen  
Cambridge Energy Research Assoc  
Cameron McKenna  
Cardinal Cogen  
Cellnet Data Systems  
Chevron USA Production Co.  
Childress, David A.  
City of Glendale  
City of Healdsburg  
City of Palo Alto  
City of Redding  
CLECA Law Office  
Constellation New Energy  
Cooperative Community Energy  
CPUC  
Creative Technology  
Cross Border Inc  
Crossborder Inc  
CSC Energy Services  
Davis, Wright Tremaine LLP  
Davis, Wright, Tremaine, LLP  
Defense Fuel Support Center  
Department of the Army  
Department of Water & Power City

DGS Natural Gas Services  
DMM Customer Services  
Douglass & Liddell  
Downey, Brand, Seymour & Rohwer  
Duke Energy  
Duke Energy North America  
Duncan, Virgil E.  
Dutcher, John  
Dynergy Inc.  
Ellison Schneider  
Energy Law Group LLP  
Energy Management Services, LLC  
Enron Energy Services  
Exelon Energy Ohio, Inc  
Exater Associates  
Foster Farms  
Foster, Wheeler, Martinez  
Franciscan Mobilehome  
Future Resources Associates, Inc  
G. A. Krause & Assoc  
Gas Transmission Northwest Corporation  
GLJ Energy Publications  
Goodin, MacBride, Squeri, Schlotz &  
Hanna & Morton  
Heeg, Peggy A.  
Hitachi Global Storage Technologies  
Hogan Manufacturing, Inc  
House, Lon  
Imperial Irrigation District  
Integrated Utility Consulting Group  
International Power Technology  
Interstate Gas Services, Inc.  
J. R. Wood, Inc  
JTM, Inc  
Kaiser Cement Corp  
Korea Elec Power Corp  
Luce, Forward, Hamilton & Scripps  
Marcus, David  
Masonite Corporation  
Matthew V. Brady & Associates  
Maynor, Donald H.  
McKenzie & Assoc  
McKenzie & Associates  
Meek, Daniel W.  
Mirant California, LLC  
Modesto Irrigation Dist  
Morrison & Foerster  
Morse Richard Weisenmiller & Assoc.  
Navigant Consulting  
New United Motor Mfg, Inc  
Norris & Wong Associates  
North Coast Solar Resources  
Northern California Power Agency

Office of Energy Assessments  
Palo Alto Muni Utilities  
PG&E National Energy Group  
Pinnacle CNG Company  
PITCO  
Plurimi, Inc.  
PPL EnergyPlus, LLC  
Praxair, Inc.  
Price, Roy  
Product Development Dept  
R. M. Hairston & Company  
R. W. Beck & Associates  
Recon Research  
Regional Cogeneration Service  
RMC Lonestar  
Sacramento Municipal Utility District  
SCD Energy Solutions  
Seattle City Light  
Sempra  
Sempra Energy  
Sequoia Union HS Dist  
SESCO  
Sierra Pacific Power Company  
Silicon Valley Power  
Simpson Paper Company  
Smurfit Stone Container Corp  
Southern California Edison  
SPURR  
St. Paul Assoc  
Stanford University  
Sutherland, Asbill & Brennan  
Tabors Caramanis & Associates  
Tansev and Associates  
Tecogen, Inc  
TFS Energy  
Transwestern Pipeline Co  
Turlock Irrigation District  
U S Borax, Inc  
United Cogen Inc.  
URM Groups  
Utility Cost Management LLC  
Utility Resource Network  
Wellhead Electric Company  
Western Hub Properties, LLC  
White & Case  
WMA

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**Gas Supply Plan 6**  
**for**  
**CDWR Tolling Agreements**

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**October 1, 2005**

**through**

**March 31, 2006**

**REDACTED**



***Pacific Gas and  
Electric Company™***

**August 1, 2005**

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## 1. Executive Summary

On July 9, 2004, PG&E filed its Long Term Procurement Plan and the California Public Utilities Commission (Commission) subsequently approved this plan with modifications on December 16, 2004 (D.04-12-048). While PG&E's procurement plan focuses on the procurement of electricity, it also discusses the contribution of fuel (natural gas) to the value and price sensitivity of Pacific Gas and Electric Company's (PG&E) open market position. Fuel management for the California Department of Water Resources (CDWR) contracts is a part of the strategy generally discussed in PG&E's procurement plan.

On April 3, 2003, the Commission approved the Operating Agreement between CDWR and PG&E (D.03-04-029). The Operating Agreement was subsequently modified as a result of a Joint Petition to Modify by SDG&E and PG&E which was adopted by the Commission on October 28, 2004 (D.04-10-020). The Operating Agreement enables PG&E to perform the operational, dispatch, and administrative functions for CDWR's Long-Term Power Purchase Contracts as CDWR's limited agent. The Operating Agreement requires PG&E to submit a semi-annual fuel plan for these gas-tolling arrangements to CDWR and the Commission for review and approval.

PG&E submitted its fifth Gas Supply Plan (GSP-5, April 1, 2005 through September 30, 2005) on February 1, 2005 (Advice 2620-E). PG&E filed a supplement to GSP-5 on June 16, 2005 to update its [REDACTED] and to report the results of its RFO for natural gas storage (Advice 2620-E-A). That plan and its supplement were approved by the Commission's Energy Division on July 14, 2005.

This document represents PG&E's sixth semi-annual Gas Supply Plan (GSP-6), covering the period October 1, 2005 through March 31, 2006 (PG&E [REDACTED]

[REDACTED]. The contents of this plan are consistent with the format used in PG&E's first five gas supply plans. PG&E is scheduled to submit its next plan, GSP-7, on February 1, 2006.

As discussed in previous gas supply plans, PG&E has concluded that it is [REDACTED]

[REDACTED] In addition, PG&E concluded that it is cost effective and appropriate for PG&E in its role as CDWR's limited agent, [REDACTED].

[REDACTED]

[REDACTED]

- The PPM Energy contract does not allow CDWR to become the Fuel Manager.
- The Coral contract, which becomes a tolling agreement on January 1, 2006, only allows CDWR to deliver gas to the California border.

PG&E has set a number of goals for the term of GSP-6. In general, it will continue to build a flexible gas portfolio to manage the fluctuating gas loads from the tolling agreements. This strategy is consistent with PG&E's experience managing these agreements since January 1, 2003. PG&E will adhere to the CDWR Fuels Protocols, which were issued in completed form on December 8, 2003, and modified in August 2004 (see Appendix D). PG&E proposes to conduct a Request for Offers (RFO) for [REDACTED]

[REDACTED]

PG&E proposes a new gas hedging framework in this plan that is

[REDACTED]

[REDACTED]

## 2. Introduction

On July 9, 2004, PG&E filed its Long Term Procurement Plan and the California Public Utilities (Commission) subsequently approved this plan with

modifications on December 16, 2004 (D.04-12-048). While PG&E's plan focuses on the procurement of electricity, it also discusses the contribution of fuel (natural gas) to the value and price sensitivity of PG&E's open market position. Fuel management for the CDWR contracts is a part of the strategy generally discussed in PG&E's procurement plan.

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This document represents PG&E's sixth semi-annual Gas Supply Plan (GSP-6), covering the period October 1, 2005 through March 31, 2006 (PG&E

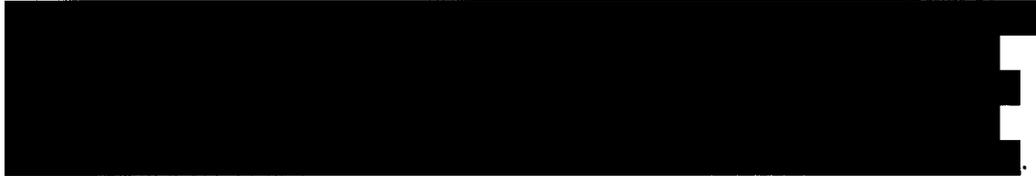
[REDACTED]. The contents of this plan are consistent with the format used in PG&E's first five gas supply plans. PG&E is scheduled to submit its next plan, GSP-7, on February 1, 2006.

Of the 21 CDWR contracts allocated to PG&E, 12, representing seven different counterparties, have unexpired provisions for gas tolling. CDWR's Kings River Conservation District (Kings River) Power Purchase Agreement was added in July 2005. The six counterparties include Calpine, CalPeak, Coral, GWF, Kings River, PPM Energy, and Wellhead. These contracts represent 1,733 MW of dispatchable contract capacity for 2006. CDWR's Coral contract transitions to a tolling agreement on January 1, 2006.

Each of the CDWR tolling agreements has a variety of options for CDWR including the options to supply fuel (tolling) and to manage deliveries to the plants. [REDACTED]

PG&E submitted a draft of GSP-6 to its Procurement Review Group (PRG) and CDWR on July 18, 2005.<sup>1</sup>

### 3. CDWR Tolling Agreements Managed by PG&E



#### a. For Contracts Where Generator Provides Gas

This section provides a brief description of the terms of the generator contracts and fuel plans and a forecast of the expected cost of fuel provided under these plans for the period October 1, 2005 through March 31, 2006, based on market conditions as of [REDACTED].



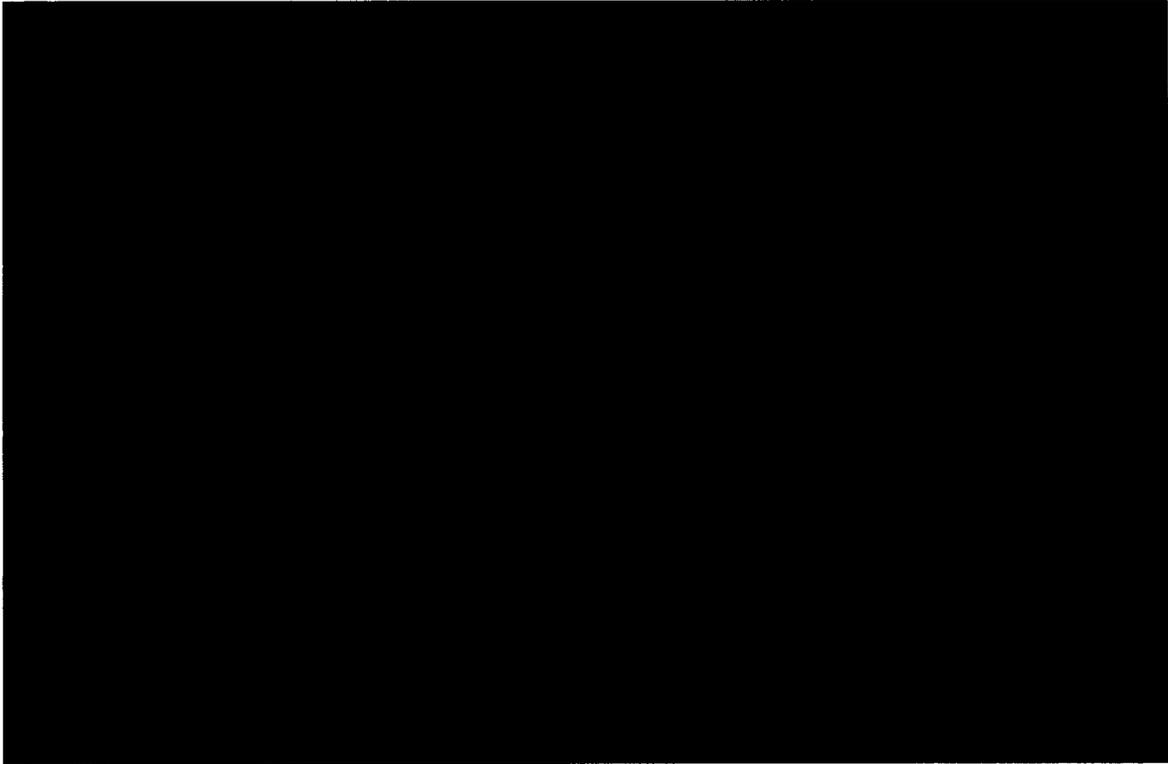
##### i. Period of Supply

The following chart shows the responsibility for fuel supply for each contract. The months shaded in black are covered by this fuel plan and the months indicated by cross-hatch shading will be covered by GSP-6. The vertical white diamonds represent the deadlines for CDWR [REDACTED].



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<sup>1</sup> PG&E submitted GSP-6 to DWR on July 17, 2005, to allow CDWR and PG&E's PRG the required two weeks to review the draft plan and then to meet the August 1, 2005 filing date established by the Commission in Resolution E-3845.



ii. Projected Monthly and Daily Gas Volume

Gas volumes for each of the CDWR contracts were forecasted using GenTrader, a software tool for power generation asset optimization (produced by Power Costs, Inc., of Norman, Oklahoma). GenTrader simulates optimal dispatch of all PG&E resources, including the CDWR contracts, based on each resource's specific operating constraints, flexibility and market prices. The system enables PG&E to minimize generation costs and maximize the value of generation assets, including CDWR contracts, Utility Retained Generation (URG) and market purchases.

The key assumptions behind the forecast include:

- Current electric and gas forward curves;
- Operating characteristics of URG including hydro and pumped storage;

- Operating characteristics and contract terms of the CDWR contracts; and
- Operating characteristics and contract terms of PG&E contracts.

Pacific Gas and Electric Company  
Table 1<sup>2</sup>

Million MMBtu

Contract	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Total
Calpine 3							
Calpine 4							
CalPeak Panoche							
CalPeak Vaca Dixon							
GWF Hanford/Henrietta							
GWF Tracy							
PPM Energy							
Wellhead Gates							
Wellhead Panoche							
Wellhead Fresno							
Kings River (new)							
Coral							
Totals							

The volumes included in Tables 1, 2, and 3 were forecasted [redacted]. Table 1 includes the [redacted]; Table 2 includes [redacted] and Table 3 includes [redacted].

<sup>2</sup> Note that column and row totals may appear incorrect because of number rounding.

<sup>3</sup> [redacted]

<sup>4</sup> [redacted] is in-the-money, that is, the incremental cost of generation is lower than the current market price of power.

[REDACTED] PG&E has run this model under a range of assumptions and has found that the [REDACTED]

Pacific Gas and Electric Company  
Table 2

[REDACTED]  
Million MMBtu

Contract	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Total
Calpine 3	[REDACTED]						
Calpine 4	[REDACTED]						
CalPeak Panoche	[REDACTED]						
CalPeak Vaca Dixon	[REDACTED]						
GWF Hanford/Henrietta	[REDACTED]						
GWF Tracy (III)	[REDACTED]						
PPM Energy	[REDACTED]						
Wellhead Gates	[REDACTED]						
Wellhead Panoche	[REDACTED]						
Wellhead Fresno	[REDACTED]						
Kings River (new)	[REDACTED]						
Coral	[REDACTED]						
Totals	[REDACTED]						

5 [REDACTED]

Pacific Gas and Electric Company  
Table 3

Million MMBtu

Contract	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Total
Calpine 3							
Calpine 4							
CalPeak Panoche							
CalPeak Vaca Dixon							
GWF Hanford/Henrietta							
GWF Tracy (III)							
PPM Energy							
Wellhead Gates							
Wellhead Panoche							
Wellhead Fresno							
Kings River (new)							
Coral							
Totals							

### iii. Gas Pricing Mechanisms

Complete descriptions of the generator fuel cost mechanisms are included in Appendix A of PG&E's GSP-2<sup>6</sup> and are incorporated in this plan by reference because they have not changed. Below is a summary table that describes the approach of each mechanism by generator:

<sup>6</sup> Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003 through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), Appendix A.

Pacific Gas and Electric Company Table 4 Generator Fuel Cost Mechanisms	
Generator	Pricing Mechanism Approach
CalPeak	PG&E Citygate: Monthly, daily, and intra-day indexes, adders for market risk (variable), LDC transport, fuel management and risk management
Calpine	PG&E Citygate: Daily and intra-day indexes, adders for market risk (fixed) and LDC transport
Coral	Starting 1/1/06, Topock into SoCalGas: Monthly NGI bidweek index only, no adders
GWF	PG&E Citygate: Monthly and daily indexes, adders for market risk (fixed daily, variable monthly), LDC transport, fuel management, taxes & fees
Kings River	No Generator fuel option
PPM Energy	Alberta (AECO 'C'): Monthly & daily indexes (C\$), adders for pipeline variable charges and shrinkage, and heat rate (based on dispatch levels)
Wellhead	PG&E Citygate: Monthly, daily and intra-day indexes, adders for fuel management, risk management, LDC transport, mainline extension, taxes & fees

iv. Projected Monthly and Seasonal Gas Costs

Table 5 provides the results of applying the gas pricing mechanism in each contract and Generator Fuel Plan to the volumes forecasted with [REDACTED]. PG&E calculated the cost through the end of [REDACTED] (see Appendix A for sample calculations).<sup>7</sup> The estimated six-month total gas cost under this scenario is [REDACTED] of higher market prices for gas, the anticipated addition of CDWR's Kings River Power Purchase Agreement to PG&E's allocated CDWR contract portfolio, and the transition of CDWR's Coral agreement to a tolling agreement beginning January 1, 2006.

<sup>7</sup> Since CDWR's Kings River agreement does not allow for generator-supplied fuel, PG&E uses its projected cost in place of a generator forecast. Although PG&E has not been formally allocated the Kings River agreement by the CPUC, by pleading dated March 14, 2005, PG&E indicated that it had agreed with CDWR to take operational responsibility for this contract on an interim basis. In its comments on the assigned Commissioner's ruling on the Reallocation of the California Department of Water Resources Contracts, PG&E stated that it does not object to being allocated the Kings River Conservation District contract. (Comments of Pacific Gas and Electric Company on the Reallocation of the California Department of Water Resources Contracts, R.04-04-003, March 18, 2005, p. 5).

Pacific Gas and Electric Company Table 5							
(Million \$)							
Contract	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Total
Calpine 3							
Calpine 4							
CalPeak Panoche							
CalPeak Vaca Dixon							
GWF Hanford/Henrietta							
GWF Tracy (III)							
PPM Energy							
Wellhead Gates							
Wellhead Panoche							
Wellhead Fresno							
Kings River (new)							
Coral							
Totals							

**b. For Contracts Where PADLA Provides Gas**

This section provides a [REDACTED]. Again, the forecast is for the period October 1, 2005 through March 31, 2006, and is based on market conditions as of [REDACTED]. This plan assumes that PG&E [REDACTED]. The remainder of this plan is devoted to presenting the details of [REDACTED].

**i. Period of Supply**

In this section, PG&E presents the [REDACTED].

**ii. Projected Monthly and Daily Gas Volume**

The projected monthly and daily gas volumes [REDACTED] listed in Tables 1, 2 and 3. [REDACTED].

iii. Projected Monthly and Seasonal Gas Costs

Table 6 is the result of applying PG&E's [REDACTED]. The estimated six-month total gas cost [REDACTED].

Pacific Gas and Electric Company Table 6 (Millions \$)							
Contract	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Total
Calpine 3	[REDACTED]						
Calpine 4	[REDACTED]						
CalPeak Panoche	[REDACTED]						
CalPeak Vaca Dixon	[REDACTED]						
GWF Hanford/Henrietta	[REDACTED]						
GWF Tracy (III)	[REDACTED]						
PPM Energy	[REDACTED]						
Wellhead Gates	[REDACTED]						
Wellhead Panoche	[REDACTED]						
Wellhead Fresno	[REDACTED]						
Kings River (new)	[REDACTED]						
Coral	[REDACTED]						
Totals	[REDACTED]						

[REDACTED]

<sup>8</sup> Note: this cost does not include PG&E's administrative cost for procuring fuel for the CDWR contracts. Administrative costs are included in PG&E's General Rate Case.

[REDACTED]

#### 4. Gas Supply Strategies Where PADLA Supplies Gas

This section describes, in detail, the portfolio [REDACTED].

##### a. Six-Month Goals

PG&E has established the following goals for the term of GSP-6:

- Update the physical position of the CDWR portfolio including mark-to-market at the end of each trading day;
- [REDACTED];
- [REDACTED];
- [REDACTED];
- Working with CDWR, implement PG&E's [REDACTED];
- Adhere to the CDWR Fuels Protocols (see Appendix B of GSP-3 for the first release of the completed protocols).

##### b. Recommended Gas Supply Portfolio

###### i. Contractual Periods

[REDACTED]

- [REDACTED];

---

<sup>9</sup> The availability of this capacity was confirmed by a letter agreement between CDWR and PPM Energy on November 10, 2003. [REDACTED]

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED].

In addition, it is important to note that most of the tolling agreements allow CDWR to become the Fuel Supplier, the Fuel Manager, or both. The Fuel Supplier purchases gas and delivers it to the Fuel Manager. [REDACTED]

The Fuel Manager schedules deliveries to the plant and manages monthly and daily balancing. [REDACTED]

**Fuel Supplier:** Purchases gas and delivers it to the Fuel Manager at the PG&E Citygate or a pre-determined location.

**Fuel Manager:** Receives gas from the Fuel Supplier and manages daily and monthly deliveries from the Citygate (or other point) to the plant.

Based on these benefits, PADLA intends to take over the following roles:

---

<sup>10</sup> By "receiving the benefits of being Fuel Manager" PADLA retains balancing rights of the Fuel Manager without physically nominating gas to the generating facility on a daily basis. Per its PPA with CDWR, CalPeak has the right to select the Fuel Manager and to charge a fee to CDWR for Fuel Manager services when CDWR is not Fuel Manager. CDWR is currently negotiating a fuel plan that would allow CDWR to become Fuel Manager.

Pacific Gas and Electric Company Table 7 PADLA Role Elections		
Generator	Fuel Supplier	Fuel Manager
Calpine 3 & 4		
PPM Energy		
GWF		
Kings River	Yes	Yes
Wellhead		
CalPeak	Yes	Yes (receive the benefits)
Coral		

PADLA will build its [REDACTED] for the term of GSP-6 to match the [REDACTED] shown in Section [REDACTED].

Pacific Gas and Electric Company Table 8 PADLA Supply Portfolio				
Supplier	Term	Volume	Location	Pricing
Calpine 3 & 4				
PPM Energy				
Coral				
Kings River				
Wellhead				
CalPeak				
GWF				
Balancing				

[REDACTED]

[REDACTED]



ii. **Approved Suppliers**

The list of gas suppliers approved by CDWR for use by PG&E, SCE and SDG&E is now part of CDWR's Fuel Protocols (see Appendix B of GSP-3). CDWR has added additional approved suppliers to the list this year.

PG&E will work closely with CDWR to ensure that CDWR remains within its credit limits and, if necessary, will request that CDWR increase credit limits.

PG&E will use CDWR-approved counterparties for financial trading per Resolution E-3825.

In addition, CDWR is using NYMEX Over-the-Counter (OTC) clearing services through a brokerage account to reduce counterparty credit risk and to reduce collateral requirements.

---

<sup>11</sup> PG&E will conduct the RFO in the manner specified by the CPUC in its procurement decisions and similar to the process used for the gas storage RFO specified in Gas Supply Plan 4.

<sup>12</sup> Coral has the right to vary the delivered capacity under the PPA from 50 to 850 MW at Coral's option depending on time of year, location (NP15 or SP15), and time of delivery.

iii. Supply Basin Mix

PG&E has no particular supply basin preference. Philosophically, it is better to build basin diversity into the portfolio; however, the same diversity benefits can be achieved by choosing particular suppliers (based on their supply portfolios) for gas purchased at the California Border or PG&E Citygate.

[REDACTED]

[REDACTED]:

- [REDACTED]
- [REDACTED]
- [REDACTED]

iv. Interstate Pipeline Mix

As stated above, PADLA's pipeline choices will be driven by market conditions at the PG&E Citygate, California border and in the supply basins. The results of PADLA's needs analysis dictates the choice of pipeline path.

The first consideration in evaluating interstate pipeline capacity is the

[REDACTED]

PG&E reviewed the market value of interstate and intrastate capacity for the year beginning October 1, 2005. The results (in Table 9) show that the market prices [REDACTED] (see Appendix A, page A-3 for a sample calculation).

[REDACTED]

Pacific Gas and Electric Company  
Table 9

Path	Pipelines	Basis Differential (Oct - Sep)	Pipeline Variable Charges, Fees & Fuel	Implied Reservation	Implied Reservation % of Full Tariff
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes: All prices and costs are US \$/MMBtu as [REDACTED]. Rates on California Gas Transmission (CGT) Baja and Redwood are [REDACTED].

That said, the PPM Energy contract includes 51,840 MMBtu/day of firm capacity on TransCanada Alberta, TransCanada British Columbia (BC) and Gas Transmission Northwest (GTN). The full reservation charges for each pipeline are included in the fixed capacity charge under CDWR's Power Purchase Agreement with PPM Energy. If PPM Energy supplies fuel under the contract, it has the benefit of the pipeline capacity when the plant is not dispatched. If CDWR supplies fuel, it has the option to receive the benefit of the capacity when the plant is not dispatched (this is the main benefit of supplying fuel under this contract).

[REDACTED]

Note that PPM Energy is the shipper of record on GTN and will not release the capacity to CDWR, per CDWR's letter agreement with PPM Energy. PPM delivers CDWR gas to the plant when it is dispatched or to CDWR at Malin when the plant is not dispatched.

v. Pricing Mechanisms

There are several standard pricing mechanisms that are accepted practice in the gas industry. PG&E adheres to these practices. The choice of a particular pricing method is based on the risk position of PG&E's electric portfolio, the nature of the load that the gas is supplying, and the amount of credit consumed by the method.

PADLA intends to use the following pricing methods for the majority of gas purchases (Table 10). Other methods may be added as market conditions change. PADLA may use a combination of these methods to buy gas transportation at a floating price.

Pacific Gas and Electric Company Table 10 Pricing Methods	
Pricing Method	Description
Intra-day Fixed	Fixed price for nominations during cycles 2 – 4
Daily Fixed	Fixed price for gas the following day (cycle 1)
Monthly Fixed	Fixed price for a fixed daily volume for a calendar month
Daily Index	Floating price for a single day, published on the day of flow by <i>Gas Daily</i> (or Monday for Sat, Sun & Mon)
Monthly Index	Floating price for a fixed daily volume for a calendar month, published after the close of the NYMEX contract for the month of flow by <i>Natural Gas Intelligence</i> (NGI)

vi. CDWR's Fuels Protocol

CDWR issued the first completed version of its Fuels Protocols on December 8, 2003, and they were implemented immediately. The protocols were included in GSP-3 as Appendix B.

In the resolution approving PG&E's GSP-1 (Res. E-3825), the Commission directed PG&E to work with CDWR and the other utilities to develop "a proposal showing how unused pipeline or storage capacity can be made available to the other utilities in connection with their CDWR contract related duties or brokered." Since this process will involve all three utilities and CDWR, PG&E proposes to add it to CDWR's Fuel Protocols. In the resolution approving PG&E's GSP-2 (Res. E-3845), the Commission stated:

In response, PG&E suggests that such a proposal is better suited for DWR's Fuels Protocols because it would involve the other utilities as well as DWR. We agree with PG&E's premise that coordination with the other utilities is necessary to implement such a proposal and, thus, find the utility's response to this issue satisfactory. We will expect PG&E to actively pursue these matters in the course of their discussions with DWR concerning the Fuels Protocols or other appropriate forum. (Res. E-3845, p. 12.)

On August 12, 2004, CDWR held a teleconference with representatives of Southern California Edison, San Diego Gas and Electric Company and PG&E to discuss a proposed process for trading unused storage, pipeline capacity and gas between the utilities on behalf of CDWR. Subsequent to that meeting, CDWR issued an amendment to its Fuels Protocols authorizing the utilities to exchange products and services on behalf of CDWR and outlining the process for facilitating such an exchange. This amendment and

the accompanying transaction confirmation form are included as Appendix D of GSP-5.

**c. Recommended Interstate/Canadian Pipeline Plan**

As stated above, PADLA's pipeline choices will be driven by market conditions and the needs of its portfolio. [REDACTED]

**d. Recommended Intrastate/Distribution Pipeline Plan**

i. Intrastate Pipeline Capacity

[REDACTED]

ii. Distribution Pipeline Capacity

Each of the facilities under contract with CDWR and allocated to PG&E has existing transportation contracts with their local distribution companies (LDCs). The generators will continue to contract for distribution capacity with their LDC.

**e. Recommended Storage Plan**

In its supplement to GSP-5, PG&E presented the results of its firm storage Request for Offers (RFO) conducted on behalf of [REDACTED]

[REDACTED]

[REDACTED]

With this feedback in mind, PG&E will conduct another firm storage RFO on behalf of CDWR for [REDACTED]

[REDACTED]

## 5. Recommended Gas Price Risk Management Strategies

The gas price risk management strategy associated with the dispatchable CDWR contracts is part of the overall PG&E electric and electric fuels portfolio management program. In its approved Short-term Procurement Plans, PG&E describes its management of the total dollar exposure of its electric, PG&E fuel and CDWR fuel positions.<sup>1</sup> Starting in 2004, PG&E began measuring the exposure of its electric portfolio against a risk tolerance limit using a to-expiration value-at-risk (TeVAr) measure.<sup>2</sup> From a regulatory perspective, the approved risk notification level for 2004 as measured by TeVaR for the entire portfolio is [REDACTED]

[REDACTED]

On July 15, 2005 PG&E filed its Electric Portfolio Gas Hedging Plan with the CPUC.<sup>4</sup> This plan is intended to define a framework for PG&E's management of the gas price risk [REDACTED]

[REDACTED]

### a. Risk Assessment Over Next Six Months

[REDACTED]

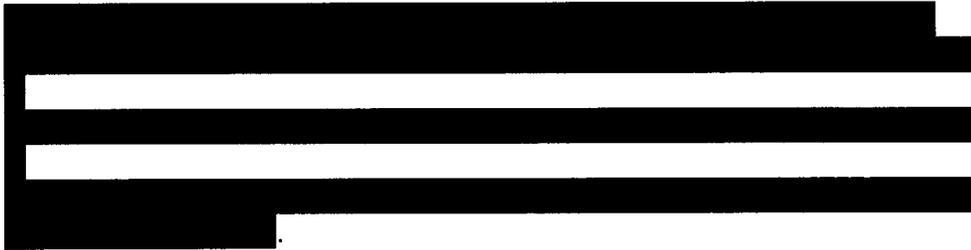
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<sup>1</sup> Pacific Gas and Electric Company's 2005 Short-Term Procurement Plan, Chapter 3.

<sup>2</sup> *Ibid*, p. 3-3.

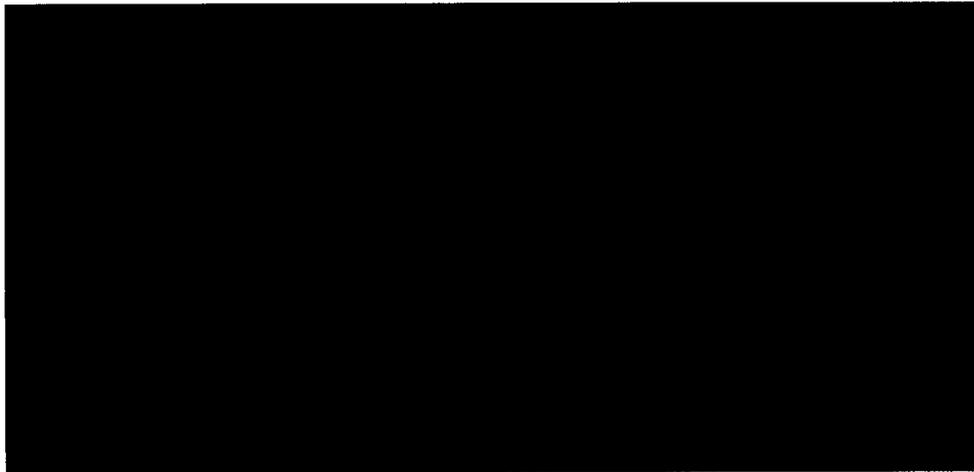
[REDACTED]

<sup>4</sup> Advice Letter 2685-E.



Pacific Gas and Electric Company

Figure 2



**b. Risk Management Goals**

PG&E has established the following risk management goals for the term of GSP-6:

- Evaluate the risk position of PG&E's electric portfolio and the contribution of CDWR's tolling agreements to that position on a weekly basis;
- Measure the electric portfolio TeVaR as described in PG&E's 2005 Procurement Plan on a weekly basis and manage TeVaR within the levels described above;
- Implement PG&E's new gas hedging framework including operating targets, product mix targets, and execution strategy;

- [REDACTED]
- [REDACTED]

**c. CDWR Prior Review and Consent**

To date, all of CDWR's counterparties for financial transactions have required CDWR to consent to and execute each transaction. As long as these counterparties maintain this requirement, PG&E will continue to submit all financial transactions to CDWR for review, approval and execution, as described in CDWR's Fuels Protocols.<sup>5</sup>

**d. Risk Management Budget**

In past gas supply plans, PG&E provided estimates of the maximum cost that PADLA could incur if CDWR hedged [REDACTED]  
[REDACTED], PG&E believes there is no need for such an estimate in this plan.

**e. Hedging Strategy**

- i. [REDACTED]  
[REDACTED]

---

<sup>5</sup> Gas Supply Plan 3 for DWR Tolling Agreements, April 1, 2004 through September 30, 2004, Pacific Gas and Electric Company, February 2, 2004, Advice Letter 2471-E, Appendix B.

[REDACTED]

[REDACTED]

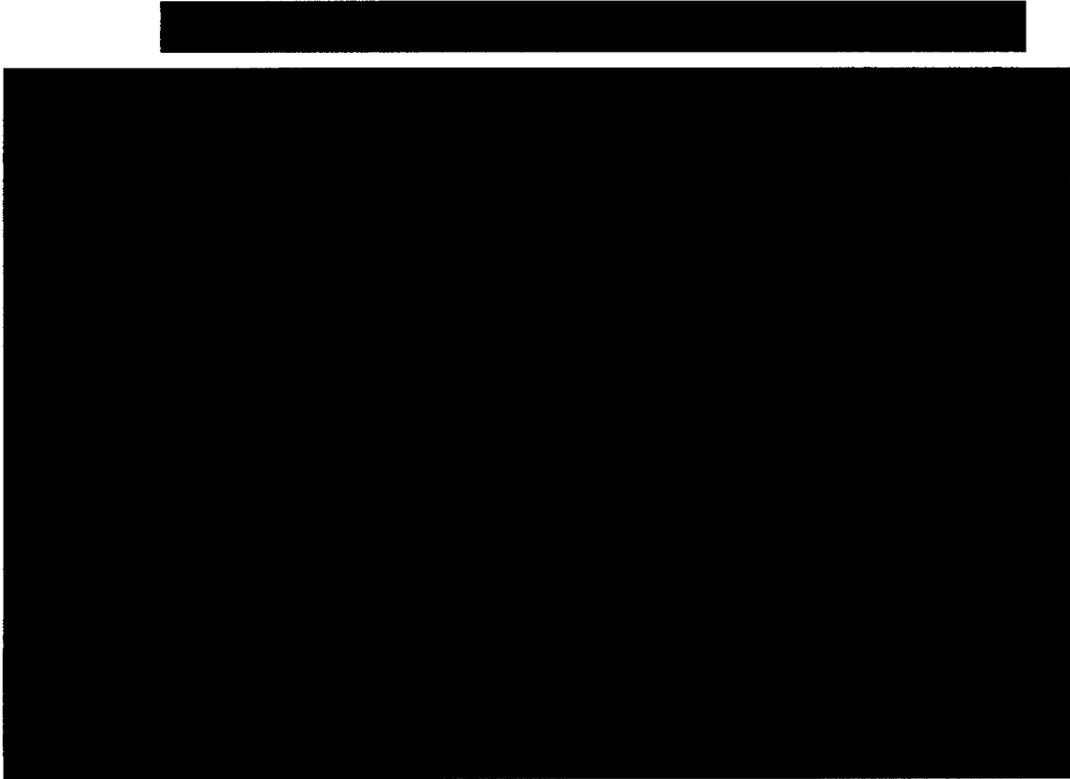
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6 [REDACTED]

<sup>7</sup> D.02-12-074.

Pacific Gas and Electric Company

Figure 3



Pacific Gas and Electric Company  
Table 11


The table is a grid with 8 columns and 3 rows. The top row contains the title 'Pacific Gas and Electric Company Table 11'. The middle and bottom rows contain various cells, many of which are redacted with black boxes.

ii. [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

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9 [Redacted]

[REDACTED]

Pacific Gas and Electric Company Table 12							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

10

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Pacific Gas and Electric Company Table 13							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

iii. [REDACTED]

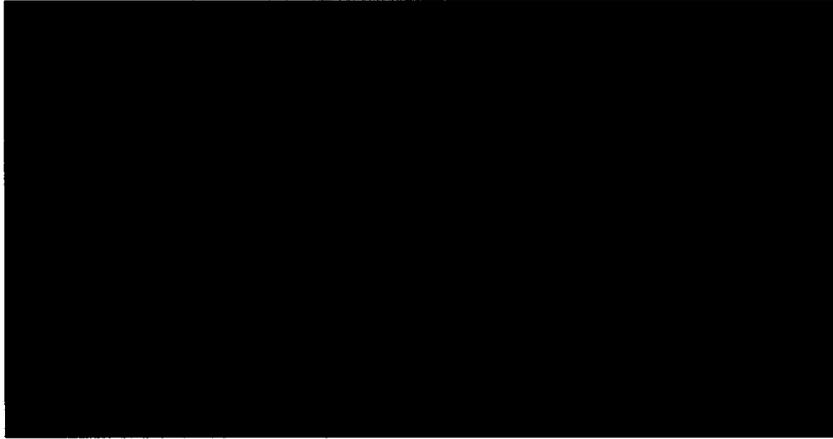
[REDACTED]

[REDACTED]

[Redacted]

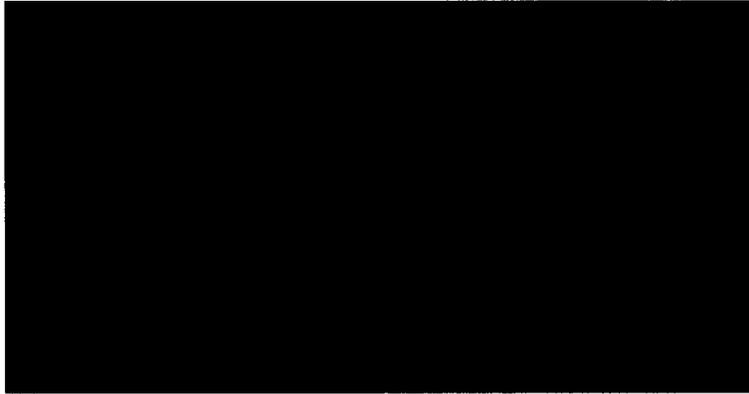
Pacific Gas and Electric Company  
Figure 4

[Redacted]



Pacific Gas and Electric Company  
Figure 5

[Redacted]



[Redacted]

[Redacted]

[Redacted text block]

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iv.

[Redacted text block]

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[Redacted text block]



[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Large redacted text block]

**g. Recommended Use of Risk Management Products**

Table 16 provides a list of financial risk management tools<sup>12</sup> [REDACTED] for the CDWR portfolio during the term of GSP-6. As PG&E and CDWR gain more experience managing this portfolio, PG&E anticipates that it may add more financial products to future gas supply plans for Commission and CDWR approval.

Pacific Gas and Electric Company Table 16 Risk Management Tools		
Tools	Physical Product Use	Financial Product Use
Fixed Price <sup>13</sup> (daily, balance of month, monthly)	Buy forward gas at a fixed price	None
Index/Swap for Fixed <sup>14</sup>	Buy forward at monthly index	Swap floating price for fixed
Index/Futures+Basis <sup>15</sup>	Buy forward at monthly index	Long futures & Long basis swap
Swing Swap <sup>16</sup>	Buy forward at monthly index	Swap monthly floating price for daily floating price
Index/Buy Call Option <sup>17</sup>	Buy forward at monthly index	Buy call option
Index/Buy Collar <sup>18</sup>	Buy forward at monthly index	Buy collar (sell put, buy call)
Call Spread <sup>19</sup>	Buy forward at monthly index	Buy call option, sell call option at a higher strike price
Synthetic Call Option <sup>20</sup>	Buy forward at monthly index	Swap floating price for fixed and Buy put option

Table 17 lists the most common hedging objectives PG&E anticipates using during the term of GSP-6 and ranks its choice of tools to achieve these objectives. The locations listed in the objectives [REDACTED]

<sup>12</sup> Storage, which is a physical tool for managing gas price risk in winter, is covered in Section 4.e, above.

<sup>13</sup> Referred to as "Gas Purchases" in Authorized Procurement Products table in D.03-12-062. PG&E, like SCE, needs the ability to transact daily gas products.

<sup>14</sup> Referred to as "Financial Swap" in Authorized Procurement Products table in D.03-12-062.

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

<sup>17</sup> Referred to as "Financial call (or put) option" in Authorized Procurement Products table in D.03-12-062.

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

<sup>20</sup> See Section 5.g.i for a description of this tool.

[REDACTED]

Pacific Gas and Electric Company Table 17 [REDACTED]		
Objectives	Physical/Financial Tools	Notes
[REDACTED]	[REDACTED]	[REDACTED]

i. Illustrative Examples

In order to streamline this plan, the illustrative examples of hedge transactions provided in GSP-2 are not repeated here but are incorporated by reference, since they will not change.<sup>21</sup> The example of a hedge using a synthetic call option was provided in GSP-4 is not repeated here but is incorporated by reference.<sup>22</sup>

[REDACTED]

<sup>21</sup> Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003 through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), pp. 32-35.

<sup>22</sup> Gas Supply Plan 4 for DWR Tolling Agreements, October 1, 2003 through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003.



## 6. Gas Operations Plan

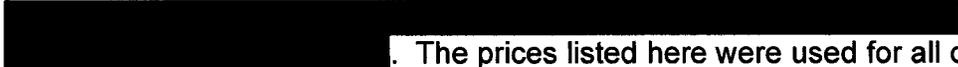
In order to streamline this plan, the Gas Operations Plan provided in GSP-2 is not repeated here but is incorporated by reference from GSP-2.<sup>23</sup> Should the substance of PG&E's operations change in the future, PG&E will include a revised Gas Operations Plan in future Gas Supply Plans.

## 7. Market Assessment for the Next 12 Months

This section provides the background information needed to produce this plan and to assess the costs and risks of the strategies.

### a. Gas Price Forecasts

Rather than use a forecast of gas prices based on econometric models, PG&E prefers to use forward price quotes from physical and financial markets. The following forward gas prices are based on a combination of physical and financial market quotes from market makers. These prices reflect market conditions as of the end of the trading day,



. The prices listed here were used for all of the analysis presented in this plan.

#### i. Basin and Border Prices

Pacific Gas and Electric Company Table 18a Basin Forward Prices All prices are in U.S. \$/MMBtu							
Basin	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Alberta							
Rocky Mountain							
Permian							
San Juan							

<sup>23</sup> Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003 through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), pp. 36-41.

Pacific Gas and Electric Company Table 18b Basin Forward Prices All prices are in U.S. \$/MMBtu						
Basin	Mar-06	Apr-06	May-06	Jun-06	Jul-06	
Alberta						
Rocky Mountain						
Permian						
San Juan						

Pacific Gas and Electric Company Table 19a Border Forward Prices All prices are in U.S. \$/MMBtu							
Border	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
PG&E Citygate							
Topock							
Malin							
Sumas (BC)							

Pacific Gas and Electric Company Table 19b Border Forward Prices All prices are in U.S. \$/MMBtu					
Border	Mar-06	Apr-06	May-06	Jun-06	Jul-06
PG&E Citygate					
Topock					
Malin					
Sumas (BC)					

## b. Gas Supply Outlook

### i. Production Outlook for Gas Basins

#### Rocky Mountain and San Juan Basins

Gas production in the Rockies continues to grow, offsetting modest declines in the San Juan and Permian basins. Rockies regional exports increased 0.5 Bcf/d in the first quarter of 2005 compared with the same period 2004. CERA expects Rocky Mountain productive

capacity to reach 7.69 Bcf/d in 2005, a 4.2 percent increase from 2004.

Rockies gas traded at an \$0.85 and \$0.90/MMBtu discount to the NYMEX Henry Hub contract last summer (April 2004 through October 2004) and winter (November 2004 through March 2005), respectively. Looking forward, Rockies gas is currently trading at a [REDACTED] discount to the NYMEX for remaining summer 2005 (July through October) and at a [REDACTED] discount for coming winter.

San Juan productive capacity is expected to decline 2 percent per year between 2005 and 2010. San Juan gas traded at an \$0.83/MMBtu discount to NYMEX for the summer of 2004, and a \$1.05/MMBtu discount last winter. San Juan gas is currently trading at a [REDACTED] discount to NYMEX for the remainder of this summer 2005 (July-October) and at a [REDACTED] discount for winter 2005/6.

#### Permian Basin

Permian gas traded at a \$0.93/MMBtu discount to NYMEX last winter and a \$0.55/MMBtu discount last summer. The Permian basin is currently trading at a [REDACTED] discount to NYMEX for the remaining summer of 2005 and at a [REDACTED] discount for winter 2005/6. Permian supplies are expected to remain a marginal source of California supply.

#### California Production

Like other mature producing basins, California production capacity is expected to decline annually over the next several years. CERA expects capacity to decline by 50,000 MMBtu/day in 2005.

#### Alberta and British Columbia

Like Rocky Mountain gas, Canadian supplies will play a growing role in meeting future gas demand in California and the U.S. as a whole.

In Alberta, production capacity in the Western Canadian Supply Basin (WCSB) is expected to grow 200,000 MMBtu/day each year for 2005 and 2006. Record drilling and growth in coal bed methane production will drive the increases.

Canadian rig counts (WCSB and BC) reached 593 rigs in February 2005, the highest level recorded by Baker Hughes.

PIRA estimates coal bed methane production in the WCSB at 120-240 MMcf/day in late 2004.

WCSB gas at the AECO 'C' hub gas traded at a \$1.05/MMBtu discount to NYMEX last winter and a \$0.89/MMBtu discount last summer. AECO gas is now trading at a [REDACTED] discount to Henry Hub for remainder of this summer and at a [REDACTED] discount for winter 2005/2006.

Sources: PIRA, Gas Production Outlook: Regional, May 23, 2005. CERA's No Rest for the Weary: North American Production Set to Be More Turbulent than in 2004.

ii. Potential Supply Concerns

PG&E has no supply shortage concerns for the term of GSP-6.

iii. Anticipated Pipeline Outages

PG&E regularly monitors the pipelines' Web sites for scheduled outages. Monitoring these and other pipeline notices is part of PG&E's gas scheduler's duties.

**c. Regulatory Outlook Not Specific to PG&E**

i. California Public Utilities Commission

Application 04-12-004

On December 2, 2004, Southern California Gas Company (SoCalGas) and San Diego Gas and Electric Company (SDG&E) filed an application requesting authority to integrate their gas transmission rates, establish firm access rights, and provide off-system gas transportation services. Specifically, Application 04-12-004 proposes to revise SoCalGas and SDG&E's rates to combine the transmission costs of the integrated SoCalGas and SDG&E transmission systems, to establish a separate reservation charge for firm access rights into the systems, and to establish an in-kind fuel charge for transmission service. The Application also proposes new service offerings for off system deliveries.

On May 24, 2005, a Ruling was issued that bifurcated this proceeding such that Phase I would address the integration of SoCalGas and SDG&E gas transmission rates, and Phase II would address firm access rights and off-system deliveries. Hearings on Phase I issues are scheduled for September 2005.

ii. Federal Energy Regulatory Commission

There are a number of cases at the federal level that may impact fuel purchases over the next twelve months. Cases involving PG&E directly are discussed in Section d. Regulatory Cases Involving PG&E. The remaining federal cases include:

1. Standard Market Design (SMD) Notice of Proposed Rulemaking (NOPR) (RM01-12-000) – FERC’s proceeding regarding standardizing the rules for power markets. The FERC issued its white paper on its proposed SMD in April 2003 and is currently engaging in regional conferences to discuss regional flexibilities that may be encoded into the final rule. The Energy Bill legislation currently before Congress mandates that FERC may not issue any final SMD rule before 2007.
2. Natural Gas Pipeline Negotiated Rate Policies and Practices, Docket No. PL02-6-000. The Commission issued a policy statement in July 2003 modifying its negotiated rate policy. The FERC has modified its Policy concerning negotiated rates to continue to permit the flexible, efficient pricing of pipeline capacity in a transparent manner, while ensuring the mitigation of market power. The modifications include a new prohibition of the use of gas basis differentials to price negotiated rate transactions.
3. California Independent System Operator (CAISO) Market Design 2002 (MD2002) Plan (ER02-1656) – This case continued western price mitigation and established a bid cap of \$250/MWh and set up the Automated Mitigation Provision (AMP) that applies only if prices are greater than \$91.87/MWh. The MD02 plan has yet to be fully implemented by the CAISO. The Commission recently issued an order substantially resolving seven elements of California’s MD02 proposal representing both reliability tools and market efficiency improvements. The seven issues addressed are the following: (1) The Flexible Offer Obligation; (2) the Residual Unit Commitment Process; (3) the Simplified Hour-Ahead Market; (4) Ancillary Services; (5) Marginal Losses; (6) Constrained Output Generators; and (7) Virtual Bidding. The major unresolved issue is that of Resource Adequacy. The order defers ruling on that issue to wait and see the CPUC’s ruling on that issue which is to come out sometime this summer. The order also defers ruling on remaining market redesign issues including Market Mitigation until after the CPUC’s Resource Adequacy decision is made public. Other unresolved issues include Allocation of Congestion Revenue Rights, Existing Transmission Contracts (ETCs), and

Seller's Choice Contracts (SCCs). The draft order directs additional information be submitted on ETCs and recognizes that there will be transitional issues with incorporating existing contracts including SCCs into the new market design. The draft order also directs the FERC Staff to hold a technical conference on Congestion Revenue Rights (CRRs).

4. Price Discovery in Natural Gas and Electric Markets, Docket No. PL03-3-000. The Commission voted on a policy statement that takes steps to encourage further voluntary participation in the index building process by identifying certain minimum practices that if followed by data providers, would establish a "safe harbor" for any errors that may occur in data submission. The submitters would be protected from any FERC penalties should they follow these minimum practices. The practices include: (1) requiring data providers to report the information through someone other than the traders; (2) having a code of conduct; (3) having an error resolution process in place; and (4) reporting transaction specific data (i.e., price volume, buy/sell indicators, location, date/time, term), and having a data retention and review process. In addition, the policy statement states that index developers should have a code of conduct/confidentiality provision in place, require the above information be reported on a transaction level basis, have data verification, error correction and monitoring procedures, and allow access to the data by FERC.
5. Standards of Conduct for Transmission Providers Docket No. RM01-10-000 (Order No. 2004) – On November 25, 2003, the Commission issued Order No. 2004, adopting new standards of conduct for Transmission Providers when dealing with their "energy affiliates." The standards of conduct are designed to prevent Transmission Providers (interstate natural gas pipeline and public electric utilities) from giving undue preferences to any of their Energy Affiliates to ensure that transmission is provided on a non-discriminatory basis. The rule addresses many of the concerns of the industry, including retaining the existing exemption for local distribution companies; continuing already granted exemptions from the existing affiliate rule; allowing the sharing of corporate officers, directors and senior manager so long as they do not act as a conduit of information among affiliates; allowing exemptions from the rule for foreign affiliates, affiliated Transmission Providers (interstate gas pipelines or electric public utilities), a holding, parent or service company not involved in transmission or commodity transactions; permitting Transmission Providers to share support employees and field and maintenance employees with their Marketing and Energy

Affiliates; and ensuring system reliability by explicitly allowing Transmission Providers to take whatever steps are necessary in an emergency to ensure reliable operations, including, if necessary, sharing of employees otherwise barred. Major Industry proposals that were not accepted included continuation of the exemption for producer, gatherers and processors, and requests that intrastate pipelines, Hinshaw pipelines and trading and financial affiliates be exempt.

6. **Amendments to Blanket Sales Certificates, Docket No. RM03-10-000 (Order No. 6).** The FERC voted on a final rule that issues a set of market behavior rules designed to help prevent market abuse, provide a more stable marketplace and create an environment that will attract needed investment capital in the electric and natural gas industries. The market behavior rules will alert sellers to various types of prohibited behavior. The rules also contain flexibility to allow for new and unexpected practices. The rule contains provisions relating to: market manipulation, reporting, and record retention. If a seller is found to have engaged in prohibited behavior, the seller will be subject to disgorgement of unjust profits and non-monetary remedies such as revocation of the seller's market-based rate authority or blanket certificate authority. Commissioner Massey went on record to state that he believes that the Commission should not limit itself to disgorgement of profits as its only remedy. The new rules are designed to provide more effective remedies on behalf of customers and to provide those entities with market-based rates or blanket gas certificates appropriate rules respecting market conduct with a time-limited third-party complaint window. The rule became effective on December 26, 2003.
  
7. **Kern River Gas Transmission Company, Docket No. RP04-274-000.** The Commission has issued an order setting Kern River's April 30, 2004, Section 4 rate case filing for hearing. Kern River's proposal involves a \$40.1 million increase in its jurisdictional cost of service, to approximately a \$347.4 million overall cost of service. The cost of service is based on a base period ending January 31, 2004 through October 31, 2004, and consists of \$34.1 million in total Operation and Maintenance expenses, plus depreciation, depletion and amortization of gas and general plant in service, income and other taxes, and an overall after-tax return of 9.59 percent. The proposed return reflects an overall cost of debt of 6.62 percent annually and a rate of return on equity of 15.1 percent. Further, Kern River proposes a rate base of \$1,803.8 million and a decrease in projected throughput from 630,415 MDth to 572,174 MDth based on actual quantities transported. Kern River also proposed a

separate subclass of transmission plant consisting of compressor engines and to establish an annual depreciation accrual rate of 9.92 percent. Kern River also wants to increase the annual depreciation accrual rates for transmission plant other than compressors for book accounting purposes only from 2.0 percent to 3.39 percent and to implement a negative salvage rate of 0.21 percent.

8. **Reporting by Transmission Providers on Vegetation Management Practices Related to Designated Transmission Facilities**, Docket No. EL04-52-000. The Commission issued a vegetation management order requiring all entities that own, operate or control designated transmission facilities to report on their vegetation management practices by June 17, 2004. The order was directed to transmission providers, regardless of whether they are subject to the FERC's jurisdiction as a public utility. Designated transmission facilities are power lines of 230 kilovolts or higher as well as tie-line interconnection facilities between control areas or balancing authority areas (regardless of voltage rating) and "critical" lines as previously designated by a regional reliability council. The order directed transmission providers to do the following: (1) Describe in detail the **vegetation management practices and standards that the provider uses for vegetation control near designated transmission facilities**; (2) list those designated facilities under the provider's control; (3) indicate how often the facilities are inspected for vegetation management purposes and indicate when the most recent survey was completed; (4) indicate whether any necessary remediation has been completed as of June 14, 2004; and (5) describe any factors that prevent or unduly delay adequate vegetation management.
  
9. **Williston Basin Interstate Pipeline Company, Docket No. RP00-463-006**. The Commission issued an order reinstating its policy of permitting interstate natural gas pipeline companies to limit the selective discounts they offer to shippers to the primary receipt and delivery points contained in their contracts. The Commission's order is in response to a remand by the U. S. Court of Appeals for the D.C. Circuit in a case brought by Williston challenging the Commission's previous orders. The Commission required Williston Basin to modify its tariffs to permit a shipper with a discounted rate to retain its discount when using secondary points or segmenting its capacity, if a similarly situated shipper is receiving a discount at those points. The DC Circuit Court was concerned that the Commission's orders would undermine the pipelines' ability to use selective discounts to maximize revenue from customers with competitive alternatives

by making it easier for a shipper to transfer discounts to other points. The Commission's order concludes that FERC cannot justify, as required under Section 5 of the Natural Gas Act, that the intended benefits of increased competition through secondary receipt and delivery points and segmentation would outweigh the costs to captive customers of reduced revenue from selective discounting. Williston may remove its tariff provision that permits shippers to retain discounts at secondary receipt and delivery points and segmentation points and the Commission will allow other pipelines to make tariff filings to remove similar tariff provisions.

10. **Natural Gas Interchangeability, Docket No. PL04-3-000.** The Commission is currently working on a general policy statement relating to the National Gas Counsel's (NGC) progress on interchangeability standards. The technical issues involve but are not limited to: (1) the process to determine limits for hydrocarbon liquid dropout and (2) interchangeability. The interim standards for interchangeability involve: (1) a +/- 4 percent of local historical Wobbe average; (2) subject to 1400 Wobbe Maximum (not expected to fall below 1200); (3) limit Butanes+ to 1.5. mole. %; (4) limit total inerts to 4 percent. The NGC also asked the FERC to consider how it might: (1) frame practical application of these standards; (2) prevent varying local/state standards and; (3) translate the end-user specifications into something that could be used upstream. The NGC has asked that FERC lead a 2-year \$5 million industry-governmental research group to get much needed further data and studies on gas interchangeability.
11. **El Paso Natural Gas Company, Docket No. RP05-219-000.** On March 31, 2005, the Commission issued an order rejecting El Paso's Precedent Agreement (PA) setting forth the terms and conditions of new transportation agreements (TSAs) with SoCalGas. The PA set discounted reservation rates for approximately 750 MMcf/d of capacity from the San Juan Basin and up to 55 MMcf/d with assigned Permian Basin receipt rights, if sufficient San Juan is not available. These new TSAs will become effective beginning September 2006 and replace existing TSAs totaling about 1.2 Bcf/d. As a condition, El Paso agreed to eliminate any forward haul exemption granting zero fuel rates in its next rate case.

iii. Alberta Energy and Utilities Board

NOVA Gas Transmission Ltd. (NGTL) Phase II 2005 General Rate Application

On April 15, 2005, NOVA Gas Transmission Ltd. filed Phase II of its 2005 general rate application. PG&E is intervening as a member of the Western Export Group (“WEG” is comprised of PG&E, SDG&E, SMUD, Terasen, Calpine, Northwest Natural Gas Company, Puget Sound Energy, Inc., Cascade Natural Gas Corporation and Avista Corporation). Currently, PG&E holds 595 MDth per day of capacity on the NOVA pipeline system in the Province of Alberta that is used to deliver Canadian gas to PG&E’s core gas customers for an annual demand cost of \$28 million. Some of the cost allocation methodologies being examined in this proceeding (such as “postage stamp” rate allocation) would increase the costs allocated to export shippers by 9 percent and as high as 20 percent. The impact on core procurement rates would be an annual increase of \$3M-\$6M. Hearings are scheduled for October 2005.

#### **d. Regulatory Cases Involving PG&E**

##### **i. California Public Utilities Commission**

###### **California Gas Capacity Rulemaking 04-01-025**

On January 22, 2004, the CPUC issued its “Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable, Long-Term Supplies of Natural Gas to California” (R.04-01-025) out of a concern that California’s long-term natural gas supplies and infrastructure may be insufficient. PG&E, SDG&E, SoCalGas, and Southwest Gas are respondents in this proceeding, which will have two phases.

Phase I Decision 04-09-022, issued on September 2, 2004, involved interstate pipeline capacity contracts, capacity contract approval procedures, the opening of incremental core storage service to competition, and open access tariff provisions.

On May 11, 2005, a Ruling was issued describing Phase II issues to include: guidelines for infrastructure adequacy and slack intrastate pipeline capacity, the development of a natural gas working group to keep the CPUC informed of the availability to California of gas supply and pipeline capacity, new ratemaking policies, standardization of natural gas quality specifications, interconnections between independent storage providers and third parties, interconnection and operational balancing agreements, and guidelines for liquefied natural gas transportation. Hearings on infrastructure adequacy and slack intrastate pipeline capacity are scheduled for August 2005.

## Incremental Core Storage Application 05-03-001

On March 2, 2004, in compliance with Decision 04-09-022, PG&E filed its Incremental Core Storage Application to “address how much, and by what process, incremental gas storage needs for the core should be met, as well as any other implementation issues that PG&E feels need to be addressed before the provisioning of core storage is opened to independent storage providers.”

The application addresses the volume, and offer and approval processes surrounding solicitation of independent storage providers to serve the incremental gas storage capacity needs of PG&E’s core customers. Specifically, the application addresses: adoption of a 1-day-in-10-year peak day reliability planning standard and the addition of reasonably-priced incremental firm core storage capacity sufficient to meet the 1-day-in-10-year peak day standard, an offering process providing the opportunity for independent storage providers to compete for PG&E’s incremental core storage needs, an approval process for selecting the winning offer, operational and system reliability issues, credit requirements, and cost recovery. Hearings are scheduled for October 2005.

### ii. Federal Energy Regulatory Commission

**EI Paso Capacity Allocation Case (RP00-336)** – FERC ordered Full Requirements (FR) conversion to Contract Demand (CD) and capacity allocation changes to resolve the CD shipper complaint issues. In a July 2003 order, the FERC affirmed its conclusion that Full Requirements (FR) contracts must be converted to Contract Demand (CD) by September 1, 2003. After the contracts are converted, the FR customers will no longer be bound to take all of their transportation service from EI Paso and will be free to contract with other pipelines for additional service. The FERC also affirmed that the capacity that will become available from EI Paso’s Power-Up project must be included in the initial allocation to the converting FR shippers. FERC turned the case back to the parties for settlement discussions, which are ongoing. PG&E is directly involved in this case as a firm shipper on EI Paso.

**CPUC v. EI Paso (RP00-241)** – A FERC ALJ found that EI Paso Pipeline did in fact withhold substantial capacity that it could have made available to its California delivery points during the power crisis, a clear exercise of market power. This decision is yet to be confirmed by FERC. PG&E is involved in the case as a buyer of natural gas during the crisis. On November 14, 2003, the FERC approved a \$1.6 billion settlement between the affiliates of EI Paso Corporation and the California Public Utilities Commission. Under

the deal, El Paso admitted to no wrongdoing and agreed to provide cash and stock to customers and will also deliver \$900 million of natural gas to California over the next 20 years and will reduce the price of power deliveries to the CDWR. The Commission did, however, reject a proposal for dual primary firm delivery points in the settlement. That proposal was designed to maintain California's primary delivery point rights when capacity is resubscribed to upstream points. The case itself is likely to be argued before the D.C. Circuit next fall. The key issue is whether FERC properly approved the settlement of the CPUC complaint case over the objections of the East of California parties. PG&E supports FERC's orders.

**El Paso Natural Gas Company, Docket No. CP05-2-000.** El Paso has filed an application to acquire and convert a crude oil pipeline to a natural gas pipeline (Line 1903 Project). Specifically, El Paso is seeking authority to: (1) acquire, convert and operate approximately 88 miles of 30-inch diameter crude oil pipeline which will extend from an interconnection with El Paso's system near Ehrenberg in La Paz County, Arizona through Riverside County, California to Cadiz in San Bernardino County, California; (2) construct and operate a 6.4 mile, 30-inch diameter pipeline from Cadiz to an interconnection with Mojave Pipeline Company in San Bernadino County; and (3) construct and operate various appurtenant facilities. El Paso estimates that the project will cost \$73,557,000. El Paso is requesting rolled-in rate treatment and PG&E has filed with the commission in support of the project but asking that the rolled-in rate determination be deferred to El Paso's next general rate case.

#### **e. Transactions for Use of Utility-Owned Facilities**

PG&E will transact for utility owed facilities or services subject to this presumption of reasonableness standard per Commission Resolution E-3825:

- a) In cases where an RFO is issued and offers are received, it is presumed that a reasonable price is paid if PG&E's charge to CDWR for the use of the utility's facilities or services is the same as or lower than the bid(s) received.
- b) In cases where there are no competitive alternatives for comparison, it is presumed that a reasonable price is paid if PG&E's charge to CDWR for the use of the utility's facilities or services is either: (1) the tariff recourse rate for the service; or (2) if the price is negotiated, no higher than the volume weighted average of the price the utility negotiated (except for CDWR) for each similar service in the same month and for the same period the service is provided. In

addition, negotiated prices above this weighted average are not per se unreasonable, but require PG&E to show the Commission why they were reasonable.

**f. Transactions Outside the Scope of the Gas Supply Plan**

As authorized by the Commission in Resolution E-3825, PG&E may pursue activities outside the scope of the approved Gas Supply Plan, subject to Commission reasonableness review, in the event extraordinary circumstances arise and it is necessary for PG&E to meet its administrative and operational responsibilities consistent with Commission decisions and with the CDWR Fuels Protocols. PG&E shall document and describe these occurrences including an explanation of resulting ratepayer benefits. Additionally, the PG&E is required to notify CDWR and the Commission's Energy Division when contemplating taking such actions via a letter and obtain CDWR's prior consent where such consent is required by CDWR's Fuels Protocols.

**g. Additional Information**

As directed by the Commission in Resolution E-3825, PG&E will provide additional information regarding this plan to CDWR upon CDWR's request. Also, as directed by the Commission in Resolution E-3845, PG&E will make available: "all pertinent information (e.g., prices, quantities, etc.) and supporting documentation concerning transactions as well as analyses, forecasts and related data used for decision making purposes pursuant to its approved Gas Supply Plans to the Commission staff upon request."

## **Appendix A: Sample Calculations**

**[Redacted in Full]**

**Appendix B: Projected Gas Volume and Cost Beyond  
March 2006  
[Redacted in Full]**

**Appendix C: Risk Management Strategies Beyond  
March 2006  
[Redacted in Full]**