

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



November 29, 2010

Advice Letter 3697-E

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

**Subject: Substitution of Natural Gas Basis Differentials for Use in
PG&E's Short Run Avoided Cost Energy Pricing**

Dear Ms. Yura:

Advice Letter 3697-E is effective July 1, 2010.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

July 2, 2010

Advice 3697-E

(Pacific Gas and Electric Company ID U 39E)

Public Utilities Commission of the State of California

**Subject: Substitution of Natural Gas Basis Differentials for Use in PG&E's Short Run
Avoided Cost Energy Pricing**

Purpose

PG&E seeks authorization to use Intercontinental Exchange (ICE) natural gas financial basis swap prices instead of New York Mercantile Exchange (NYMEX) Clearport basis swap values to calculate its monthly short run avoided cost ("SRAC") energy pricing as required by CPUC Decision 07-09-040, due to insufficient trading activity on the NYMEX Clearport exchange. This advice should be effective as of July 1, 2010 and thereby applicable to PG&E's July 2010 and subsequent SRAC prices.

Background

PG&E's monthly SRAC energy prices must be filed with the Energy Division and posted on PG&E's website within two business days of PG&E's receipt of the necessary input data.¹ This month's filing is expected to be made approximately July 12, 2010 and will use the ICE natural gas basis swap pricing as described in this advice letter.

The monthly SRAC calculation involves a Market Index Formula ("MIF") which uses twelve months of forward gas and energy prices, among other things, to determine the forward Market Heat Rate ("MHR"). PG&E is required to use a 50/50 average of Malin and Topock gas prices for the twelve-month forward period. These prices have been derived for each forward month by adjusting the NYMEX Henry Hub contract price with average NYMEX Clearport basis swap pricing for Malin and SoCal Topock.

As of May 2010, however, the Clearport Malin basis prices were available for a forward period of only eleven months, so PG&E derived the May SRAC using a substitute for the missing month's data.² On May 12, PG&E advised the Energy Division and the parties to the Long Term Procurement Proceeding (R. 04-04-003) and the Avoided Cost Proceeding (R.04-04-025) that, based on the migration of forward trading activity from the NYMEX Clearport exchange to the ICE exchange, PG&E expects to use ICE natural gas financial basis swap values in subsequent SRAC postings. Due to even more missing data in June, PG&E's June 2010 SRAC was derived similarly and the Energy Division and parties were so advised. No comments were received in response to either submission.

¹ Resolution ("Res.") E-4246, in particular, Ordering Paragraphs 9 and 10.

² The NYMEX Clearport basis for PG&E Citygate, minus the costs for tariffed transportation between Malin and PG&E Citygate, was used in the absence of April 2011 Clearport Malin data.

Description of Proposal

PG&E proposes to use the ICE natural gas financial basis swap prices for both California locations -- Malin and SoCal Topock -- to calculate the MHR in its July 2010 and subsequent SRAC postings due to the migration of trading activity from NYMEX to ICE.³ This migration has resulted in insufficient forward trades on NYMEX, which is the CPUC-designated exchange.

The natural gas financial basis swaps reference an index publisher such as *Natural Gas Intelligence* (NGI) or *Inside FERC* upon which the products will settle. When the MIF was created, the Malin basis products referenced the NGI index and were cleared on both NYMEX and ICE. In May of 2009, ICE gained exclusive rights to offer products using the NGI indices. Consequently, NYMEX no longer offers financial basis swaps referencing the NGI indices and now offers basis swaps referencing prices published by *Inside FERC*.

PG&E understands that California gas market traders prefer to settle forward trades using the NGI indices. Because products tied to NGI indices are unavailable on NYMEX, most market participants have moved their positions from NYMEX to ICE. Consequently, NYMEX forward prices for Malin are not available for a forward 12-month horizon, which makes them inadequate for calculating SRAC pricing.

PG&E proposes to “follow the market”, i.e., respond to the system-wide migration of California gas trading activity from NYMEX to ICE by using ICE natural gas financial basis swaps for all locations (Malin and SoCal Topock) required to calculate the MHR in PG&E’s SRAC postings.

Tier Designation

In Res. E-4246, the Commission observed that the Tier 2 Advice Letter process is appropriate in the event a utility is required to use a different forward energy price publication to “better reflect its avoided cost”.⁴ PG&E believes that this Tier 2 procedure is also appropriate for the analogous change in the forward gas basis pricing. Accordingly, this advice is provided as a Tier 2 Advice Letter.⁵ It will become effective in 30 days after filing unless protested, and if protested, will become effective upon its approval by the Energy Division Staff.

Protests

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 **July 22, 2010**, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
Email: jjn@cpuc.ca.gov and mas@cpuc.ca.gov

³ These products are denoted on ICE as “NG Fin BS, LD1 for NGI” at Malin, SoCal and PG&E Citygate.

⁴ See, Res. E-4246 at p. 24, citing D.08-09-024, pp. 16 and 17.

⁵ PG&E is authorized to file an Advice Letter to request modification of Res. E-4246, which addressed Advice Letter 3180-E, by General Order 96-B, Rule 5.1, Item (2).

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

The protest should also 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:

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-6520
Email: PGETariffs@pge.com

Effective Date

PG&E respectfully requests an effective date of **July 1, 2010**, for this advice letter, consistent with the effective date of PG&E's July 2010 SRAC energy prices.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service lists for R.04-04-003 and R.04-04-025. Address changes to the General Order 96-B service list and all electronic approvals should be directed to e-mail PGETariffs@pge.com. For changes to any other service list, please contact the commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.

A handwritten signature in cursive script that reads "Jane Yura / lmt".

Vice President - Regulation and Rates

cc: Service Lists R.04-04-003 and R.04-04-025

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 M)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Linda Tom-Martinez

Phone #: (415) 973-4612

E-mail: lmt1@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) #: **3697-E**

Tier: 2

Subject of AL: **Substitution of Natural Gas Basis Differentials for Use in PG&E's Short Run Avoided Cost Energy Pricing**

Keywords (choose from CPUC listing): Avoided Cost, Procurement

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D. 07-09-040

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

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

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for:

Confidential information will be made available to those who have executed a nondisclosure agreement: Yes No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: _____

Resolution Required? Yes No

Requested effective date: **July 1, 2010**

No. of tariff sheets: N/A

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:

Service affected and changes proposed¹: N/A

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

Protests, dispositions, 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

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave.,

San Francisco, CA 94102

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

Pacific Gas and Electric Company

Attn: Jane K. Yura

Vice President, Regulation and Rates

77 Beale Street, Mail Code B10B

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

Alcantar & Kahl	Department of Water Resources	Northern California Power Association
Ameresco	Department of the Army	Occidental Energy Marketing, Inc.
Anderson & Poole	Dept of General Services	OnGrid Solar
Arizona Public Service Company	Division of Business Advisory Services	Praxair
BART	Douglass & Liddell	R. W. Beck & Associates
BP Energy Company	Downey & Brand	RCS, Inc.
Barkovich & Yap, Inc.	Duke Energy	Recon Research
Bartle Wells Associates	Dutcher, John	Recurrent Energy
Bloomberg New Energy Finance	Economic Sciences Corporation	SCD Energy Solutions
Boston Properties	Ellison Schneider & Harris LLP	SCE
Brookfield Renewable Power	Foster Farms	SMUD
C & H Sugar Co.	G. A. Krause & Assoc.	SPURR
CA Bldg Industry Association	GLJ Publications	Santa Fe Jets
CAISO	Goodin, MacBride, Squeri, Schlotz & Ritchie	Seattle City Light
CLECA Law Office	Green Power Institute	Sempra Utilities
CSC Energy Services	Hanna & Morton	Sierra Pacific Power Company
California Cotton Ginners & Growers Assn	Hitachi	Silicon Valley Power
California Energy Commission	International Power Technology	Silo Energy LLC
California League of Food Processors	Intestate Gas Services, Inc.	Southern California Edison Company
California Public Utilities Commission	Lawrence Berkeley National Lab	Sunshine Design
Calpine	Los Angeles Dept of Water & Power	Sutherland, Asbill & Brennan
Cameron McKenna	Luce, Forward, Hamilton & Scripps LLP	Tabors Caramanis & Associates
Cardinal Cogen	MAC Lighting Consulting	Tecogen, Inc.
Casner, Steve	MBMC, Inc.	Tiger Natural Gas, Inc.
Chris, King	MRW & Associates	Tioga Energy
City of Glendale	Manatt Phelps Phillips	TransCanada
City of Palo Alto	McKenzie & Associates	Turlock Irrigation District
Clean Energy Fuels	Merced Irrigation District	U S Borax, Inc.
Coast Economic Consulting	Mirant	United Cogen
Commerce Energy	Modesto Irrigation District	Utility Cost Management
Commercial Energy	Morgan Stanley	Utility Specialists
Consumer Federation of California	Morrison & Foerster	Verizon
Crossborder Energy	NRG West	Wellhead Electric Company
Davis Wright Tremaine LLP	New United Motor Mfg., Inc.	Western Manufactured Housing Communities Association (WMA)
Day Carter Murphy	Norris & Wong Associates	eMeter Corporation
Defense Energy Support Center	North America Power Partners	
	North Coast SolarResources	