

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



November 7, 2005

Advice Letter 2723-E

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

Subject: Modification of PG&E's Electric Portfolio Gas Hedging Plan as Permitted by
Resolution E-3951

Dear Ms de la Torre:

Advice Letter 2723-E is effective November 1, 2005. A copy of the advice letter is sent herewith for your records.

Sincerely,

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

Sean H. Gallagher
Director
Energy Division



Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

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P. O. Box 770000
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October 14, 2005

Advice 2723-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Modification of Pacific Gas and Electric Company's (PG&E's) Electric Portfolio Gas Hedging Plan as Permitted by Resolution E-3951

PG&E hereby submits for approval modifications to its Electric Portfolio Gas Hedging Plan to the California Public Utilities Commission (Commission or CPUC) as permitted by CPUC Resolution E-3951, issued on September 22, 2005.

Background

PG&E filed its Electric Portfolio Gas Hedging Plan (Plan) (through Advice 2685-E on July 15, 2005) to provide the Commission with the strategy that PG&E will use to manage the gas open position associated with PG&E's electric procurement portfolio in a manner that is complementary to PG&E's approved procurement plans and California Department of Water Resources (CDWR) Gas Supply Plans. PG&E submitted the Plan as a result of increasing natural gas price exposure in its electric portfolio due to the transition from fixed energy to variable gas-indexed pricing for a substantial amount of its Qualifying Facility (QF) contracts.

Resolution E-3951, issued by the Commission on September 22, 2005, approved PG&E's Plan as filed in Advice 2685-E. In Resolution E-3951, the CPUC found that "PG&E has adequately demonstrated the significant impact that the fixed-price QF contract amendment expirations will have on its electric portfolio and, in particular, on its gas open position."¹

Resolution E-3951 also allows PG&E to file modifications to the Plan through an advice letter filing to be reviewed for approval by the Energy Division. Resolution E-3951 notes that a Plan modification advice letter should include a detailed description of the proposed changes, supporting analysis, quantification of the proposal's costs and benefits and demonstrate how the proposal is consistent with the Commission's directives and PG&E's Commission-approved procurement plans. Before any such filing, PG&E is directed to present its proposals to its Procurement Review Group (PRG) in an effort to mutually resolve PRG concerns.

¹ See Resolution E-3951, p. 5

Modifications to PG&E's Gas Hedging Plan

Similar to the electric operating targets already included in PG&E's Short-Term Procurement Plan approved by the Commission in December 2003 (D.03-12-062), PG&E proposed, in Advice 2685-E, a set of gas financial operating targets intended to guide management of its gas open position. In Advice 2685-E, PG&E also put forth a mix of hedging products (forwards and options) from the approved product list in D.03-12-062. The operating targets and product mix were approved through Resolution E-3951.

In light of recent developments including increased price changes and volatilities for gas, PG&E modifies the gas financial operating targets and the mix of hedging products as further explained in Confidential Attachment 1. These modifications should help reduce the exposure of the portfolio to fluctuations in gas prices in the direction of making PG&E better able to manage To Expiration Value at Risk (TeVAr) within Procurement Review Group (PRG) and Commission notification levels.

As directed by Resolution E-3951, PG&E reviewed the proposed modifications detailed in Confidential Attachment 1 with its PRG on September 1, September 30, and October 14, 2005, received no objections from PRG members, and files these modifications within 15 days of the PRG meeting (as instructed by D.03-12-062, p. 16).

Protest Period

Due to the time sensitivity of changes proposed in this modification specifically in regard to management of the PG&E's Electric Portfolio TeVaR, PG&E respectfully requests expedited treatment of this advice filing and a limitation of the protest period so that PG&E can execute hedges before winter begins. PG&E requests that the protest period be shortened from twenty days to ten (10) calendar days after the date of this filing, pursuant to General Order 96-A, Section IV-B Effective Date and Section XV-Exceptions. Anyone wishing to protest this filing may do so by sending a letter by **October 24, 2005**, which is 10 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, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and 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

Effective Date

PG&E is requesting that this filing be approved by **November 1, 2005**, so that the proposed modifications can be completed and hedges can be executed before winter begins.

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 1 – Modifications to PG&E's Electric Portfolio Gas Hedging Plan

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: bxlc@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) #: **2723-E**

Subject of AL: Modification of PG&E's Electric Portfolio Gas Hedging Plan as Permitted by Resolution E-3951

Keywords (choose from CPUC listing): Procurement, Portfolio

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Resolution E-3951

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: N/A

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Resolution Required? Yes No

Requested effective date: 11/1/2005

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 proposed¹: 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**

¹ 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 Texaco
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Commerce Energy
Constellation New Energy
Cooperative Community Energy
CPUC
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
Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome & Home
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
Manatt, Phelps & Phillips
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
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
Transcanada
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