

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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April 25, 2007

Advice Letter 2978-E

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

Subject: Submission of the Ninth Gas Supply Plan (GSP-9) for the California Department of Water Resources (CDWR) Tolling Agreements (04/01/07 thru 09/30/07)

Dear Ms. de la Torre:

Advice Letter 2978-E is effective April 01, 2007. A copy of the advice letter is returned herewith for your records.

Sincerely,

Sean H. Gallagher, Director
Energy Division

REGULATORY RELATIONS	
M Brown	Tariffs Section
R Dela Torre	D Poster
B Lam	M Hughes
APR 30 2007	
Return to _____	Records _____
	File _____
cc to _____	

February 1, 2007

Advice 2978-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Submission of the Ninth Gas Supply Plan (GSP-9) for the California Department of Water Resources (CDWR) Tolling Agreements (April 1, 2007, through September 30, 2007)

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its ninth Gas Supply Plan (GSP-9) for the California Department of Water Resources (CDWR) Tolling Agreements for the period April 1, 2007, through September 30, 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, eight Gas Supply Plans (GSPs), GSP-1 through GSP-8. GSP-8, covering CDWR tolling agreements for the period October 1, 2006, through March 31, 2007, was approved effective October 1, 2006.

Pursuant to Ordering Paragraph (O.P.) 5 of Resolution E-3845, PG&E continues to provide detailed information concerning its analyses, tools and decision making process concerning gas price volatility and its risk management strategies.

Gas Supply Plan 9

GSP-9 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-9 in Attachment B to this Advice Letter. Confidential Attachments C through E are appendices to GSP-9. These confidential appendices (GSP-9 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. It is also being submitted under CPUC section 583. Concurrently with this Advice Filing and pursuant to the August 22, 2006, ALJ ruling clarifying interim procedures for complying with D.06-06-066, PG&E is providing the declaration of Michael Kowalewski to support confidential treatment for the confidential, market-sensitive information in GSP-9, and to designate 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-9 contained in Attachment B has been partially redacted in accordance with D.06-06-066. Attachments C through E 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 letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than **February 21, 2007**, which is **20** days after the date of this filing. Protests should be mailed to:

CPUC - Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

Effective Date

PG&E requests the effective date of this filing be **April 1, 2007**.

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.) 06-02-013, 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:

- Attachment A – Declaration of Michael S. Kowalewski supporting the confidential treatment of confidential, market-sensitive information;
- Confidential Attachment B – Gas Supply Plan (GSP-9) for CDWR Tolling Agreements (redacted copy provided in public version);
- Confidential Attachment C – GSP-9 Confidential Appendix A: Sample Calculations
- Confidential Attachment D – GSP-9 Confidential Appendix B: Projected Gas Volume and Cost Beyond GSP-9; and
- Confidential Attachment E – GSP-9 Confidential Appendix C: Risk Management Strategies Beyond GSP-9.

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: David Poster

Phone #: (415) 973-1082

E-mail: dxpu@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) #: **2978-E**

Subject of AL: Submission of the Ninth Gas Supply Plan (GSP-9) for the California Department of Water Resources (CDWR) Tolling Agreements (April 1, 2007, through September 30, 2007)

Keywords (choose from CPUC listing): Compliance, Procurement

AL filing type: Monthly Quarterly Annual One-Time Other Semi-annual

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: _____

Resolution Required? Yes No

Requested effective date: **04-1-07**

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

mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Utility Info (including e-mail)

Attn: Brian K. Cherry

Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

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

ABAG Power Pool	Douglass & Liddell	PG&E National Energy Group
Accent Energy	Downey, Brand, Seymour & Rohwer	Pinnacle CNG Company
Aglet Consumer Alliance	Duke Energy	PITCO
Agnews Developmental Center	Duke Energy North America	Plurimi, Inc.
Ahmed, Ali	Duncan, Virgil E.	PPL EnergyPlus, LLC
Alcantar & Kahl	Dutcher, John	Praxair, Inc.
Ancillary Services Coalition	Dynergy Inc.	Price, Roy
Anderson Donovan & Poole P.C.	Ellison Schneider	Product Development Dept
Applied Power Technologies	Energy Law Group LLP	R. M. Hairston & Company
APS Energy Services Co Inc	Energy Management Services, LLC	R. W. Beck & Associates
Arter & Hadden LLP	Exelon Energy Ohio, Inc	Recon Research
Avista Corp	Exeter Associates	Regional Cogeneration Service
Barkovich & Yap, Inc.	Foster Farms	RMC Lonestar
BART	Foster, Wheeler, Martinez	Sacramento Municipal Utility District
Bartle Wells Associates	Franciscan Mobilehome	SCD Energy Solutions
Blue Ridge Gas	Future Resources Associates, Inc	Seattle City Light
Bohannon Development Co	G. A. Krause & Assoc	Sempra
BP Energy Company	Gas Transmission Northwest Corporation	Sempra Energy
Braun & Associates	GLJ Energy Publications	Sequoia Union HS Dist
C & H Sugar Co.	Goodin, MacBride, Squeri, Schlotz &	SESCO
CA Bldg Industry Association	Hanna & Morton	Sierra Pacific Power Company
CA Cotton Ginners & Growers Assoc.	Heeg, Peggy A.	Silicon Valley Power
CA League of Food Processors	Hitachi Global Storage Technologies	Smurfit Stone Container Corp
CA Water Service Group	Hogan Manufacturing, Inc	Southern California Edison
California Energy Commission	House, Lon	SPURR
California Farm Bureau Federation	Imperial Irrigation District	St. Paul Assoc
California Gas Acquisition Svcs	Integrated Utility Consulting Group	Sutherland, Asbill & Brennan
California ISO	International Power Technology	Tabors Caramanis & Associates
Calpine	Interstate Gas Services, Inc.	Tecogen, Inc
Calpine Corp	IUCG/Sunshine Design LLC	TFS Energy
Calpine Gilroy Cogen	J. R. Wood, Inc	Transcanada
Cambridge Energy Research Assoc	JTM, Inc	Turlock Irrigation District
Cameron McKenna	Luce, Forward, Hamilton & Scripps	U S Borax, Inc
Cardinal Cogen	Manatt, Phelps & Phillips	United Cogen Inc.
Cellnet Data Systems	Marcus, David	URM Groups
Chevron Texaco	Matthew V. Brady & Associates	Utility Cost Management LLC
Chevron USA Production Co.	Maynor, Donald H.	Utility Resource Network
City of Glendale	MBMC, Inc.	Wellhead Electric Company
City of Healdsburg	McKenzie & Assoc	Western Hub Properties, LLC
City of Palo Alto	McKenzie & Associates	White & Case
City of Redding	Meek, Daniel W.	WMA
CLECA Law Office	Mirant California, LLC	
Commerce Energy	Modesto Irrigation Dist	
Constellation New Energy	Morrison & Foerster	
CPUC	Morse Richard Weisenmiller & Assoc.	
Cross Border Inc	Navigant Consulting	
Crossborder Inc	New United Motor Mfg, Inc	
CSC Energy Services	Norris & Wong Associates	
Davis, Wright, Tremaine LLP	North Coast Solar Resources	
Defense Fuel Support Center	Northern California Power Agency	
Department of the Army	Office of Energy Assessments	
Department of Water & Power City	OnGrid Solar	
DGS Natural Gas Services	Palo Alto Muni Utilities	

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECLARATION OF MICHAEL KOWALESKI IN SUPPORT OF CONFIDENTIAL
TREATMENT FOR INFORMATION IN
GAS SUPPLY PLAN 9 FOR CDWR TOLLING AGREEMENTS ALLOCATED TO
PACIFIC GAS AND ELECTRIC COMPANY AS CDWR'S LIMITED AGENT

I, Michael Kowalewski, declare:

I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 1992. My current title is senior gas trader. In this position, my responsibilities include planning and procuring gas supply and gas assets in support of PG&E's electric generation needs. In carrying out these responsibilities, I have acquired knowledge of gas supplies and markets. I am responsible for the development of Gas Supply Plan 9.

Pursuant to the requirements in Decision 06-06-066 and the Administrative Law Judge Ruling issued August 22, 2006, Clarifying Interim Procedures for Complying with Decision 06-06-066, I have prepared this declaration to support confidential treatment of market-sensitive, confidential information contained in Gas Supply Plan 9 (GSP-9) (Protected Information).

Based on my knowledge and experience with the contents of GSP-9 and the markets for physical and financial products for gas supply and hedging, I make this declaration seeking confidential treatment of the Protected Information contained in GSP-9. The Protected Information is material, market-sensitive, electric procurement related information within the scope of Public Utilities Code section 454.5(g) and is entitled to confidential treatment under the IOU Matrix, Appendix 1 (IOU Matrix) of Decision 06-06-066.

The following categories in the IOU Matrix apply to Protected Information in GSP-9:

1. IOU Matrix category I. A. 4, "Long-term fuel (gas) buying and hedging plans"

2. IOU Matrix category I. A. 5, “Monthly California Department of Water Resources gas position updates, including information about hedging activities”
3. IOU Matrix category IV. G, “Forecast of DWR contracts”
4. IOU Matrix category I.A. 2, “Utility gas price forecasts”
5. IOU Matrix category XII, “Monthly Portfolio Risk Assessment”
6. IOU Matrix category IV. B, “Utility Bundled Net Open (Long or Short) Position for Energy”

The IOU Matrix categories for Protected Material in GSP-9 are indicated in the right hand margin on each page of GSP-9. The Arabic numbers in the margins correspond to numbers above, indicating the applicable IOU Matrix category. The appendices to GSP-9 are confidential in their entirety and the IOU Matrix categories are noted on the cover of each appendix by the IOU Matrix category designation.

GSP-9 and its confidential appendices, like the previous Gas Supply Plans 1 through 8 and their confidential appendices, go into great depth on PG&E’s planning, assumptions, strategies, analyses, and implementation for cost-effectively meeting the multi-year gas supply needs of the CDWR tolling agreements. The requirement to file gas supply plans and the scope of the gas supply plan activities and responsibilities for fuel management and hedging for the CDWR tolling agreements are described in the PG&E Operating Agreement with CDWR (Operating Agreement), Exhibit B, Fuel Management Protocols¹. The gas supply plans are intended to give the Commission and CDWR a meaningful understanding of the fuel needs for CDWR’s tolling agreements, what procurement and hedging strategy should be followed to meet those needs, why that strategy is best, what PG&E intends to do in the markets to execute the strategy, and

¹ Section IV, Exhibit B to the Operating Agreement requires PG&E to submit the fuel procurement strategies, including risk management, and submit them to the Commission as a “Utility Gas Supply Plan” on a semiannual basis.

when PG&E intends to be in the markets. Accordingly, the gas supply plans inherently include a large amount of confidential, market sensitive information. GSP-9 is no exception.

GSP-9 information is confidential and market sensitive because if other participants in the gas-related markets involved in the GSP were to obtain the information,² PG&E's ability to execute the strategy and obtain results cost-effectively could be impaired. If the detailed information in GSP-9 about PG&E's strategy and plans is not kept confidential, PG&E would be de-positioned relative to other market participants who would have PG&E's confidential, market sensitive data, when other market participants' comparable confidential, market sensitive data would not be in the public domain.

The Protected Information in GSP-9 is primarily for CDWR tolling agreements. PG&E's role under the Operating Fuel Management Protocols is as CDWR's limited agent. The confidential treatment of Protected Information also should be maintained to avoid adverse impact to CDWR's exposure for transactions undertaken pursuant to GSP-9.

The Protected Information in GSP-9 should remain confidential for more than 3 years. The analysis, strategies, assumptions and planning in the gas supply plans are part of a continuum that stretches over multiple years. In addition, the hedging strategy that is effective for CDWR tolling contracts may not change radically from one gas supply plan to the next. Therefore, releasing the Protected Information in GSP-9 or past gas supply plans may amount to releasing the same information as contained in the current gas supply plan. Therefore, Protected Information contained in GSP-9 should continue to be accorded confidential treatment for three

² The markets include natural gas, gas-derivative financial contracts, gas transportation, storage, and energy.

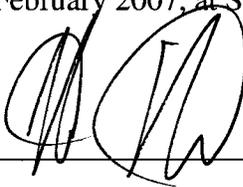
years beyond the point in time when PG&E ceases to act as limited agent managing CDWR gas supplies.

I am not aware of any instances where the Protected Information identified in this declaration has been disclosed to the public. The Protected Information cannot be provided in a more aggregated, partially redacted, or summarized form.

Attached to my declaration are both a confidential copy of GSP-9 with Protected Information unredacted and a non-confidential copy of GSP-9 with Protected Information removed.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this first day of February 2007, at San Francisco, California.



Gas Supply Plan 9
for
CDWR Tolling Agreements

April 1, 2007
through
September 30, 2007



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

February 1, 2007

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1. Executive Summary

This document represents PG&E's ninth semiannual Gas Supply Plan (GSP-9), covering the period April 1, 2007, through September 30, 2007.

PG&E [REDACTED]

1

[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-10, on August 1, 2007.

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

1

[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]

1

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-9 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. PG&E may conduct another RFO for storage services beginning on or after April 1, 2007, depending on discussions with CDWR.

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]

1

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 eighth Gas Supply Plan (GSP-8, October 1, 2006, through March 31, 2007) on August 1, 2006 (Advice 2873-E). That plan was approved by the Commission's Energy Division on October 11, 2006. This document, Gas Supply Plan 9, covers the period April 1, 2007, through September 30, 2007.

On December 11, 2006, PG&E filed its new Long Term Procurement Plan with the Commission, including a Gas Supply Plan (LTPP GSP). This LTPP GSP covers all of PG&E's gas needs for electric generation, including CDWR tolling agreements allocated to PG&E for administration purposes. Following approval of its LTPP GSP, PG&E intends to incorporate the LTPP GSP strategies into future CDWR Gas Supply Plans. This will allow consistent and complimentary management of physical gas supply across PG&E's electric generation portfolio in the same manner that PG&E manages gas price risk consistently across its entire portfolio according to its Gas Hedging Plan. PG&E's Gas Hedging Plan is similarly incorporated into CDWR Gas Supply Plans.

Of the twelve 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.

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]

1

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

PG&E submitted a draft GSP-9 to its Procurement Review Group (PRG) on January 3, 2007, and to CDWR on January 2, 2007.¹ This draft was discussed via e-mail prior to the PRG meeting January 26, 2007.

3. CDWR Tolling Agreements Managed by PG&E

[REDACTED]

1

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, 2007, through September 1, 2007, based on market conditions as of [REDACTED]. Forecasts for periods beyond the six-month term of this plan appear in Appendix B.

1

i. Fuel Supply Timeline

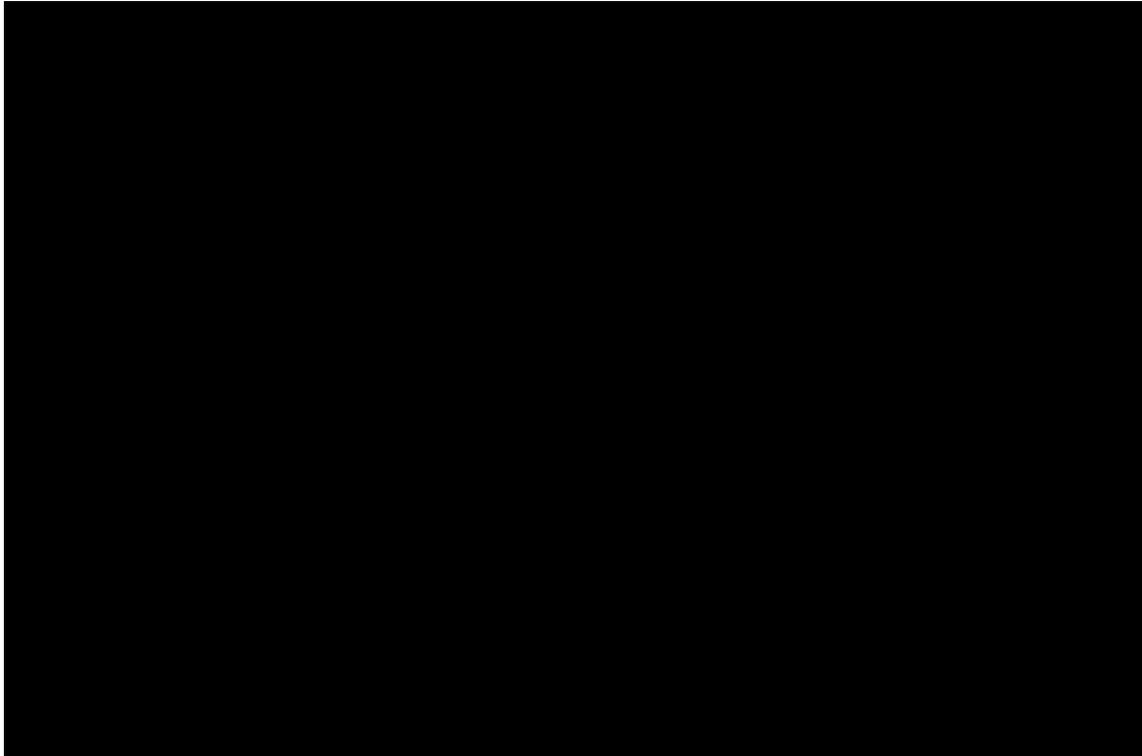
The following chart illustrates CDWR's deadlines to notify generators that CDWR will elect to supply gas for a particular tolling agreement.

[REDACTED]

1

¹ PG&E's submittal of GSP-9 allows CDWR and PG&E's PRG the required two weeks to review the draft plan prior to the February 1, 2007, filing date established by the Commission in Resolution E-3845.

Pacific Gas and Electric Company
Figure 1



1-3

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, 
- Operating characteristics of URG including hydro and pumped storage
- Operating characteristics and contract terms of the CDWR contracts

1

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 the option of 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 SoCal Gas: 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, the option of 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]

1, 3

1, 3

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

1, 3

Pacific Gas and Electric Company
Table 5

(Million \$)

1-3

b. For Contracts Where PADLA Provides Gas

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

1

1

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

1

i. Period of Supply

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

1

ii. Projected Monthly and Daily Gas Volume

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

1

[REDACTED]

1

4. Gas Supply Strategies Where PADLA Supplies Gas

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

1

a. Six-Month Goals

PG&E has established the following goals for the term of GSP-9:

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

1, 3

1, 3

b. Recommended Gas Supply Portfolio

i. Contractual Periods

[REDACTED]

1

- [REDACTED]
- [REDACTED]

1

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

1, 3

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

1

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]

1

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

1

[REDACTED]

1, 3

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]

1, 3

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

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.

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		

1-3

[Redacted]

1

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				

1-3

[Redacted]

1, 3

[Redacted]

1, 3

[REDACTED]

1, 3

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 by providing Coral 60-days written notice.

[REDACTED]

1, 3

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]

1, 3

[REDACTED]

1, 3

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

1, 3

iv. Interstate Pipeline Mix

PG&E's recommended pipeline capacity choices are based upon market valuation and portfolio fit.

PG&E reviewed the market value of interstate and intrastate capacity for the year beginning April 1, 2007. The results (in Table 9) show that [REDACTED]

1, 4

[REDACTED]

[REDACTED]

1-3

Pacific Gas and Electric Company
Table 9

[REDACTED]						
[REDACTED]						
[REDACTED]						
[REDACTED]						
[REDACTED]						
[REDACTED]						
[REDACTED]						
[REDACTED]						

1, 4

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

1

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).

1, 3

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

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]

1

d. Recommended Intrastate/Distribution Pipeline Plan

i. Intrastate Pipeline Capacity

[REDACTED]

1

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

[REDACTED]

3

[REDACTED]

1, 3

[REDACTED]

1

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 PG&E proposed updates to its long-term and short-term procurement plans in its 2006 Long-Term Procurement Plan which was filed with the CPUC on December 11, 2007.¹² 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.¹³ PG&E's CPUC-approved risk tolerance level, as measured by TeVaR for PG&E's entire portfolio, is [REDACTED]

1, 5

[REDACTED]

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

12 Pacific Gas and Electric Company, 2006 Long-Term Procurement Plan, Volume 1, Section III, December 11, 2006, R.06-02-013.

13 *Ibid*, p. 3-3.

14 [REDACTED]

1, 5

On March 17, 2006, the CPUC's Energy Division approved PG&E's Electric Portfolio Gas Hedging Plan (GHP) Update 2006-1¹⁵ and on April 6, 2006, the Commission's Energy Division approved GSP-7.¹⁶ GSP-9 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]

1

[REDACTED]

1

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]

1

a. Risk Assessment Over the Next Six Months

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

[REDACTED]

1, 4, 5

¹⁵ Advice Letter 2775-E.

¹⁶ Advice Letter 2776-E.

Pacific Gas and Electric Company
Figure 2



1, 4



1, 5

Pacific Gas and Electric Company
Figure 3

1, 5



1, 5

b. Risk Management Goals

PG&E has established the following risk management goals for the term of GSP-9:

- 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 strategy when PG&E's 2006 Long-Term Procurement Plan is approved by the CPUC.

- Monitor the hedge positions already in place [REDACTED] 1
- [REDACTED] 1

c. CDWR Prior Review and Consent

To date, some 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.¹⁷

d. Hedging Strategy

[REDACTED] 1

[REDACTED]

[REDACTED] 1, 5

¹⁷ 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.

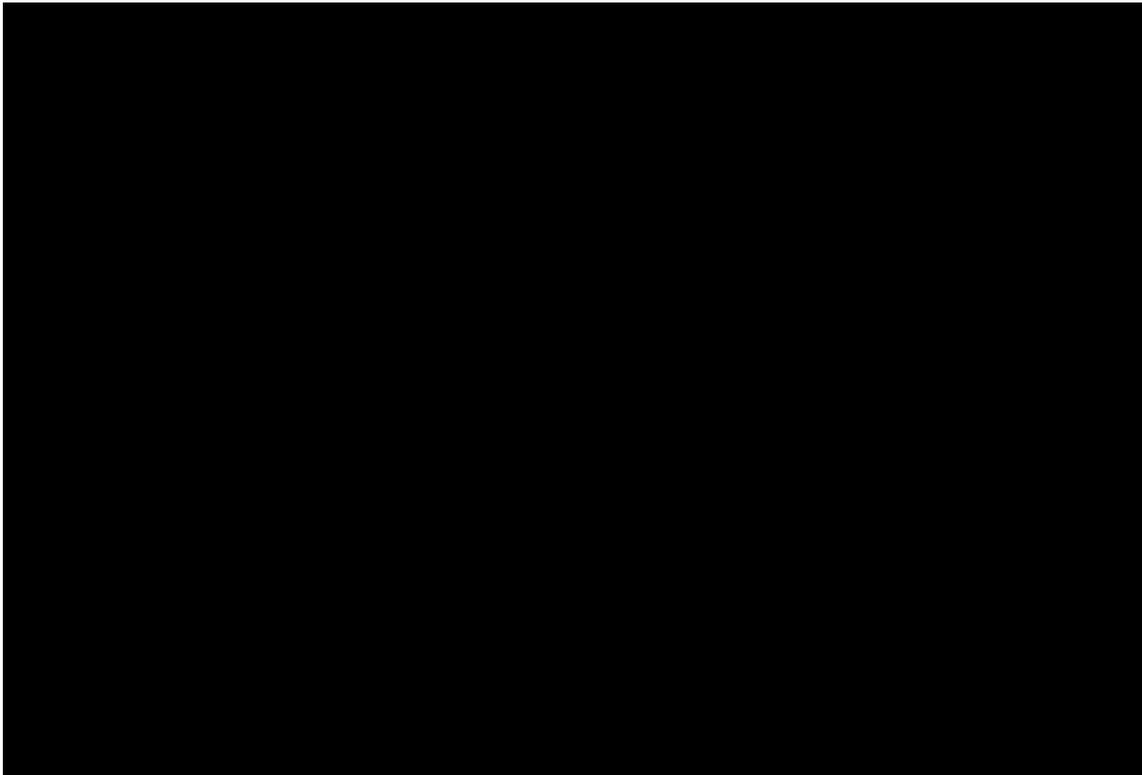


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Pacific Gas and Electric Company
Figure 4



1



Pacific Gas and Electric Company Table 11 					
					
					

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[Redacted]

[Redacted]

[Redacted]

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[Redacted]

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18

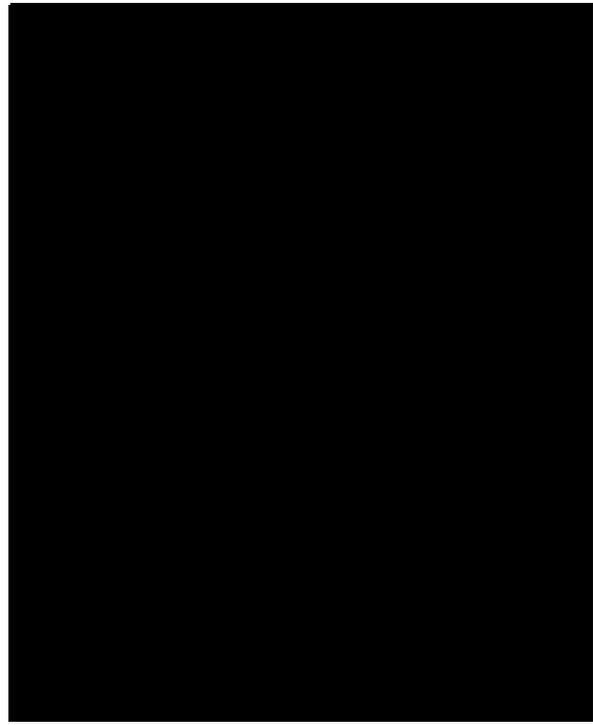
[Redacted]

1, 4

Pacific Gas and Electric Company
Figure 5

[Redacted]

1



[Redacted]



1

19 [Redacted]

1

[Redacted text block]

1

[Redacted]					
[Redacted]					
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

1

[Redacted text line]

[Redacted text block]

1

[Redacted text block]

1

[Redacted text block]

1

[Redacted text line]

1

Pacific Gas and Electric Company
Figure 6

[Redacted]

1

[Redacted]

[Redacted]

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[Redacted]

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[Redacted]

1

20 [Redacted]

1

Assumptions:



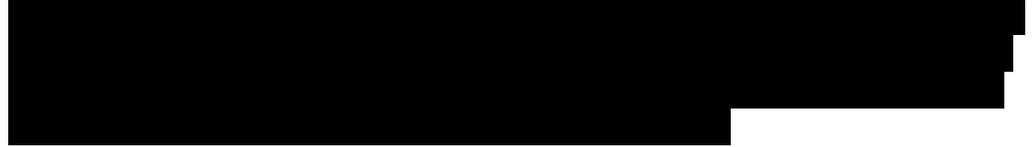
1

Basis contracts are 2,500 MMBtu/day/contract and must be purchased in groups based on the number of days in a month. For example, October basis contracts must be purchased in groups of 31 contracts.
 Futures contracts are 10,000 MMBtu/contract.

e. Recommended Use of Risk Management Products

Table 14 provides a list of financial risk management tools

1



Pacific Gas and Electric Company Table 14 Risk Management Tools		
Tools	Physical Product Use	Financial Product Use
Fixed Price ²² (daily, balance of month, monthly)	Buy forward gas at a fixed price	None
Index/Swap for Fixed ²³	Buy forward at monthly index	Swap floating price for fixed
Index/Futures+Basis ²⁴	Buy forward at monthly index	Long futures & Long basis swap
Swing Swap ²⁵	Buy forward at monthly index	Swap monthly floating price for daily floating price
Index/Buy Call Option ²⁶	Buy forward at monthly index	Buy call option
Index/Buy Collar ²⁷	Buy forward at monthly index	Buy collar (sell put, buy call)
Call Spread ²⁸	Buy forward at monthly index	Buy call option, sell call option at a higher strike price
Synthetic Call Option ²⁹	Buy forward at monthly index	Swap floating price for fixed and Buy put option

21 Storage, which is a physical tool for managing gas price risk in winter, is covered in Section 4.e, above.

22 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.

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

24 *Ibid.*

25 *Ibid.*

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

27 *Ibid.*

28 *Ibid.*

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

[REDACTED]

1

Pacific Gas and Electric Company Table 15		
[REDACTED]		
[REDACTED]	[REDACTED]	[REDACTED]

1

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.³⁰ The example of a hedge using a synthetic call option was provided in GSP-4 is not repeated here but is incorporated by reference.³¹

[REDACTED]

1

30 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.

31 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-2.³² 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

³² Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003, through 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), pp. 36-41.

CDWR's prior consent where such consent is required by CDWR's Fuels Protocols.

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, requested in GSP-7 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 ERRAs transaction filings.

This request was approved with GSP-7. 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.

1

i. Basin and Border Prices

Pacific Gas and Electric Company
Table 16a
[REDACTED]
All prices are in U.S. \$/MMBtu

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

1.4

Pacific Gas and Electric Company
Table 16b
Basin Forward Prices
All prices are in U.S. \$/MMBtu

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

1.4

Pacific Gas and Electric Company
Table 17a
[REDACTED]
All prices are in U.S. \$/MMBtu

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

1.4

Pacific Gas and Electric Company
Table 17b
[REDACTED]
All prices are in U.S. \$/MMBtu

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

1.4

b. Gas Supply Outlook

i. Production Outlook for Gas Basins

[REDACTED]

[REDACTED]

1

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

1

[REDACTED]

Rockies gas traded at a \$1.40 and \$2.19/MMBtu discount to the NYMEX Henry Hub contract last summer (April 2006 through October 2006) and winter (November 2005 through March 2006), respectively. Looking forward, Rockies gas is currently trading at a [REDACTED] discount to the NYMEX for remaining winter (February

1.4

through March 2007) and at a [REDACTED] discount for coming summer (April 2007 through October 2007).

1.4

San Juan productive capacity is expected to [REDACTED] [REDACTED] San Juan gas traded at a \$1.15 /MMBtu discount to NYMEX for the summer of 2006, and a \$2.24/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 2007.

1.4

1.4

Permian Basin

Permian gas traded at a \$0.90/MMBtu discount to NYMEX last summer and a \$2.26/MMBtu discount last winter. The Permian basin is currently trading at a [REDACTED] to NYMEX for the remaining winter and at a [REDACTED] for summer 2007. Permian supplies are expected to remain a marginal source of California supply.

1.4

California Production

California's very mature gas production totaled approximately [REDACTED]

1.4

Alberta and British Columbia

Like Rocky Mountain gas, Canadian supplies will play a growing role in meeting future gas demand.

In Alberta, production capacity in the Western Canadian Supply Basin (WCSB) is expected to [REDACTED]

1

Canadian rig counts reached record levels again in February 2006, with Baker Hughes reporting 596 Canadian natural gas rigs in operations. 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 \$1.06/MMBtu discount to NYMEX last summer and a \$1.53/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 next summer.

1.4

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-9.

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 Updates Pertinent to CDWR Gas Supply

Gas Transmission Northwest Rate Case. On June 30, 2006, Gas Transmission Northwest Corporation ("GTN") filed tariff sheets with the Federal Energy Regulatory Commission to restate GTN's rates for service on its interstate transportation system. GTN's proposal includes an increase of over 70% for Kingsgate to Malin firm deliveries. These rates went into effect January 1, 2007, subject to refund.

Appendix A: Sample Calculations
[Redacted in Full]

Appendix B: Projected Gas Volume and Cost Beyond GSP-9
[Redacted in Full]

**Appendix C: Risk Management Strategies
Beyond the Term of GSP-9
[Redacted in Full]**