

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Advice Letter 2856-G

September 14, 2007

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

Subject: Revisions to PG&E Gas Preliminary Statements C and D
(CPIM and Purchased Gas Account) pursuant to Decision
07-06-013 and other Clean-up Items

Dear Mr. Cherry:

Advice Letter 2856-G is effective September 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
Regulatory Relations

Pacific Gas and Electric Company
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August 2, 2007

Advice 2856-G

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

Subject: Revisions to PG&E Gas Preliminary Statements C and D (CPIM and Purchased Gas Account) pursuant to Decision 07-06-013 and other Clean-up Items

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its gas tariffs Preliminary Statement Part C – Gas Accounting Terms and Conditions, and Part D – Purchased Gas Account. The affected tariff sheets are listed on the enclosed Attachment I.

Purpose

This advice filing revises PG&E's Gas Tariffs consistent with PG&E's Long Term Core Hedging Decision (D.) 07-06-013 and makes additional revisions to the tariffs to clarify and standardize the tariff language.

Background

On June 7, 2007, the CPUC issued D.07-06-013 approving PG&E's Long Term Core Hedge Program along with minor modifications to PG&E's Core Procurement Incentive Mechanism (CPIM). On June 8, 2007, PG&E filed Advice 2841-G to revise its tariffs in compliance with that decision. Advice 2841-G was approved effective June 26, 2007. This filing makes additional revisions consistent with D.07-06-013 as well as other changes as described below.

Tariff Revisions

Preliminary Statement Part C – Gas Accounting Terms and Definitions

Preliminary Statement Part C.14 - *Core Procurement Incentive Mechanism* is revised to reflect the change approved in D.07-06-013 for the CPIM awarded savings from 75% customers/25% shareholders to 80% customers/20% shareholders. This modification takes effect for the CPIM Year 15 (2007-2008) beginning November 1, 2007. Language is also revised to reflect the provision of

the settlement adopted in D.07-06-013 for the CPIM to continue indefinitely until modified or terminated by the CPUC. Also changed are several references from “ratepayers” to “customers.”

Preliminary Statement Part D – Purchased Gas Account

An entry is added to the Core Gas Hedging Plan Subaccount to allow PG&E to record a CPUC authorized amount in the subaccount, such as the cost of the Customer Risk Preference Study, if conducted, as approved in D.07-06-013 (D.6.c.5).

Other edits made for clarification, to standardize and eliminate repetitive language include:

- The “Forecast Period” for the PGA is clarified as monthly based on the most recent forecast core procurement volumes (D.4).
- “PGA” is removed from the title “PGA Rates” in section D.5 due to the fact there are no actual “PGA Rates”; additional edits are made to clarify that the PGA balance is included in core procurement rates.
- The “Core Subaccount” name is changed to the “Core Sales Subaccount” for increased clarity (D.6 and D.6.a); additional edits are made to clarify and eliminate repetitive language (D.6.a.1, D.6.a.4, D.6.a.5, and D.6.a.8).
- The entry for El Paso Settlement refunds is deleted from the Core Sales Subaccount as it is no longer necessary and replaced with a general entry to allow PG&E to record any other CPUC authorized amount in the subaccount (D.6.a.6).
- Entries in the Core Shrinkage Subaccount are revised to clarify and standardize language (D.6.b.1, D.6.b.2, and D.6.b.3).
- Entries in the Core Gas Hedging Plan Subaccount are revised to refer to CPUC authorized Core Gas Hedging Plans as defined in D.6 (D.6.c.1 and D.6.c.3).
- An entry is added to the Core Gas Hedging Plan Subaccount to clarify current recorded transactions for interest on collateral or margin activity (D.6.c.4).

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 **August 22, 2007**, 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
E-mail: anj@cpuc.ca.gov and mas@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

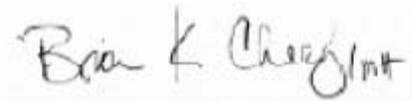
Effective Date

PG&E requests that this advice filing become effective on regular notice, **September 1, 2007**, which is 30 calendar days after the date of filing.

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. Address changes to the General Order 96-B service list should be directed to Rose de la Torre at (415) 973-4716. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs>



Vice President, Regulatory Relations

Attachments

cc: Service List

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)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Megan Hughes

Phone #: (415) 973-1877

E-mail: mehr@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) #: **2856-G**

Tier 2

Subject of AL: Revisions to PG&E Gas Preliminary Statements C and D (CPIM and Purchased Gas Account) pursuant to Decision 07-06-013 and other Clean-up Items

Keywords (choose from CPUC listing): Compliance, memorandum account

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: N/A

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: _____

Resolution Required? Yes No

Requested effective date: **September 1, 2007**

No. of tariff sheets: 6

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: Gas Prelim Statements C and D

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
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: 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

¹ Discuss in AL if more space is needed.

**ATTACHMENT 1
Advice 2856-G**

Cal P.U.C. Sheet No.	Title of Sheet	Cancelling Cal P.U.C. Sheet No.
25093-G	Preliminary Statement Part C--Gas Accounting Terms and Definitions	24974-G
25094-G	Preliminary Statement Part D--Purchased Gas Account	24975-G
25095-G	Preliminary Statement Part D (Cont.)	24619-G
25096-G	Preliminary Statement Part D (Cont.)	24976-G
25097-G	Table of Contents -- Preliminary Statements	25031-G
25098-G	Table of Contents -- Title Page	25030-G



PRELIMINARY STATEMENT
 (Continued)

C. GAS ACCOUNTING TERMS AND DEFINITIONS (Cont'd.)

14. CORE PROCUREMENT INCENTIVE MECHANISM: The Core Procurement Incentive Mechanism (CPIM) is designed to replace traditional reasonableness reviews for Gas Procurement Costs as defined in C.10, above. PG&E will report its procurement activities monthly to the CPUC's Energy Division and Division of Ratepayer Advocates (DRA) and will file an annual report outlining cost savings, rewards or penalties under the CPIM. Incentive rewards and penalties are calculated annually and, upon Commission approval, will be recorded in the Core Sales Subaccount of the Purchased Gas Account (PGA). (T)
 (T)

Decision 97-08-055 adopted a CPIM mechanism for Post-1997 performance as filed in Application 96-08-043, and as affirmed in D.03-12-061. Modifications adopted in D.04-01-047 are effective for the CPIM year starting November 1, 2002. Modifications adopted in D.07-06-013 are effective for the CPIM year starting November 1, 2007. The CPIM will continue indefinitely until modified or terminated by the CPUC. No costs and payouts for CPUC authorized Core Gas Hedging Plans, pursuant to D.05-10-015 (effective October 6, 2005), D.06-08-027 (effective August 24, 2006), and D.07-06-013 (effective June 7, 2007), are included in the CPIM. (T)
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 (T)

The CPIM provides PG&E with a direct financial incentive to procure core gas and transportation services at the lowest reasonable cost by calculating rewards or penalties through comparing actual procurement costs to an aggregate market-based benchmark.

The CPIM establishes both a standard benchmark, which applies to purchasing activities occurring under most operating and temperature conditions, and an alternate benchmark which applies only under extraordinary circumstances requiring economic and/or physical diversions of supplies and transportation resources held by other shippers on the interstate and intrastate transmission system.

The CPIM standard benchmark is made up of three components: (1) the fixed transportation cost component, which includes interstate, backbone transmission system, and upstream Canadian capacity reservation costs; (2) the variable cost component, which covers commodity costs and volumetric transportation costs; and (3) a storage cost component. (T)
 (T)

The commodity and capacity benchmark components are calculated daily. At the end of each 12-month period, the daily benchmark components are added together to form a single annual benchmark budget. Actual incurred costs are compared to the benchmark. If actual gas commodity and capacity costs fall within a range (tolerance band) around the benchmark, costs are deemed reasonable, and are fully recoverable from customers. If actual costs fall below the tolerance band, the savings (the difference between the lower limit of the tolerance band and actual recorded costs) are shared between customers and shareholders according to the following procedure: (T)
 (T)

- a) 80 percent to customers and 20 percent to shareholders per D.07-06-013; and (T)
- b) In addition, annual PG&E shareholder awards are capped at the lower of 1.5 percent of the total annual gas commodity costs, or \$25 million.

Customers and shareholders share equally any costs in excess of the upper limit of the tolerance band. (T)

An alternate benchmark can be invoked by PG&E under certain extraordinary circumstances requiring economic and/or mandatory diversions of gas and transmission resources held by other shippers. All voluntary and involuntary diversion costs are compared to the highest value of the daily PG&E Citygate index range. There is no tolerance band for the alternate benchmark, and actual costs savings or overruns, relative to the benchmark, are shared 95 percent by customers and 5 percent by shareholders. (T)

(Continued)



PRELIMINARY STATEMENT
 (Continued)

D. PURCHASED GAS ACCOUNT (PGA)

1. PURPOSE: The purpose of the PGA is to record the cost associated with gas purchased for the Gas Supply Portfolio and revenues from the sale of that gas, and other amounts specifically authorized by the CPUC to be recorded in this account. The balances in the sub-accounts will be incorporated into monthly core procurement rates. (T)
 (T)

Descriptions of the terms and definitions used in this section are found in Preliminary Statement, Part C or in Rule 1.

2. APPLICABILITY: The PGA balance applies to all gas procurement rate schedules and contracts subject to the jurisdiction of the CPUC, except for those schedules and contracts specifically excluded by the CPUC.
3. REVISION DATE: The revision date applicable to the PGA rate shall coincide with the monthly core procurement rate change or at other times, as ordered by the CPUC.
4. FORECAST PERIOD: The forecast period will be monthly based on the most recent forecast of core procurement volumes, or as otherwise specified by the CPUC. (T)
 (T)
5. RATES: The PGA balance is included in the effective procurement rates set forth in each rate schedule (see Preliminary Statement, Part B), as applicable. (T)
6. ACCOUNTING PROCEDURE: The PGA consists of the following subaccounts:

The "Core Sales Subaccount" records the cost of gas procured for sale to core customers and revenues from the sales to core customers of that gas. (See Preliminary Statement Part C.7.) (T)

The "Core Shrinkage Subaccount" records core shrinkage costs and shrinkage revenues from core procurement customers.

The "Core Gas Hedging Plan Subaccount" records revenues from core procurement customers, and cost and payouts for hedge instruments transacted under the Core Gas Hedging Plans authorized by the CPUC in Decision (D.) 05-10-015 (effective October 6, 2005), (D.) 06-08-027 (effective August 24, 2006), and (D.) 07-06-013 (effective June 7, 2007). (T)
 (T)

The "Winter Gas Savings Program Procurement Subaccount" recovers procurement-related program costs, including rebates to customers and approved marketing and implementation costs, from core procurement customers. The 10/20 Winter Gas Savings Program (WGSP) is designed to encourage conservation as detailed in Schedule G-10/20 – *Winter Gas Savings Program*.

(Continued)



PRELIMINARY STATEMENT
 (Continued)

D. PURCHASED GAS ACCOUNT (PGA) (Cont'd.)

6. ACCOUNTING PROCEDURE: (Cont'd.)

PG&E shall maintain the PGA by making entries to the subaccounts as follows:

a. Core Sales Subaccount

(T)

The following entries will be made to this subaccount each month, or as applicable:

(T)

1) A debit entry equal to the recorded gas costs in the Gas Supply Portfolio during the month as described in Preliminary Statement Part C.7, excluding costs associated with core shrinkage and CPUC authorized Core Gas Hedging Plans that are recorded in other PGA accounts.

(T)
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 (T)

2) A debit entry equal to the involuntary diversion usage charges incurred by the core;

3) A debit entry equal to the carrying costs on cycled gas in storage;

4) An annual debit or credit entry equal to the core portion of the cost or benefit resulting from the CPIM as described in Preliminary Statement Part C.14;

(T)

5) A credit entry equal to the revenue from the Core Procurement Charge rate component, excluding the allowance for Franchise Fees and Uncollectible Accounts Expense (F&U);

(T)

6) A debit or credit entry equal to any other amount authorized by the CPUC to be recorded in this subaccount;

(D)
 (N)
 (N)

7) A debit or credit entry, as appropriate, to record the transfer of amounts from other accounts or subaccounts to this subaccount for recovery in rates; and

(T)

8) An entry equal to the interest on the average of the balance in the subaccount at the beginning of the month and the balance in the subaccount after entries from D.6.a.1 through D.6.a.7 are made, 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.

(T)

(Continued)



PRELIMINARY STATEMENT
 (Continued)

D. PURCHASED GAS ACCOUNT (PGA) (Cont'd.)

6. ACCOUNTING PROCEDURE: (Cont'd.)

b. Core Shrinkage Subaccount

The following entries will be made to this account each month, or as applicable: (T)

- 1) a debit or credit entry equal to the core portion of the recorded purchased gas cost for shrinkage; (T)
- 2) a credit entry equal to the revenue from the Core Shrinkage rate component, excluding the allowance for F&U; and (T)
- 3) an entry equal to the interest on the average of the balance in the subaccount at the beginning of the month and the balance in the subaccount after entries from D.6.b.1. and D.6.b.2, are made, 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. (T)

c. Core Gas Hedging Plan Subaccount

The following entries will be made to this account each month, or as applicable: (T)

- 1) a debit entry equal to the costs of any hedge instruments under CPUC authorized Core Gas Hedging Plans; (T)
(T)
- 2) a credit entry equal to the revenue from the Winter Hedging rate component, excluding the allowance for F&U;
- 3) a credit entry equal to the payouts associated with any hedge instruments under CPUC authorized Core Gas Hedging Plans; (T)
(T)
- 4) a debit or credit entry equal to the interest on margin and collateral activity for any hedge instruments under CPUC authorized Core Gas Hedging Plans; (N)
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|
- 5) A debit or credit entry equal to any other amount authorized by the CPUC to be recorded in this subaccount; (N)
|
|
- 6) a debit or credit entry to transfer any remaining balance in this subaccount to the Core subaccount of the PGA upon termination of this subaccount; and
- 7) an entry equal to the interest on the average of the balance in the subaccount at the beginning of the month and the balance in the subaccount after entries from D.6.c.1 through D.6.c.6, are made, 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. (T)

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

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
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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
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Cardinal Cogen	Manatt, Phelps & Phillips	United Cogen Inc.
Cellnet Data Systems	Marcus, David	URM Groups
Chevron Texaco	Matthew V. Brady & Associates	Utility Resource Network
Chevron USA Production Co.	Maynor, Donald H.	Wellhead Electric Company
City of Glendale	MBMC, Inc.	White & Case
City of Healdsburg	McKenzie & Assoc	WMA
City of Palo Alto	McKenzie & Associates	
City of Redding	Meek, Daniel W.	
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	