

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



March 17, 2006

Advice Letter 2775-E

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

REGULATORY RELATIONS	
Tariffs Section	
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MAR 17 2006	
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cc to _____	

Subject: PG&E's electric portfolio gas hedging plan update 2006-1 as permitted in Resolution E-3951

Dear Ms de la Torre:

Advice Letter Advice Letter 2775-E is effective March 17, 2006. A copy of the advice letter is returned herewith for your records.

Sincerely,

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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Mail Code B10C
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January 31, 2006

Advice 2775-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Pacific Gas and Electric Company's (PG&E's) Electric Portfolio Gas Hedging Plan Update 2006-1, as Permitted by Resolution E-3951

PG&E hereby submits for approval its Electric Portfolio Gas Hedging Plan Update 2006-1 to the California Public Utilities Commission (Commission or CPUC) as permitted by CPUC Resolution E-3951, issued on September 22, 2005. Details of the update are contained in Confidential Attachment 1.

Background

On July 15, 2005, in Advice 2685-E, PG&E filed its Electric Portfolio Gas Hedging Plan (GHP) to provide the Commission with the strategy that PG&E would use to manage the gas open position associated with PG&E's electric procurement portfolio. PG&E submitted the GHP as a result of increasing natural gas price exposure in its electric portfolio resulting from 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 GHP as filed in Advice 2685-E.

Resolution E-3951 allows PG&E to file modifications to the GHP through an advice letter filing to be reviewed for approval by the Energy Division. PG&E submitted an update to its GHP (GHP Update 1) to the CPUC's Energy Division (ED) for its review and approval on October 14, 2005. The CPUC found that this update was within the scope of the Commission's delegation to the Energy Division to review and approve "minor modifications" to the plan and approved it on November 7, 2005.

PG&E's Gas Hedging Plan Update 2006-1

Per Resolution E-3951, a GHP modification advice letter should include a detailed description of the proposed changes, supporting analysis, quantification of the

proposal's costs and benefits, and a demonstration of 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.

Although near-term natural gas forward prices have declined in recent weeks, longer-dated forward prices remain near historical highs and gas price volatility remains at historically high levels. These gas market conditions have pushed PG&E's electric portfolio risk measure, To Expiration Value at Risk (TeVaR), above PG&E's Commission-approved consumer risk tolerance level. In support of its effort to manage its portfolio TeVaR within PG&E's Commission-approved notification level, PG&E proposes minor modifications to its GHP.

PG&E submits this modification to its GHP (GHP Update 2006-1), as further explained in Confidential Attachment 1, to the ED for its review and approval. This update is a minor modification, much like PG&E's GHP Update 1, because it is limited to updates to hedging targets, time horizon, and execution schedule. All other remaining elements of the GHP that the Commission approved on September 22, 2005, and the GHP Update that Energy Division approved on November 7, 2005, are unchanged.

PG&E presented the substance of this proposed GHP update to its PRG at a meeting on January 12, 2006. PG&E received no opposition from PRG members on this proposed update. PG&E also distributed a draft of this plan to its PRG members on January 24, 2006. Feedback was requested by January 30, 2006. Responses were received from the Division of Ratepayer Advocates (DRA) and from the California Department of Water Resources (DWR). Neither party proposed any changes to the plan.

Protest Period

Anyone wishing to protest this filing may do so by sending a letter by **February 20, 2006**, 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, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and jinj@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 requests that this filing be approved by **March 17, 2006**, so that PG&E can begin executing the proposed incremental hedges by the end of March.

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 – PG&E's Electric Portfolio Gas Hedging Plan Update 2006-1

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 (ID39E)

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Shilpa Ramaiya

Phone #: (415) 973- 3186

E-mail: srrd@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) #: **2775-E**

Subject of AL: Pacific Gas and Electric Company's (PG&E's) Electric Portfolio Gas Hedging Plan Update 2006-1, as Permitted by Resolution E-3951

Keywords (choose from CPUC listing): Procurement, Electric Portfolio

AL filing type: Monthly Quarterly Annual One-Time Other Updates filed as needed

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: Permitted by 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: **03-17-06**

No. of tariff sheets: 0

Estimated system annual revenue effect: (%):TBD

Estimated system average rate effect (%): TBD

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: N/A

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

Protests 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

Utility Info (including e-mail)

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

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 & Eisesser
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
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas 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
Exeter 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.
IUCG/Sunshine Design LLC
J. R. Wood, Inc
JTM, Inc
Kaiser Cement 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