

September 15, 2003

**Advice 2482-G/2420-E  
(Pacific Gas and Electric Company ID U 39 M)**

**Subject: PG&E's Authorization for Financial Hedging Memorandum Account**

Pacific Gas and Electric Company (PG&E) hereby submits for filing the following changes to its tariff schedules. The revised tariff sheets are attached hereto.<sup>1</sup>

**Purpose**

This advice filing establishes the Financial Hedging Memorandum Account (FHMA), which authorizes PG&E to record costs and benefits associated with interest rate hedges approved by the Commission's General Counsel and Director of the Energy Division, or their designated representatives. These incurred costs and benefits will be recovered in PG&E's Cost of Capital proceeding or other proceedings where PG&E's Cost of Capital is decided.

PG&E is authorized to enter into interest-rate hedges as described in Decision (D.) 03-09-020. In addition, PG&E shall comply with all record keeping and reporting requirements pertaining to these financial instruments, which have been adopted in D. 93-06-082.

**Background**

As stated in Decision 03-09-020, the Commission opened Order Instituting Investigation (I.) 02-07-015, for the purpose of authorizing PG&E to issue preferred stock and long-term debt instruments to finance only the Commission's proposed Plan of Reorganization (POR). On November 7, 2002, the Commission granted conditional authority for PG&E in D. 02-11-030, to issue up to \$9.5 billion of additional preferred stock and long-term debt, only to implement the Commission's

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<sup>1</sup> The Company reserves all legal rights to challenge the decisions or statutes under which it has been required to make this advice filing, and nothing in this advice filing constitutes a waiver of such rights. Also, the Company reserves any additional legal rights to challenge the requirement to make this advice filing by reason of its status as a debtor under Chapter 11 of the Bankruptcy Code, and nothing in this advice filing constitutes a waiver of such rights.

and the Official Committee of Unsecured Creditors' First Amended POR proposed by the Committee of Unsecured Creditors (Amended Plan) as amended, modified or supplemented from time-to-time.

On July 25, 2003, PG&E filed a Petition for Modification of D. 02-11-030, to request that the Commission modify the decision as soon as possible to authorize PG&E to enter into forward rate agreements, options, and floors, as well as the previously authorized swaps, caps, and collars (collectively, "interest rate hedges") for debt issued to implement ANY Bankruptcy Court's approved plan of reorganization, immediately upon issuance by the Commission of its decision on the petition.

On September 4, 2003, the Commission adopted D.03-09-020, which authorized PG&E to enter into interest rate hedges with concurrence of the Commission's Financing Team. The Commission also authorized PG&E to establish a bankruptcy financial hedging memorandum account to record the costs of any interest rate hedges.

### **Memorandum Account**

The FHMA, consistent with D. 03-09-020, will record all costs and benefits related to approved interest rate hedges. This activity will result in costs and benefits such as, but not limited to fees, broker charges, collateral payments, and cash payments or receipts to PG&E under the interest-rate hedges.

PG&E believes the recorded costs and benefits and its inclusion in PG&E's Cost of Capital Proceeding or other proceedings where PG&E's Cost of Capital is decided are consistent with D. 03-09-020.

### **Protests**

Anyone wishing to protest this filing may do so by sending a letter by **October 6, 2003**, which is 21 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, 4<sup>th</sup> Floor  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: [jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov)

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company  
Attention: Brian K. Cherry  
Director, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177  
Facsimile: (415) 973-7226  
E-mail: RxDd@pge.com

### **Effective Date**

PG&E requests that this filing be effective on **September 15, 2003**, which is the date of filing. Given the intent of D. 03-09-020 and the urgency of implementing the interest-rate hedging financial instruments, PG&E expects to commence these activities as soon as possible.

### **Notice**

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for I. 02-07-015. Address changes should be directed to Rose de la Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

[http://www.pge.com/customer\\_services/business/tariffs/](http://www.pge.com/customer_services/business/tariffs/)

Vice President - Regulatory Relations

Attachments

cc: Service List – I. 02-07-015



PRELIMINARY STATEMENT  
(Continued)

BC. FINANCIAL HEDGING MEMORANDUM ACCOUNT (FHMA)

(N)

1. **PURPOSE:** The purpose of the Financial Hedging Memorandum Account is to record the costs and benefits related to financial interest rate hedges which are entered into by PG&E and approved by the Commission's General Counsel and Director of the Energy Division, or their designated representatives. These incurred costs and benefits will be recovered pursuant to PG&E's Cost of Capital proceeding, as directed in Decision (D.) 02-11-027. PG&E is authorized to enter into interest-rate hedges as described in Decision 03-09-020. PG&E shall comply with all record keeping and reporting requirements pertaining to these financial instruments, which have been adopted in Decision 93-06-082. The recorded costs and benefits shall include, but not be limited to, fees, broker charges, collateral payments, and cash payments or receipts to PG&E under the interest-rate hedges, and will be recovered as debt issuance costs as provided in PG&E's Cost of Capital proceeding or other proceedings where PG&E's Cost of Capital is decided.
2. **APPLICABILITY:** The FHMA shall apply to all customer classes, except for any classes that may be specifically excluded by the CPUC.
3. **REVISION DATE:** Disposition of the amounts in this account shall be recovered in PG&E's Cost of Capital proceeding or other proceedings where PG&E's Cost of Capital is decided.
4. **FHMA RATES:** This account does not have a separate rate component.
5. **ACCOUNTING PROCEDURE:** PG&E shall maintain the FHMA by making entries at the end of each month as follows:
  - a. A debit or credit entry equal to the cash payments or receipts made under the interest rate hedging contracts;
  - b. A debit entry equal to the fees, broker charges, or other expenses incurred under the interest-rate hedging contracts;
  - c. A debit or credit entry equal to pre-payments and credit and collateral payments, including all associated fees, for interest-rate hedging contracts, and if applicable, reimbursements of pre-payments, credit and collateral payments; and
  - d. An entry equal to the interest on the average balance at the beginning of the month and the balance after the above entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H. 15 or its successor.

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PRELIMINARY STATEMENT  
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CV. FINANCIAL HEDGING MEMORANDUM ACCOUNT (FHMA)

(N)

1. **PURPOSE:** The purpose of the Financial Hedging Memorandum Account is to record the costs and benefits related to financial interest rate hedges which are entered into by PG&E and approved by the Commission's General Counsel and Director of the Energy Division, or their designated representatives. These incurred costs and benefits will be recovered pursuant to PG&E's Cost of Capital proceeding, as directed in Decision (D.) 02-11-027. PG&E is authorized to enter into interest-rate hedges as described in Decision 03-09-020. PG&E shall comply with all record keeping and reporting requirements pertaining to these financial instruments, which have been adopted in Decision 93-06-082. The recorded costs and benefits shall include, but not be limited to, fees, broker charges, collateral payments, and cash payments or receipts to PG&E under the interest-rate hedges, and will be recovered as debt issuance costs as provided in PG&E's Cost of Capital proceeding or other proceedings where PG&E's Cost of Capital is decided.
2. **APPLICABILITY:** The FHMA shall apply to all customer classes, except for any classes that may be specifically excluded by the CPUC.
3. **REVISION DATE:** Disposition of the amounts in this account shall be recovered in PG&E's Cost of Capital proceeding or other proceedings where PG&E's Cost of Capital is decided.
4. **FHMA RATES:** This account does not have a separate rate component.
5. **ACCOUNTING PROCEDURE:** PG&E shall maintain the FHMA by making entries at the end of each month as follows:
  - a. A debit or credit entry equal to the cash payments or receipts made under the interest rate hedging contracts;
  - b. A debit entry equal to the fees, broker charges, or other expenses incurred under the interest-rate hedging contracts;
  - c. A debit or credit entry equal to pre-payments and credit and collateral payments, including all associated fees, for interest-rate hedging contracts, and if applicable, reimbursements of pre-payments, credit and collateral payments; and
  - d. An entry equal to the interest on the average balance at the beginning of the month and the balance after the above entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H. 15 or its successor.

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