

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



April 6, 2006

Advice Letter 2776-E

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

Reference: Seventh gas supply plan for the State of California Department of Water Resources Tolling Agreements

Dear Mr. Jazayeri:

Advice Letter 2776-E is effective April 1, 2006. A copy of the advice letter is included herewith for your records.

The eighth Gas Supply Plan should be submitted August 1, 2006 for the October 2006 through March 2007 period.

A draft of the eighth Gas Supply Plan should be provided to the Procurement Review Group and the California Department of Water Resources at least two weeks prior to August 1, 2006.

Sincerely,

Sean H. Gallagher, Director  
Energy Division

Mr. Viju Patel  
California Energy Resources Scheduling  
California Department of Water Resources  
3310 El Camino Avenue, Suite 120  
Sacramento, CA 95821

<b>REGULATORY RELATIONS</b>	
Tariffs Section	
M Brown	D Poster
R Dela Torre	S Ramaiya
B Lam	
APR 11 2006	
Records	
Return to	File
cc to	



**Brian K. Cherry**  
Director  
Regulatory Relations

77 Beale Street, Room 1087  
San Francisco, CA 94105

*Mailing Address*  
Mail Code B10C  
Pacific Gas and Electric Company  
P.O. Box 770000  
San Francisco, CA 94177

415.973.4977  
Internal: 223.4877  
Fax: 415.973.9572  
Internet: BKC7@pge.com

February 1, 2006

**Advice 2776-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Submission of the Seventh Gas Supply Plan (GSP-7) for the California Department of Water Resources (CDWR) Tolling Agreements (April 1, 2006, through September 30, 2006)**

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its seventh Gas Supply Plan (GSP-7) for the California Department of Water Resources (CDWR) Tolling Agreements in the period between April 1, 2006, and September 30, 2006.

**Background**

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 semiannual basis. Since March of 2003, PG&E has submitted, and the Commission adopted, six Gas Supply Plans (GSPs), GSP-1 through GSP-6. GSP-6, covering CDWR tolling agreements for the period October 1, 2005, through March 31, 2006, was approved effective October 4, 2005.

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

**Gas Supply Plan 7**

GSP-7 follows the same format as PG&E's previously approved plans and is consistent with PG&E's updated Electric Portfolio Gas Hedging Plan. The Hedging Plan was approved by the CPUC on September 22, 2005, and Gas Hedging Plan Update 1 was

approved on November 8, 2005. PG&E filed Gas Hedging Plan Strategy 2006-1 on January 31, 2006, and is requesting approval by March 17, 2006.

PG&E provides a confidential copy of GSP-7 in Attachment A to this Advice Letter. Attachments B through D are appendices to GSP-7. Confidential Appendices A, B, and C contain sample calculations, additional volume and cost forecasts, and additional hedging strategies.

**Limited Access to Confidential Material:**

The portions of the attachments to this advice letter so marked Confidential Protected Material are in accordance with the May 20, 2003, Protective Order in R. 01-10-024 Regarding Confidentiality of Pacific Gas and Electric Company (PG&E) Power Procurement Information. Included in the filing are redacted versions of documents that contain Protected Material.

**Protest Period**

Anyone wishing to protest this filing may do so by sending a letter by **February 21, 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, 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 [ijnj@cpuc.ca.gov](mailto:ijnj@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)

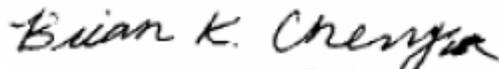
**Effective Date**

PG&E requests the effective date of this filing be **April 1, 2006**.

**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-7) for CDWR Tolling Agreements
- Confidential Attachment B – GSP-7 Confidential Appendix A: Sample Calculations Comparing Generator and PG&E Fuel Purchase Plans
- Confidential Attachment C – GSP-7 Confidential Appendix B: Projected Gas Volume and Cost Beyond GSP-7
- Confidential Attachment D – GSP-7 Confidential Appendix C: Risk Management Strategies Beyond GSP-7

# 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) #: **2776-E**

Subject of AL: Submission of the Seventh Gas Supply Plan (GSP-7) for the California Department of Water Resources (CDWR) Tolling Agreements (April 1, 2006, through September 30, 2006)

Keywords (choose from CPUC listing): Compliance, Procurement

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.02-12-069 and D.03-04-029

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 AL<sup>1</sup>: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: **4-1-06**

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 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**

**Utility Info (including e-mail)**

**Attention: Tariff Unit**

**505 Van Ness Ave.,**

**San Francisco, CA 94102**

**jjr@cpuc.ca.gov and jn@cpuc.ca.gov**

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

---

---

**Gas Supply Plan 7**  
for  
**CDWR Tolling  
Agreements**

---

---

**April 1, 2006**

through

**September 30, 2006**

**REDACTED**



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

**February 1, 2006**

## TABLE OF CONTENTS

1. Executive Summary.....	1
2. Introduction.....	2
3. CDWR Tolling Agreements Managed by PG&E .....	3
a. For Contracts Where Generator Provides Gas .....	3
i. Fuel Supply Timeline .....	3
ii. Projected Monthly and Daily Gas Volume.....	4
iii. Gas Pricing Mechanisms .....	7
iv. Projected Monthly and Seasonal Gas Costs.....	8
b. For Contracts Where PADLA Provides Gas.....	9
i. Period of Supply .....	9
ii. Projected Monthly and Daily Gas Volume.....	9
iii. Projected Monthly and Seasonal Gas Costs.....	10
4. Gas Supply Strategies Where PADLA Supplies Gas .....	11
a. Six-Month Goals.....	11
b. Recommended Gas Supply Portfolio .....	11
i. Contractual Periods .....	11
ii. Approved Suppliers.....	14
iii. Supply Basin Mix .....	15
iv. Interstate Pipeline Mix.....	15
v. Pricing Mechanisms.....	16
vi. CDWR’s Fuels Protocol .....	17
c. Recommended Interstate/Canadian Pipeline Plan.....	18
d. Recommended Intrastate/Distribution Pipeline Plan .....	18
i. Intrastate Pipeline Capacity .....	18
ii. Distribution Pipeline Capacity .....	18

e. Recommended Storage Plan .....	18
5. Recommended Gas Price Risk Management Strategies.....	19
a. Risk Assessment Over the Next Six Months.....	19
b. Risk Management Goals.....	21
c. CDWR Prior Review and Consent .....	22
d. Hedging Strategy .....	22
█ [REDACTED].....	22
█ [REDACTED].....	24
█ [REDACTED].....	27
█ [REDACTED].....	29
e. Recommended Use of Risk Management Products.....	30
i. Illustrative Examples.....	32
█ [REDACTED].....	32
6. Gas Operations Plan .....	33
7. Transactions for Use of Utility-Owned Facilities .....	33
8. Transactions Outside the Scope of the Gas Supply Plan .....	33
9. Additional Information.....	34
10. Physical Gas Trading Between PG&E and CDWR.....	34
11. Market Assessment for the Next 12 Months.....	34
a. Gas Price Forecasts.....	35
i. Basin and Border Prices .....	35
b. Gas Supply Outlook .....	36
i. Production Outlook for Gas Basins.....	36
ii. Potential Supply Concerns.....	38
iii. Anticipated Pipeline Outages.....	38
c. Regulatory Outlook Not Specific to PG&E.....	38

- i. California Public Utilities Commission..... 38
    - ii. Federal Energy Regulatory Commission ..... 38
  - d. Regulatory Cases Involving PG&E..... 43
    - i. California Public Utilities Commission..... 43
    - ii. Alberta Energy Utilities Board ..... 44
    - iii. Federal Energy Regulatory Commission ..... 44

## 1. Executive Summary

This document represents PG&E's seventh semiannual Gas Supply Plan (GSP-7), covering the period April 1, 2006, through September 30, 2006. PG&E [REDACTED]

[REDACTED]. The contents of this plan are consistent with the format used in PG&E's previous gas supply plans. PG&E is scheduled to submit its next plan, GSP-8, on August 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]

- 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's goals for the term of GSP-7 include building 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. This portfolio will include [REDACTED]

To manage price risk, PG&E will continue to manage the gas open position of the CDWR portfolio according to the gas hedging framework described in prior Gas Supply Plans and consistent with PG&E's Electric Portfolio Gas Hedging Plan. The Hedging Plan was approved by the CPUC on September 22, 2005, and Gas Hedging Plan Update 1 was approved on November 8, 2005. PG&E filed Gas Hedging Plan Strategy 2006-1 on January 31, 2006. [REDACTED]



## 2. Introduction

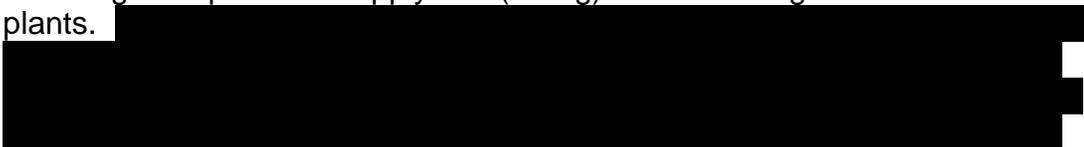
On July 9, 2004, PG&E filed its Long Term Procurement Plan and the California Public Utilities (Commission) subsequently approved this plan with modifications on December 16, 2004 (D.04-12-048). While PG&E's plan focuses on the procurement of electricity, it also discusses the contribution of fuel (natural 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.

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 on October 28, 2004, in 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 semiannual fuel plan for these gas-tolling arrangements to CDWR and the Commission for review and approval.

PG&E submitted its sixth Gas Supply Plan (GSP-6, October 1, 2005, through March 31, 2005) on August 1, 2005 (Advice 2694-E). That plan was approved by the Commission's Energy Division on October 6, 2005. This document, Gas Supply Plan 7, covers the period April 1, 2006, through September 30, 2006.

Of the fourteen CDWR contracts allocated to PG&E and active during the period of this plan, ten, representing seven different counterparties, have unexpired provisions for gas tolling. The seven counterparties include Calpine, CalPeak, Coral, GWF, Kings River, PPM Energy, and Wellhead. These contracts represent 1,468 MW of dispatchable contract capacity for 2006. These figures do not include the Calpine 4 contract, which will expire in March 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 drafts of GSP-7 to its Procurement Review Group (PRG) and CDWR on January 3, 2006, and January 24, 2006.<sup>1</sup> The January 3 draft and the substance of revisions to be made for the January 24 draft were discussed at the PRG meeting January 12, 2006.

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

[REDACTED]

#### 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 April 1, 2006, through September 30, 2006, based on market conditions as of [REDACTED]

[REDACTED]

##### i. Fuel Supply Timeline

The following chart illustrates CDWR's deadlines to notify generators that CDWR will elect to supply gas for a particular tolling agreement.

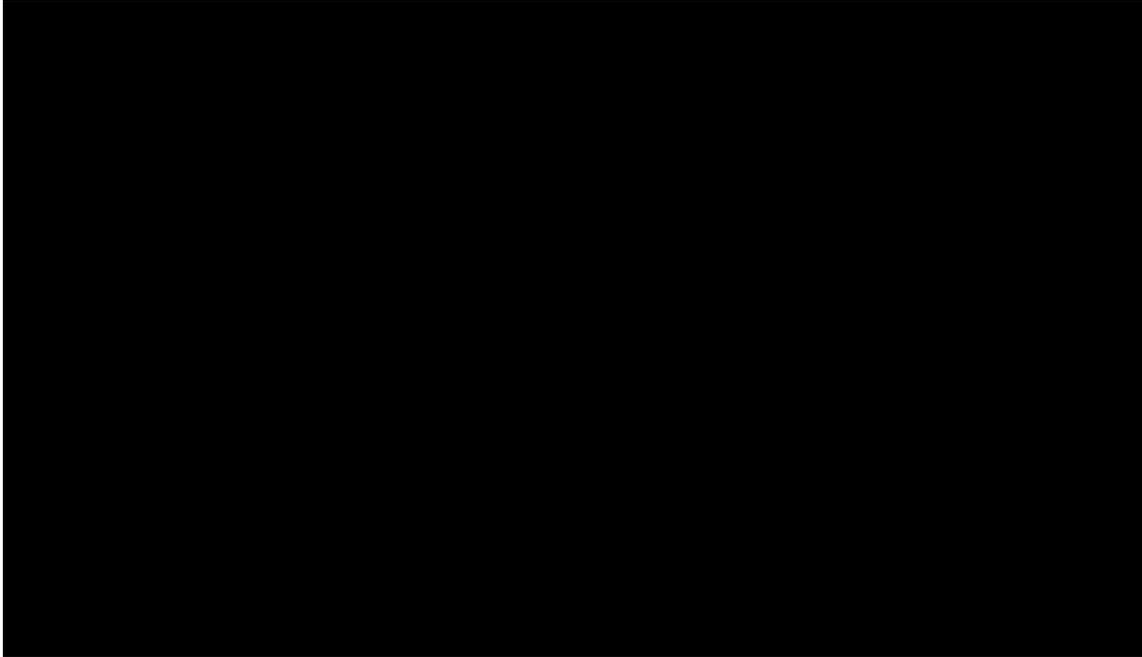
[REDACTED]

---

<sup>1</sup> PG&E's submittal of GSP-7 to CDWR on January 3, 2006, allows CDWR and PG&E's PRG the required two weeks to review the draft plan prior to the February 1, 2006 filing date established by the Commission in Resolution E-3845.

Pacific Gas and Electric Company

Figure 1



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. GenTrader assists PG&E in minimizing generation costs and maximizing 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, as of [REDACTED];
- 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	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Total
Calpine 3							
Coral <sup>3</sup>							
CalPeak Panoche							
CalPeak Vaca Dixon							
Fresno Cogen (Wellhead)							
GWF Hanford/Henrietta							
GWF Tracy (III)							
Kings River							
PPM Energy							
Wellhead Gates							
Wellhead Panoche							
Total							

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> The Coral PPA provides Coral an option to increase or decrease certain volumes by 10%. CDWR and Coral currently disagree on whether that option may be exercised in individual months. For Q3 2006 (the period of current disagreement) and periods beyond 2006, [REDACTED]

<sup>4</sup> [REDACTED]

<sup>5</sup> [REDACTED] is in-the-money, that is, the incremental cost of generation is lower than the current market price of power.

<sup>6</sup> [REDACTED]



Pacific Gas and Electric Company  
Table 3

Million MMBtu

Contract	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Total
Calpine 3							
Coral							
CalPeak Panoche							
CalPeak Vaca Dixon							
Fresno Cogen (Wellhead)							
GWF Hanford/Henrietta							
GWF Tracy (III)							
Kings River							
PPM Energy							
Wellhead Gates							
Wellhead Panoche							
Total							

iii. Gas Pricing Mechanisms

Complete descriptions of the generator fuel cost mechanisms are included in Appendix A of PG&E's GSP-2<sup>7</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>7</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 intraday indexes, adders for market risk (variable), LDC transport, fuel management and risk management
Calpine	PG&E Citygate: Daily and intraday 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 intraday 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>8</sup> The estimated 6-month total gas cost under this scenario is [REDACTED] [REDACTED] higher market prices for gas and the Coral contract's tolling provisions for every month of GSP-7, as opposed to only three months of GSP-6.

<sup>8</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.

Pacific Gas and Electric Company  
Table 5

(Million \$)

Contract	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Total
Calpine 3							
Coral							
CalPeak Panoche							
CalPeak Vaca Dixon							
Fresno Cogen (Wellhead)							
GWF Hanford/Henrietta							
GWF Tracy (III)							
Kings River							
PPM Energy							
Wellhead Gates							
Wellhead Panoche							
Total							

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

This section provides a [REDACTED].  
 [REDACTED] Again, the forecast is for the period April 1, 2006, through September 30, 2006, and is based on market conditions as of [REDACTED].  
 [REDACTED] This plan assumes that PG&E [REDACTED].  
 [REDACTED]. The remainder of this plan is devoted to presenting the details of [REDACTED].  
 [REDACTED].

**i. Period of Supply**

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

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

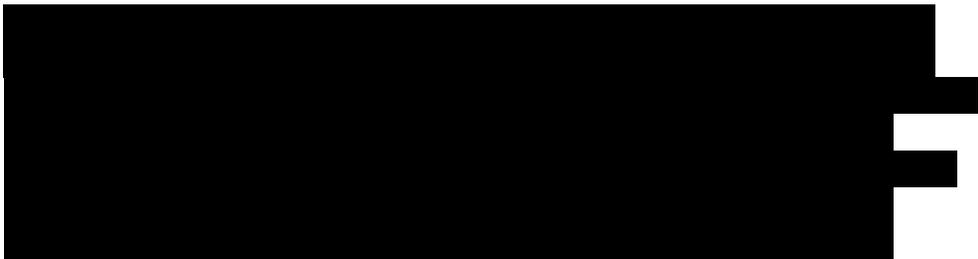
[REDACTED] listed in Tables 1, 2 and 3.



iii. Projected Monthly and Seasonal Gas Costs

Table 6 is the result of applying PG&E's [redacted]. The estimated 6-month total gas cost [redacted].<sup>9</sup>

Pacific Gas and Electric Company Table 6 (Millions \$)							
Contract	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Total
Calpine 3	[redacted]						
Coral	[redacted]						
CalPeak Panoche	[redacted]						
CalPeak Vaca Dixon	[redacted]						
Fresno Cogen Wellhead)	[redacted]						
GWF Hanford/Henrietta	[redacted]						
GWF Tracy (III)	[redacted]						
Kings River	[redacted]						
PPM Energy	[redacted]						
Wellhead Gates	[redacted]						
Wellhead Panoche	[redacted]						
Total	[redacted]						



<sup>9</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-7:

- Update the physical position of the CDWR portfolio including mark-to-market at the end of each trading day.
- [Redacted].
- [Redacted].
- Working with CDWR, continue to [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]

---

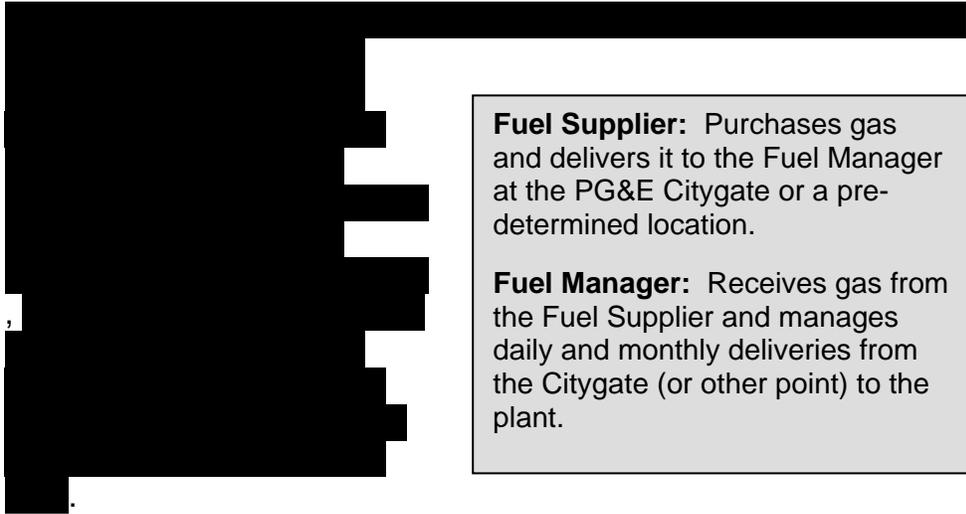
10 The availability of this capacity was confirmed by a letter agreement between CDWR and PPM Energy on November 10, 2003.

[Redacted]

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

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]



[REDACTED]

---

11 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. [REDACTED]

[REDACTED]

The following table summarizes PADLA's roles as Fuel Manager and Supplier:

Pacific Gas and Electric Company Table 7 PADLA Role Elections		
Generator	Fuel Supplier	Fuel Manager
Calpine 3	[REDACTED]	[REDACTED]
PPM Energy	Yes	No (not allowed by contract)
GWF	[REDACTED]	[REDACTED]
Kings River	Yes	Yes
Wellhead	[REDACTED]	[REDACTED]
CalPeak	Yes	Yes (receive the benefits)
Coral	[REDACTED]	[REDACTED]

PADLA will build its [REDACTED] for the term of GSP-7 to match the [REDACTED] shown in Section [REDACTED]

Pacific Gas and Electric Company Table 8 PADLA Supply Portfolio				
Supplier	Term	Volume (MMBtu/day)	Location	Pricing
Calpine 3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
PPM Energy	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Coral	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Kings River	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Wellhead	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
CalPeak	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
GWF	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balancing	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[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 continues to add additional approved suppliers to the list.

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.

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]
- [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 dictate 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 April 1, 2006. The results (in Table 9) show that the market prices [REDACTED]

[REDACTED] (see Appendix A, page A-3, of GSP-6 for a sample calculation).

Pacific Gas and Electric Company Table 9					
Path	Pipelines		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]
[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].

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 utilizes 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 physical 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
Intraday 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 after flow day by <i>Gas Daily</i> , <i>Canadian Gas Price Reporter</i> or other trade journal
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), <i>Canadian Gas Price Reporter</i> or other trade journal

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 & 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.<sup>12</sup>

**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**

On October 2, 2005, PG&E issued a Request for Offers for natural gas storage services on behalf of CDWR. PG&E recommended that, subject to CDWR's credit review, CDWR accept the offer from Wild Goose Storage and the CPUC approved that recommendation on November 3, 2005. [REDACTED]

---

<sup>12</sup> Gas Supply Plan 5 was filed February 1, 2005.

[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>13</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>14</sup> PG&E's CPUC-approved risk tolerance level, as measured by TeVaR for PG&E's entire portfolio, is [REDACTED]

[REDACTED]

On November 7, 2005, the CPUC's Energy Division approved PG&E's Electric Portfolio Gas Hedging Plan (GHP) Update 1<sup>16</sup> and on October 6, 2005, the Commission's Energy Division approved GSP-6.<sup>17</sup> On January 31, 2006, PG&E filed an update to its Gas Hedging Plan, GHP Update 2006-1. GSP-7 aligns PG&E's hedging strategies for its CDWR gas exposure with its hedging strategies for its own gas exposures, as updated with GHP Update 1 and GHP Update 2006-1. Both the Hedging Plan and the Gas Supply Plan include a consistent framework for PG&E's management of the gas price risk [REDACTED]

[REDACTED]

---

<sup>13</sup> Pacific Gas and Electric Company's 2005 Short-Term Procurement Plan, Chapter 3.

<sup>14</sup> *Ibid*, p. 3-3.

<sup>15</sup> [REDACTED]

<sup>16</sup> Advice Letter 2723-E.

<sup>17</sup> Advice Letter 2694-E.

**a. Risk Assessment Over the Next Six Months**



Pacific Gas and Electric Company

Figure 2

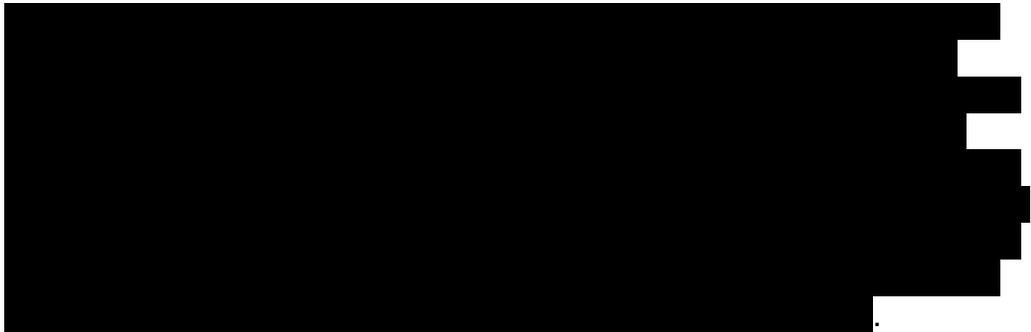
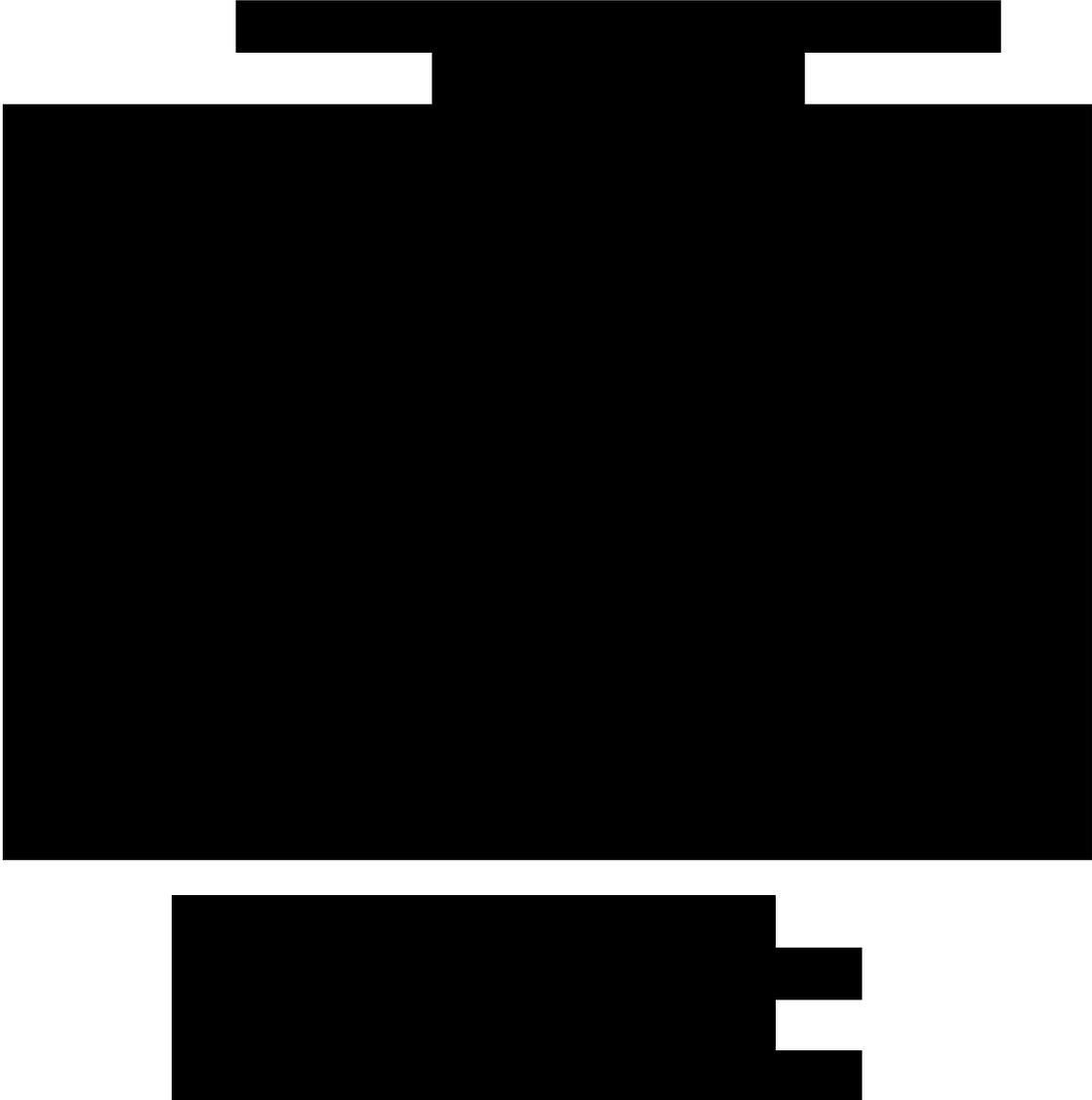


Figure 3



**b. Risk Management Goals**

PG&E has established the following risk management goals for the term of GSP-7:

- 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 gas hedging framework including the operating targets, product mix targets, and execution strategy consistent with PG&E's Gas Hedging Plan, the Gas Hedging Plan Update 1, Gas Hedging Plan Update 2006-1 and any future updates to the Gas Hedging Plan.
- [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>18</sup>

**d. Hedging Strategy**

[REDACTED]

[REDACTED]

[REDACTED]

---

<sup>18</sup> Gas Supply Plan 3 for DWR Tolling Agreements, April 1, 2004, through September 30, 2004, Pacific Gas and Electric Company, February 2, 2004, AL. 2471-E, Appendix B.

[REDACTED]

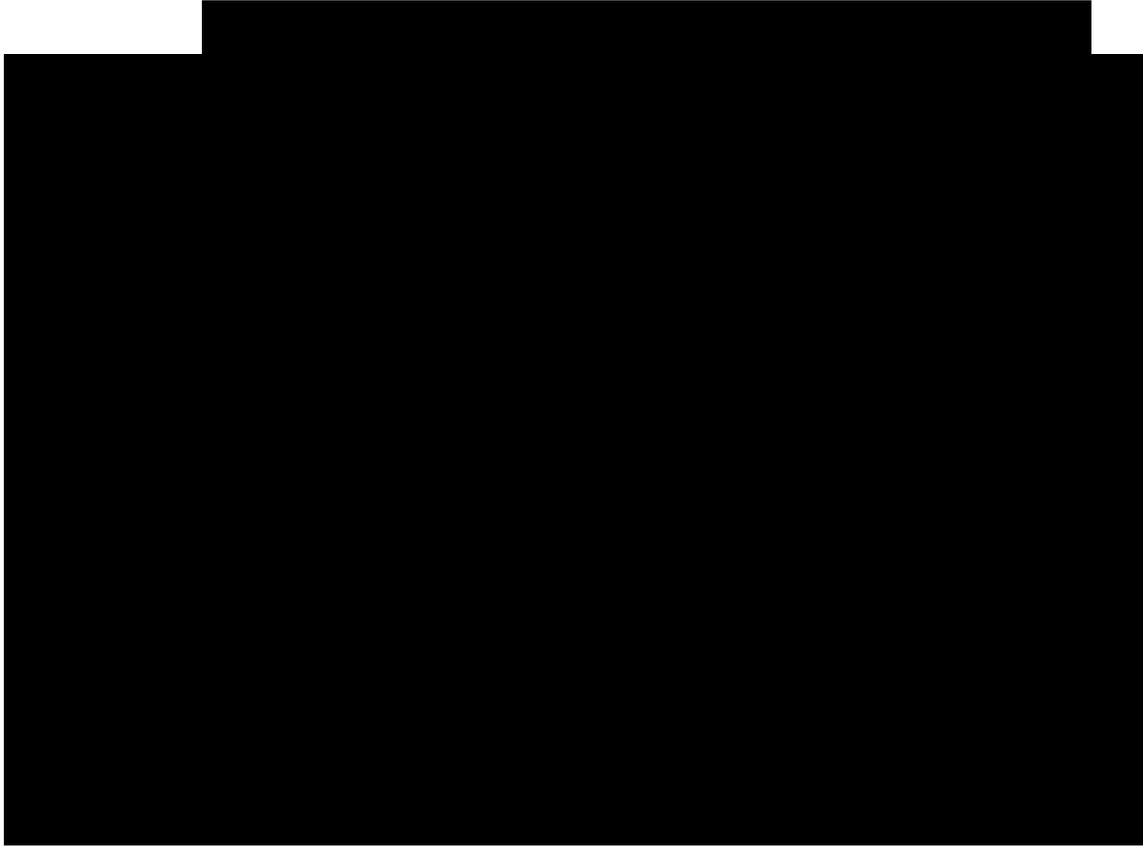
[REDACTED]

[REDACTED]

[REDACTED]

Pacific Gas and Electric Company

Figure 4



Pacific Gas and Electric Company  
Table 11



[Redacted]

[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

---

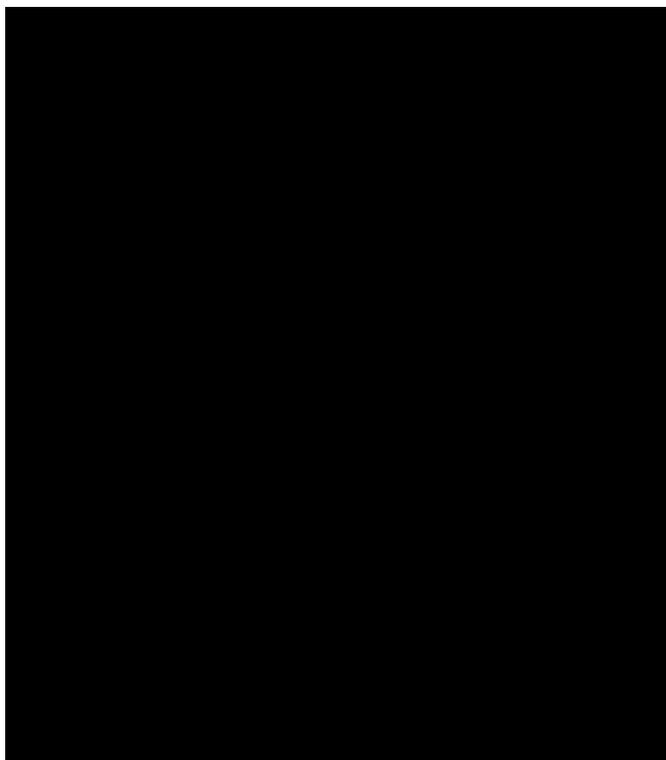
19

[REDACTED]

Pacific Gas and Electric Company

Figure 5

[Redacted]



[Redacted]

[Redacted]

20

[Redacted]

[Redacted]

[Redacted]

Pacific Gas and Electric Company  
Table 12

[Redacted]						
[Redacted]						
[Redacted]						

[Redacted]

[Redacted]

[Redacted]

[Redacted]

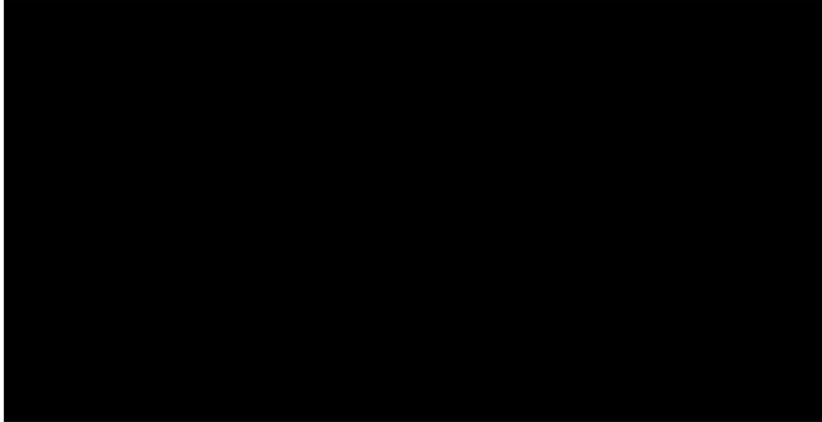
[Redacted]

[Redacted]

Pacific Gas and Electric Company

Figure 6

[Redacted]



[Redacted]

[Redacted]

[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

Pacific Gas and Electric Company		
Table 14		
Risk Management Tools		
Tools	Physical Product Use	Financial Product Use
Fixed Price <sup>23</sup> (daily, balance of month, monthly)	Buy forward gas at a fixed price	None
Index/Swap for Fixed <sup>24</sup>	Buy forward at monthly index	Swap floating price for fixed
Index/Futures+Basis <sup>25</sup>	Buy forward at monthly index	Long futures & Long basis swap
Swing Swap <sup>26</sup>	Buy forward at monthly index	Swap monthly floating price for daily floating price
Index/Buy Call Option <sup>27</sup>	Buy forward at monthly index	Buy call option
Index/Buy Collar <sup>28</sup>	Buy forward at monthly index	Buy collar (sell put, buy call)
Call Spread <sup>29</sup>	Buy forward at monthly index	Buy call option, sell call option at a higher strike price
Synthetic Call Option <sup>30</sup>	Buy forward at monthly index	Swap floating price for fixed and Buy put option

Table 15 lists the most common hedging objectives PG&E anticipates using during the term of GSP-7 and ranks its choice of tools to achieve these objectives. The locations listed in the objectives [REDACTED]

[REDACTED]

23 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.

24 Referred to as “Financial Swap” in Authorized Procurement Products table in D.03-12-062.

25 *Ibid.*

26 *Ibid.*

27 Referred to as “Financial call (or put) option” in Authorized Procurement Products table in D.03-12-062.

28 *Ibid.*

29 *Ibid.*

30 See Section 5.g.i for a description of this tool.

Pacific Gas and Electric Company		
Table 15		
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>31</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>32</sup>

[REDACTED]

[REDACTED]

31 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.

32 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>33</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. Transactions for Use of Utility-Owned Facilities**

PG&E will transact for utility owned 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.

## **8. 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, 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.

---

<sup>33</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.

## **9. 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."

## **10. Physical Gas Trading Between PG&E and CDWR**

From time to time PG&E finds itself trading opposite positions for its own portfolio and the CDWR portfolio. That is, one portfolio is short and the other is long. Balancing both portfolios requires two physical trades in which each portfolio incurs the cost of the bid-ask spread.

To reduce such costs, PG&E, with CDWR's concurrence, requests the authority to trade physical gas with CDWR under certain limited circumstances, such as the following:

- Trades are for portfolio balancing;
- Trades are limited to terms of one month or less, including imbalance gas;
- All trades will be priced at the Gas Daily index price for the date in question, with no adders;
- The CDWR side of the trade will be executed by an authorized CDWR employee;
- Trades will be executed under a North American Energy Standards Board (NAESB) Master Agreement between PG&E and CDWR; and
- Such trades will be specifically identified in PG&E's quarterly ERRR transaction filings

PG&E and CDWR will finalize a NAESB Master Agreement specifying the limitations of trading between the two parties, and will file that Agreement for CPUC approval prior to implementing physical gas trading between PG&E and CDWR.

## **11. 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,

[REDACTED]. 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 16a Basin Forward Prices						
All prices are in U.S. \$/MMBtu						
Basin	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Alberta						
Rocky Mountain						
Permian						
San Juan						

Pacific Gas and Electric Company Table 16b Basin Forward Prices						
All prices are in U.S. \$/MMBtu						
Basin	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Alberta						
Rocky Mountain						
Permian						
San Juan						

Pacific Gas and Electric Company Table 17a Border Forward Prices						
All prices are in U.S. \$/MMBtu						
Border	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
PG&E Citygate	■	■	■	■	■	■
Topock	■	■	■	■	■	■
Malin	■	■	■	■	■	■
Sumas (BC)	■	■	■	■	■	■

Pacific Gas and Electric Company Table 17b Border Forward Prices						
All prices are in U.S. \$/MMBtu						
Border	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
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% increase from 2004.

Rockies gas traded at a \$1.65 and \$0.90/MMBtu discount to the NYMEX Henry Hub contract last summer (April 2005 through October 2005) and winter (November 2004 through March 2005), respectively. Looking forward, Rockies gas is currently trading at a ■ discount to the NYMEX for remaining winter (February 2006 through March 2006) and at a ■ discount for coming summer (April through October 2006).

San Juan productive capacity is expected to [REDACTED]. San Juan gas traded at a \$1.73/MMBtu discount to NYMEX for the summer of 2005, 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 winter (February – March) and at a [REDACTED] discount for summer 2006.

### Permian Basin

Permian gas traded at a \$0.93/MMBtu discount to NYMEX last winter and a \$1.34/MMBtu discount last summer. The Permian basin is currently trading at a [REDACTED] to NYMEX for the remaining winter and at a [REDACTED] for summer 2006. 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. In November, Canadian exports averaged roughly 9 Bcf/day, the highest November level since 2002.

WCSB gas at the AECO 'C' hub gas traded at a \$1.65/MMBtu discount to NYMEX last summer and a \$1.05/MMBtu discount last winter. AECO gas is now trading at a [REDACTED] discount to Henry Hub for remainder of this winter and at a [REDACTED] discount for summer 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-7.
- 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, A.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 proposed 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 were held in September 2005 with a Phase I proposed decision expected early in 2006.

- ii. Federal Energy Regulatory Commission  
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.  
  
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.

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. 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.

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.

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. 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.

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%. The proposed return reflects an overall cost of debt of 6.62% annually and a rate of return on equity of 15.1%. 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%. 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% to 3.39% and to implement a negative salvage rate of 0.21 percent.

Williston Basin Interstate Pipeline Company, Docket No. RP00-463-006. The Commission issued an order reinstating its policy 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 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.

El Paso Natural Gas Company, Docket No. RP05-219-000. On March 31, 2005, the Commission opted not to act on El Paso's Precedent Agreement (PA) and instead set 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.

Rate Regulation of Certain Underground Storage Facilities, Docket Nos. RM05-23-000 & AD04-11-000. The Commission voted on a NOPR to modify the rules for determining the rates charged for interstate natural gas storage services. The proposed rules are intended to provide further incentives for the development of new natural gas storage capacity to ensure access to storage services at just and reasonable rates while at the same time ensuring that adequate storage capacity will be available to meet anticipated market demand. The proposed rule provides two methods by which developers of natural gas storage facilities may seek authority to charge market-based rates. In the first method, the Commission proposes to provide more pricing flexibility by permitting all companies with storage facilities to seek market-based rates through a demonstration that their storage operations do not have significant market power. The NOPR proposes adopting a more expansive definition of the relevant product market for storage that would include close substitutes for gas storage services, such as available pipeline capacity and local gas production. The second method provides for rules under the new Natural Gas Act Section 4(f) that would permit market-based rates for new storage capacity related to a specific facility placed into service after Aug. 8, 2005, the implementation date of the Energy Policy Act.

Consolidated Record in Natural Gas Proceedings, Docket No. PL05-13-000. The Commission has issued a policy statement on development of consolidated federal administrative records for judicial review of proceedings involving authorization of interstate natural gas pipelines and liquefied natural gas facilities. The policy statement provides interim guidance pending a future rulemaking to implement provisions of the Energy Policy Act of 2005. It also

provides for judicial review of actions by federal and state agencies other than the Commission and stipulates that the U.S. court of appeals in the circuit in which an LNG terminal or gas pipeline is proposed will have jurisdiction over petitions for review of the resulting consolidated federal record. A NOPR is expected to be issued in the near future.

Enforcement of Statutes, Orders, Rules and Regulations, Docket No. PL06-1-000. The Commission has issued a policy statement outlining the Commission's position on assessing civil penalties. The Policy Statement also identifies factors to be weighed in determining the seriousness of the violation, and indicates what consideration will be given for mitigating factors, such as adopting strong internal compliance programs, voluntarily reporting violations, and cooperating with staff investigations. Regulated entities will be subject to the full array of possible enforcement tools and the Commission will exercise its discretion according to the policy statement in a "fair, reasonable and appropriate manner."

Procedures for Disposition of Contested Audit Matters, Docket No. RM06-2-000. The Commission has issued a NOPR proposing to permit any audited company to challenge an audit finding before the Commission issues an order on disputed matters in the audit. Recently, the Commission has begun conducting operational audits to assure compliance with the Commission's Standards of Conduct and Codes of Conduct. The NOPR would extend the same procedural opportunity to challenge staff findings in operational and other audits as is currently afforded for financial audits.

Regulations Implementing Energy Policy Act of 2005; Pre-Filing Procedures For Review of LNG Terminals and Other Natural Gas Facilities, Docket No. RM05-31-000. The Commission has issued its final rule (Order No. 665) in accordance with Section 311(d) of the Energy Policy Act of 2005 (EPAct 2005) to implement mandatory procedures requiring prospective applicants to begin the Commission's pre-filing review process at least six months prior to filing an application for authorization to site and construct a LNG terminal. The rule establishes mandatory pre-filing procedures for all applicants seeking to site, construct and operate new LNG terminals and related facilities, such as pipelines, that would transport the revaporized LNG to markets across the U.S. The final rule also establishes mandatory pre-filing procedures for those seeking to expand existing LNG facilities, if the Commission's Director of Energy Projects decides the process would be appropriate.

## 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.

Parties reached a settlement on interconnections between independent storage providers and third parties, and filed the settlement with the CPUC on September 30. Hearings on infrastructure adequacy and slack intrastate pipeline capacity were held in August 2005. Hearings on natural gas quality were held in December 2005. Hearings on interconnection and operational balancing agreements were also held in December 2005, but were focused only on SoCalGas, and did not involve PG&E directly.

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 January 2006.

ii. Alberta Energy Utilities Board

Nova Gas Transmission Ltd. Cost 2005 General Rate Application Phase 2 [REDACTED]. PG&E is intervening in the NOVA Gas Transmission Ltd. (NGTL) cost allocation phase II 2005 general rate application as a member of the Western Export Group (WEG). 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. The evidentiary portion of the NGTL Rate Design hearing concluded October 19. WEG's primary mandate going in was to persuade the Board to maintain the status quo rate design, not proceed, as some suggested, to transfer an even greater proportion of the transportation costs to export delivery services. WEG was also interested in having the Board increase the cost accountability on intra-Alberta services plus have NGTL proceed with energy conversion in a more equitable fashion. The Board decision is expected in March 2006.

iii. 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 El Paso Corp. 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.

El Paso Natural Gas Company, Docket No. RP05-422-000. El Paso has filed its Section 4 General Rate Case. The prior 10-year settlement expires December 31, 2005. Key issues in the new rate case include: (1) cost of service; (2) cost allocation between California and East-of-California; (3) new balancing type intra-day services offered by El Paso to EOC customers; and (4) other changes affecting services in EOC markets.

**Appendix A: Sample Calculations Comparing Generator and  
PG&E Fuel Purchase Plans  
[Redacted in Full]**

**Appendix B: Projected Gas Volume and Cost Beyond GSP-7**  
**[Redacted in Full]**

**Appendix C: Risk Management Strategies Beyond GSP-7**  
**[Redacted in Full]**

**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