

PUBLIC UTILITIES COMMISSION

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October 11, 2006

Advice Letter 2873-E

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

RECEIVED
REGULATORY RELATIONS DEPARTMENT

OCT 13 2006

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

Dear Ms de la Torre:

Advice Letter 2873-E is effective October 1, 2006. A copy of the advice letter is included herewith for your records.

Your next Gas Supply Plan should be submitted February 1, 2007 for the April 2007 through September 2007 period.

A draft of your next Gas Supply Plan should be provided to the Procurement Review Group and the California Department of Water Resources at least two weeks prior to February 1, 2007.

Sincerely,

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

Sean H. Gallagher, Director
Energy Division



Brian K. Cherry
Vice President
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August 1, 2006

Advice 2873-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Submission of the Eighth Gas Supply Plan (GSP-8) for the California Department of Water Resources (CDWR) Tolling Agreements (October 1, 2006, through March 31, 2007)

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its eighth Gas Supply Plan (GSP-8) for the California Department of Water Resources (CDWR) Tolling Agreements in the period between October 1, 2006, and March 31, 2007.

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, seven Gas Supply Plans (GSPs), GSP-1 through GSP-7. GSP-7, covering CDWR tolling agreements for the period April 1, 2006, through September 30, 2006, was approved effective April 1, 2006.

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 8

GSP-8 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 it was approved with an effective date of March 17, 2006.

PG&E provides a redacted copy of GSP-8 in Attachment A to this Advice Letter. Confidential Attachments B through D are appendices to GSP-8. Confidential Appendices A, B, and C contain sample calculations, additional volume and cost forecasts, and additional hedging strategies.

Confidential Material

This advice filing contains CONFIDENTIAL PROTECTED material under D.06-06-066 Appendix 1, and pursuant to the May 20, 2003 Modified Protective Order Submitted under CPUC section 583. Concurrently with this Advice Filing, PG&E is filing a motion in Rulemaking 06-02-013 requesting confidential treatment for the confidential, market-sensitive information in GSP-8, and designating the specific protected material as required by ordering paragraphs 2 and 3, as applicable, of D. 06-06-066. The public version of the body of GSP-8 contained in Attachment A has been partially redacted in accordance with D. 06-06-066. Attachments B through D to this advice letter are fully confidential per D. 06-06-066 and therefore have been redacted in full.

Protest Period

Anyone wishing to protest this filing may do so by sending a letter by **August 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, 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
Vice President, 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

Responses to PG&E's motion for confidential treatment of GSP-8 should be handled separately and should follow the applicable Commission rules.

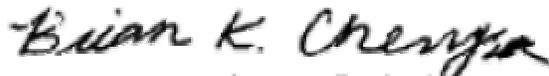
Effective Date

PG&E requests the effective date of this filing be **October 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/>



Vice President, Regulatory Relations

cc: Service List - R.06-02-013, R.04-04-003, w/o confidential attachments

Attachments

- | | |
|-----------------------------|---|
| Confidential Attachment A – | Gas Supply Plan (GSP-8) for CDWR Tolling Agreements |
| Confidential Attachment B – | GSP-8 Confidential Appendix A: Sample Calculations Comparing Generator and PG&E Fuel Purchase Plans |
| Confidential Attachment C – | GSP-8 Confidential Appendix B: Projected Gas Volume and Cost Beyond GSP-8 |
| Confidential Attachment D – | GSP-8 Confidential Appendix C: Risk Management Strategies Beyond GSP-8 |

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) #: **2873-E**

Subject of AL: Submission of the Eighth Gas Supply Plan (GSP-8) for the California Department of Water Resources (CDWR) Tolling Agreements (October 1, 2006, through March 31, 2007)

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 AL¹: _____

Resolution Required? Yes No

Requested effective date: **10-1-06**

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

Utility Info (including e-mail)
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
Ancillary Services Coalition
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
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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.
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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.
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Ellison Schneider
Energy Law Group LLP
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Hogan Manufacturing, Inc
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Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
IUCG/Sunshine Design LLC
J. R. Wood, Inc
JTM, Inc
Luce, Forward, Hamilton & Scripps
Manatt, Phelps & Phillips
Marcus, David
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
OnGrid Solar
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
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St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & 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

Gas Supply Plan 8
for
CDWR Tolling Agreements

October 1, 2006

through

March 31, 2007



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

August 1, 2006

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1. Executive Summary

This document represents PG&E's eighth semiannual Gas Supply Plan (GSP-8), covering the period October 1, 2006, through March 31, 2007. 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 following contracts include conditions that prevent PG&E, as CDWR's limited agent, from taking on the Fuel Manager role:

- The PPM Energy contract does not allow CDWR to become the Fuel Manager.
- The Coral contract, which became 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-8 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]

[REDACTED] PG&E proposes to conduct a Request for Offers (RFO) for firm gas storage service for the term beginning April 1, 2007, and continuing for one or more years using an RFO process similar to that used under GSP-5 and GSP-6.

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, and Gas Hedging Plan Update 2006-1 on March 17, 2006. [REDACTED]

[REDACTED]

[REDACTED]

2. Introduction

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

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 seventh Gas Supply Plan (GSP-7, April 1, 2006, through September 30, 2006) on February 1, 2006 (Advice 2776-E). That plan was approved by the Commission's Energy Division on April 6, 2006. This document, Gas Supply Plan 8, covers the period October 1, 2006, through March 31, 2007.

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.

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]

[REDACTED] In this case, the generators procure gas supplies and manage deliveries of the gas to the plants.

PG&E submitted a draft GSP-8 to its Procurement Review Group (PRG) and CDWR on July 5, 2006.¹ This draft was discussed at the PRG meeting July 19, 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 October 1, 2006, through March 31, 2007, based on market conditions as of [REDACTED]. Forecasts for periods beyond the six-month term of this plan appear in Appendix B.

i. Fuel Supply Timeline

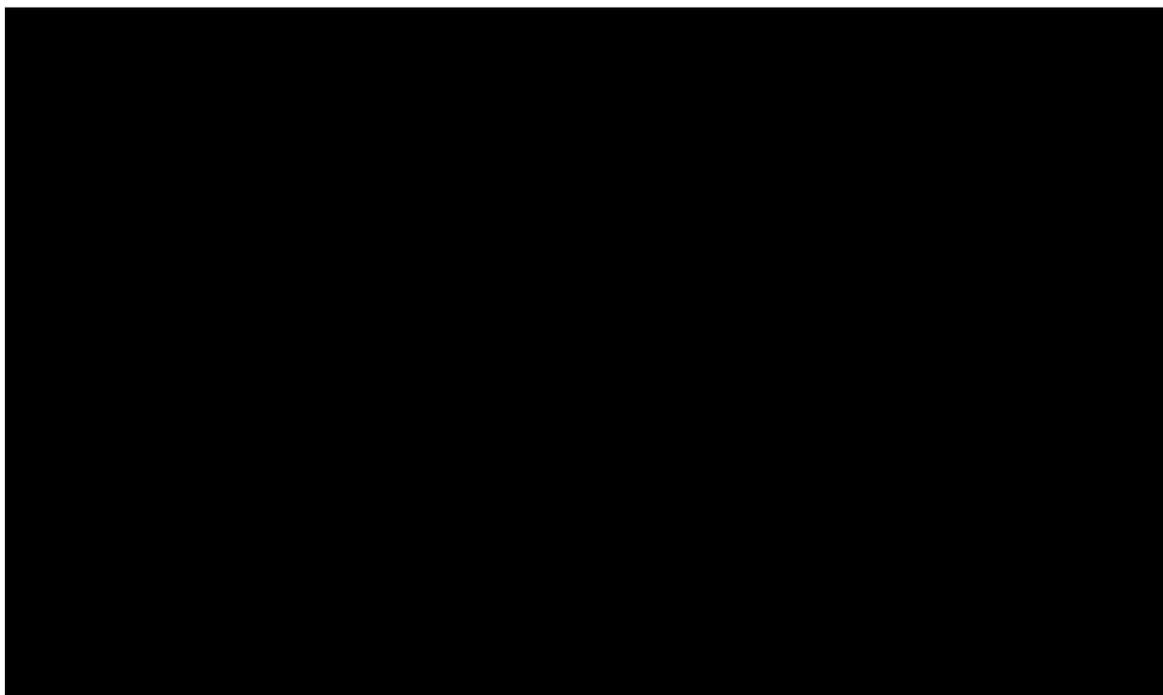
The following chart illustrates CDWR's deadlines to notify generators that CDWR will elect to supply gas for a particular tolling agreement.

[REDACTED]

¹ PG&E's submittal of GSP-8 to CDWR on July 5, 2006, allows CDWR and PG&E's PRG the required two weeks to review the draft plan prior to the August 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 July 7, 2006
- Operating characteristics of URG including hydro and pumped storage

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

Pacific Gas and Electric Company
Table 1²

Million MMBtu

Contract									
Calpine 3									
Coral									
CalPeak Panoche									
CalPeak Vaca Dixon									
Fresno Cogen (Wellhead)									
GWF Hanford/Henrietta									
GWF Tracy (III)									
Kings River									
Pacificorp									
Wellhead Gates									
Wellhead Panoche									
Total									

Table 1 includes the [REDACTED]
 [REDACTED] Table 2 includes [REDACTED]
 [REDACTED] ³ and Table 3 includes [REDACTED]
 [REDACTED] ⁴
 [REDACTED] ⁵
 PG&E has run this model under a range of assumptions and

² Note that column and row totals may appear incorrect because of number rounding.

³ [REDACTED]

⁴ [REDACTED] is in-the-money, that is, the incremental cost of generation is lower than the current market price of power.

⁵ [REDACTED]

Pacific Gas and Electric Company Table 3							
Million MMBtu							
Contract	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Total
Calpine 3							
Coral							
CalPeak Panoche							
CalPeak Vaca Dixon							
Fresno Cogen (Wellhead)							
GWF Hanford/Henrietta							
GWF Tracy (III)							
Kings River							
Pacificorp							
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-2⁶ 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:

⁶ 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).⁷ The estimated six-month total gas cost under this scenario is [REDACTED]

⁷ Since CDWR's Kings River agreement does not allow for generator-supplied fuel, [REDACTED]

Pacific Gas and Electric Company
Table 5

(Million \$)

Contract	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Total
Calpine 3	█	█	█	█	█	█	█
Coral	█	█	█	█	█	█	█
CalPeak Panoche	█	█	█	█	█	█	█
CalPeak Vaca Dixon	█	█	█	█	█	█	█
Fresno Cogen (Wellhead)	█	█	█	█	█	█	█
GWF Hanford/Henrietta	█	█	█	█	█	█	█
GWF Tracy (III)	█	█	█	█	█	█	█
Kings River*	█	█	█	█	█	█	█
Pacificorp	█	█	█	█	█	█	█
Wellhead Gates	█	█	█	█	█	█	█
Wellhead Panoche	█	█	█	█	█	█	█
Total	█	█	█	█	█	█	█

**b. For Contracts Where [REDACTED]
(PADLA) Provides Gas**

This section provides a [REDACTED]
[REDACTED] using the same forecast period and pricing
date [REDACTED] This plan assumes that PG&E [REDACTED]

[REDACTED] The remainder of this plan is devoted to presenting the
details of [REDACTED]

i. Period of Supply

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

ii. Projected Monthly and Daily Gas Volume

The projected monthly and daily gas volumes [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 projected gas cost to each contract at the volumes forecasted with GenTrader. The estimated six-month total gas cost [REDACTED]⁸

Pacific Gas and Electric Company Table 6 (Millions \$)							
Contract	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	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]						
Pacificorp	[REDACTED]						
Wellhead Gates	[REDACTED]						
Wellhead Panoche	[REDACTED]						
Total	[REDACTED]						

[REDACTED]

⁸ 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.

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-8:

- Update the physical position of the CDWR portfolio including mark-to-market at the end of each trading day.

[REDACTED]

Working with CDWR, continue [REDACTED]

- Adhere to the CDWR Fuels Protocols (see Appendix B of GSP-3 for the first release of the completed protocols).

b. Recommended Gas Supply Portfolio

i. Contractual Periods

[REDACTED]

[REDACTED]

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

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

[REDACTED]

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

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

[REDACTED]

10 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.

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		
PPM Energy	Yes	No (not allowed by contract)
GWF		
Kings River	Yes	Yes
Wellhead		
CalPeak	Yes	Yes (receive the benefits)
Coral		



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



[REDACTED]

The Coral PPA is a must-take agreement providing Coral the option to select the delivery location and quantity of MWh delivered within specified limits. The default fuel supply under the PPA is from Coral and priced at the *Natural Gas Intelligence* (NGI), SoCal Topock, bidweek index with no adders. CDWR has the option to supply fuel for Coral beginning January 1, 2006. CDWR must provide Coral 60-days written notice if it elects to supply fuel. [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]

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.

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

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

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]

[REDACTED]

PG&E will conduct another firm storage RFO on behalf of CDWR for [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.¹¹ 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.¹² PG&E's CPUC-approved risk tolerance level, as measured by TeVaR for PG&E's entire portfolio, is [REDACTED]

[REDACTED]

On March 17, 2006, the CPUC's Energy Division approved PG&E's Electric Portfolio Gas Hedging Plan (GHP) Update 2006-1¹⁴ and on April 6, 2006, the Commission's Energy Division approved GSP-7¹⁵. GSP-8 continues the alignment of PG&E's hedging strategies for its CDWR gas exposure with its hedging strategies for its own gas exposures, as updated with 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]

11 Pacific Gas and Electric Company's 2005 Short-Term Procurement Plan, Chapter 3.

12 *Ibid*, p. 3-3.

13 [REDACTED]

14 Advice Letter 2775-E.

15 Advice Letter 2776-E

[REDACTED]

[REDACTED] PG&E's management of the physical gas supply and financial hedging for its allocated CDWR tolling agreements is governed solely by the Operating Agreement and this and future CDWR gas supply plans. [REDACTED]

a. Risk Assessment over the Next Six Months

Market conditions continue to have a dramatic impact on PG&E's electric portfolio TeVaR. [REDACTED]

Pacific Gas and Electric Company

Figure 2

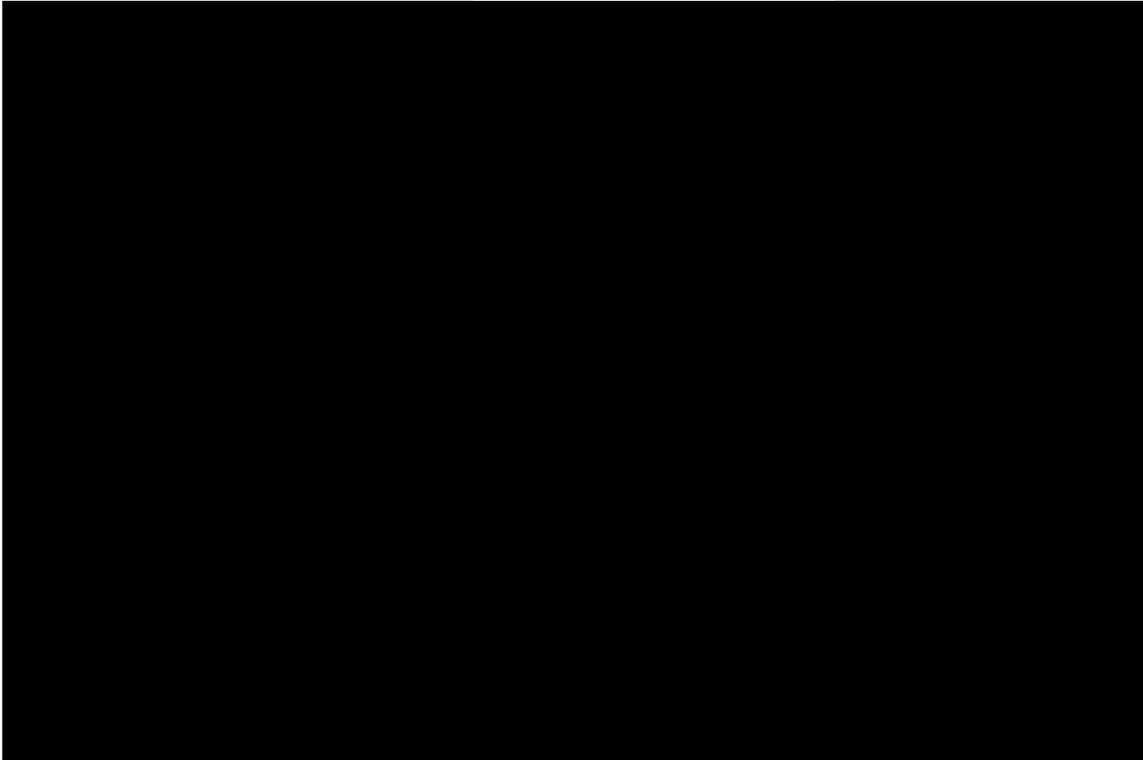
[REDACTED]





Pacific Gas and Electric Company

Figure 3



b. Risk Management Goals

PG&E has established the following risk management goals for the term of GSP-8:

- 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, Gas Hedging Plan Update 2006-1 and any future updates to the Gas Hedging Plan.

Monitor the hedge positions already in place

[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.¹⁶

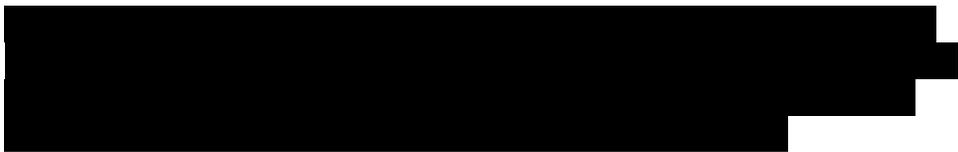
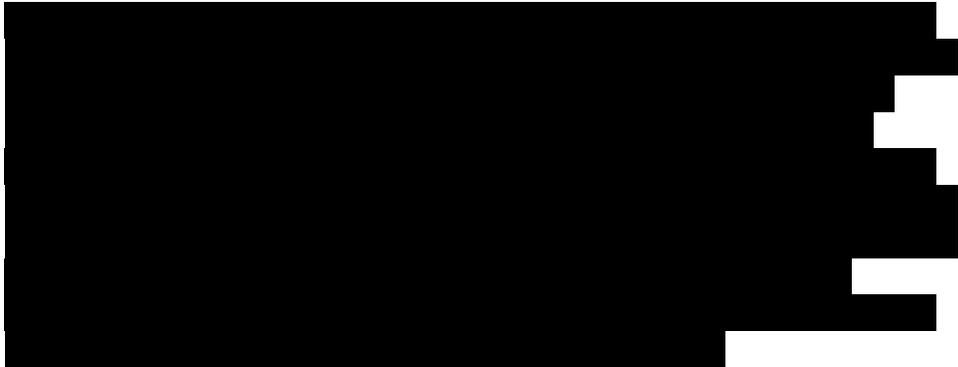
d. Hedging Strategy

[Redacted]

[Redacted]

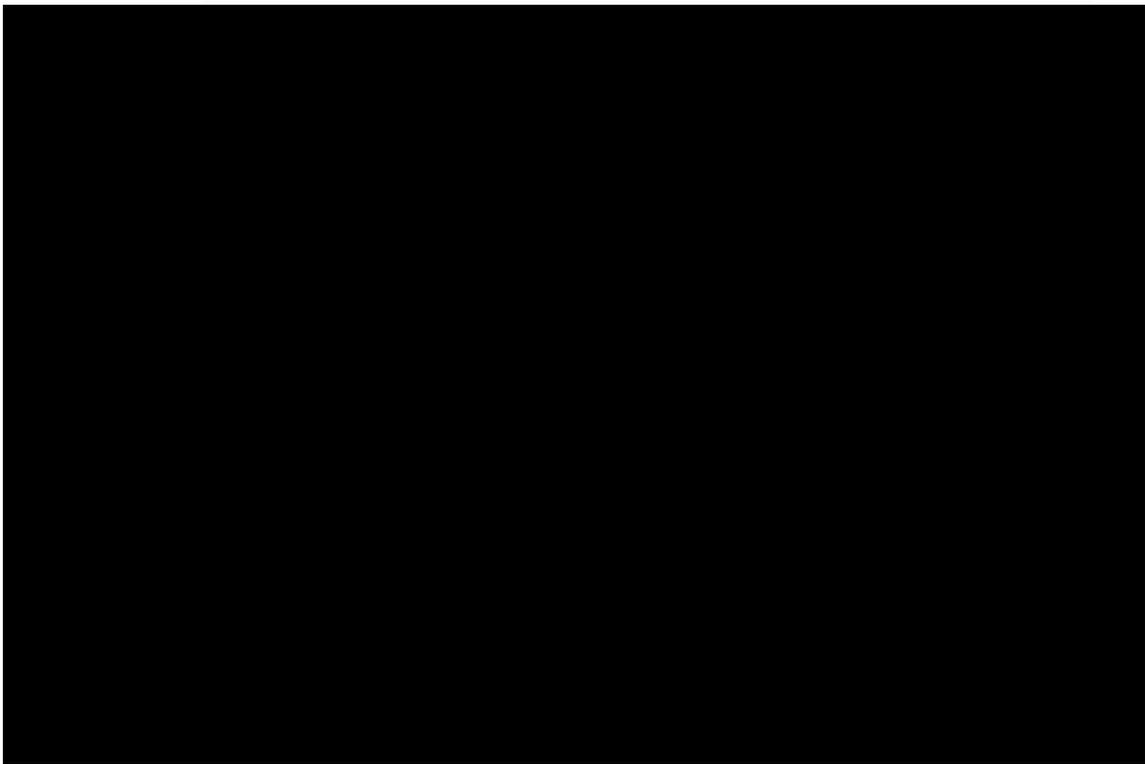
[Redacted]

¹⁶ 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.



Pacific Gas and Electric Company

Figure 4



Pacific Gas and Electric Company Table 11					

[Redacted]

[Redacted]

[Redacted]

17.

[Redacted]

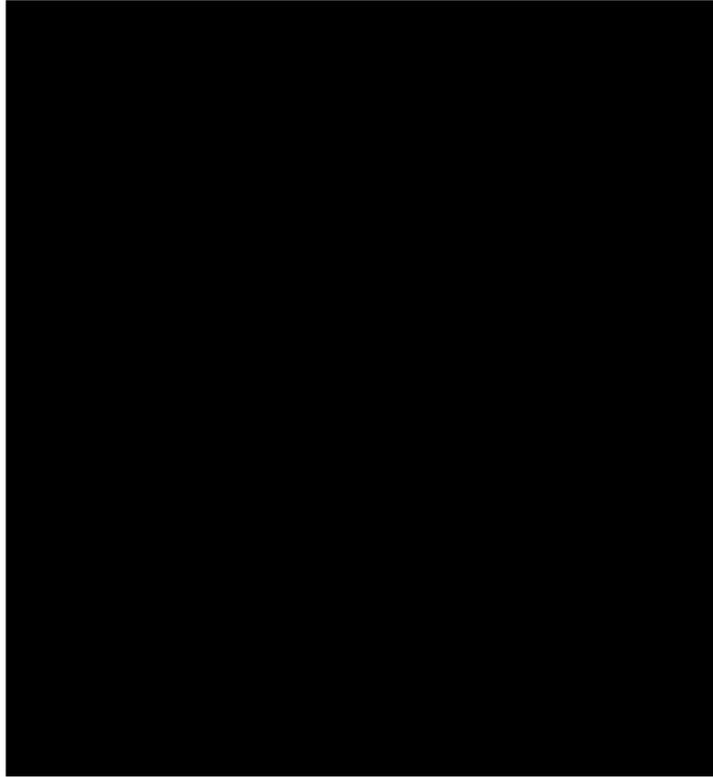
[Redacted]

[Redacted]

Pacific Gas and Electric Company

Figure 5

Dynamic Product Mix



[Redacted] 18

[Redacted]

[Redacted]

[Redacted text block]

[Redacted text block]

[Redacted]						
[Redacted]						
[Redacted]						

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted]

Pacific Gas and Electric Company

Figure 6

[Redacted]



[Redacted]

[Redacted]

19

[Redacted]

[Redacted]

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[Redacted text line]

[Redacted text block]



Pacific Gas and Electric Company
Table 14
Risk Management Tools

Tools	Physical Product Use	Financial Product Use
Fixed Price ²¹ (daily, balance of month, monthly)	Buy forward gas at a fixed price	None
Index/Swap for Fixed ²²	Buy forward at monthly index	Swap floating price for fixed
Index/Futures+Basis ²³	Buy forward at monthly index	Long futures & Long basis swap
Swing Swap ²⁴	Buy forward at monthly index	Swap monthly floating price for daily floating price
Index/Buy Call Option ²⁵	Buy forward at monthly index	Buy call option
Index/Buy Collar ²⁶	Buy forward at monthly index	Buy collar (sell put, buy call)
Call Spread ²⁷	Buy forward at monthly index	Buy call option, sell call option at a higher strike price
Synthetic Call Option ²⁸	Buy forward at monthly index	Swap floating price for fixed and Buy put option



21 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.

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

23 *Ibid.*

24 *Ibid.*

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

26 *Ibid.*

27 *Ibid.*

28 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.²⁹ The example of a hedge using a synthetic call option was provided in GSP-4 is not repeated here but is incorporated by reference.³⁰

[REDACTED]

[REDACTED]

²⁹ 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.

³⁰ 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-2.³¹ 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.

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. 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
- Such trades will be specifically identified in PG&E's quarterly ERRA 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 Twelve 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] PG&E's Utility Risk Management department updates these prices on a daily basis. 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 [REDACTED]						
All prices are in U.S. \$/MMBtu						
Basin	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Alberta	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Rocky Mountain	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Permian	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
San Juan	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Pacific Gas and Electric Company Table 16b [REDACTED]						
All prices are in U.S. \$/MMBtu						
Basin	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Alberta	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Rocky Mountain	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Permian	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
San Juan	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Pacific Gas and Electric Company Table 17a [REDACTED]						
All prices are in U.S. \$/MMBtu						
Border	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
PG&E Citygate	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Topock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Malin	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sumas (BC)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Pacific Gas and Electric Company Table 17b [REDACTED]						
All prices are in U.S. \$/MMBtu						
Border	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
PG&E Citygate	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Topock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Malin	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sumas (BC)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

b. Gas Supply Outlook

i. Production Outlook for Gas Basins

Rocky Mountain and San Juan Basins

[REDACTED]
[REDACTED]
[REDACTED] Gas production in the Rockies continues to grow, offsetting modest declines in the San Juan and Permian basins. Rockies regional exports [REDACTED]
[REDACTED]
[REDACTED]

Rockies gas traded at a \$1.65 and \$2.19/MMBtu discount to the NYMEX Henry Hub contract last summer (April 2005 through October 2005) and winter (November 2005 through March 2006), respectively. Looking forward, Rockies gas is currently trading at a

Sources: Wood Mackenzie, All Quiet on the Western Front: West Coast Supply Update – February 2006, and Rocky Mountains Supply Growth & Consolidation – June 2006. 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.

Phase I will address SoCal Gas/SDG&E system integration issues. Phase II will focus on firm access rights on the SoCal Gas/SDG&E systems, and off-system delivery out of the SoCal Gas system into the PG&E system.

In March 2006, a proposed decision was issued in Phase I regarding system integration. The utilities were ordered to combine the transmission costs on both systems and develop integrated transmission rates. The integrated transmission rates would go into effect on the date regasified LNG begins to flow through Otay Mesa.

ii. Federal Energy Regulatory Commission

Gas Transmission Northwest Rate Case. On June 30, 2006, Gas Transmission Northwest Corporation ("GTN") filed tariff sheets with the Commission to restate GTN's rates for service on its interstate transportation system. The tariff sheets are proposed to become

effective on August 1, 2006. GTN anticipates that the rates proposed will be subject to a five-month suspension period and placed into effect on January 1, 2007. GTN's proposal includes an increase of over 70% for Kingsgate to Malin firm deliveries.

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 has issued a rule that provides further incentives for the development of new natural gas storage capacity and 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 final rule provides two approaches for developers of natural gas storage facilities to seek authority to charge market-based rates. The first approach includes a more expansive definition of the relevant product market for storage that would include, to the extent they can be shown to be good substitutes for storage, available pipeline capacity, local gas

production and liquefied natural gas terminals. The second approach, which implements section 312 of the Energy Policy Act, would allow an applicant to request authority to charge market-based rates even if a lack of market power has not been demonstrated, in circumstances where market-based rates are in the public interest and necessary to encourage the construction of storage capacity in the area needing storage service and that customers are adequately protected. Storage service providers would apply for market-based rates under either of the above methods by filing appropriate supporting data when they submit a certificate application, or as part of a request for rate authorization under section 311 of the Natural Gas Policy Act of 1978, or in a request for a declaratory order for authority to charge market-based rates.

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 final rule to allow for enhanced due process for companies who disagree with the findings of staff operational audits. The new procedures will allow the subject of an operational audit to challenge an audit finding or proposed remedy before the Commission issues an order on the disputed matter in the audit. The new procedures do not apply to

audits pertaining to reliability that the Commission authorized in Order No. 672 on February 2, 2006. The final rule states that once the audit process is complete, if a company disputes any part of an audit, it may elect a shortened procedure with briefing of matters only or a trial-type procedure, in appropriate circumstances, to move forward with the challenged portions of the audit.

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.

A Phase II decision is pending at this time. Among other things, the Phase II decision will establish guidelines for the utilities on such issues as gas quality specifications, operational balancing agreements (focused mainly on SoCal Gas), infrastructure adequacy (including guidelines for liquefied natural gas transportation), utility emergency reserves, establishment of an industry working group to monitor infrastructure and services provided to noncore customers,

utility back-stop role for noncore customers, and utility at-risk ratemaking policies. A settlement between PG&E and third parties was reached regarding direct connections with independent storage providers.

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.

On June 20, 2006, a proposed decision was issued in this case, approving PG&E’s proposal for a 1-day-in-10-year planning standard for its core customers. The proposed decision would authorize PG&E to acquire any additional storage capacity needed to meet this standard from third party storage providers.

ii. Alberta Energy Utilities Board

Nova Gas Transmission Ltd. Cost 2005 General Rate Application Phase 2 (EUB Application N. 1396409). 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

El 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 El 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 El 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 El Paso.

CPUC v. El Paso (RP00-241). A FERC ALJ found that El 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 Dec. 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

[Redacted in Full]

Appendix B: Projected Gas Volume and Cost Beyond GSP-8
[Redacted in Full]

Appendix C: Risk Management Strategies Beyond GSP-8
[Redacted in Full]