

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



June 3, 2009

**Advice Letter 3009-G**

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: Long Term Core Gas Hedge Program – 2008 Annual Hedging  
Plan Compliance Advice Letter**

Dear Mr. Cherry:

Advice Letter 3009-G is effective May 1, 2009.

Sincerely,

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

Julie A. Fitch, Director  
Energy Division

*Attachments 1 through 7 of this document contains confidential market sensitive information and is being filed under seal and under the provisions of Public Utilities Code Sections 583 and 454.5(g)*



**Brian K. Cherry**  
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77 Beale St., Mail Code B10C  
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San Francisco, CA 94177

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April 1, 2009

**Advice 3009-G**

(Pacific Gas and Electric Company ID U39 G)

Public Utilities Commission of the State of California

**Subject: Long Term Core Gas Hedge Program - 2008 Annual Hedging Plan Compliance Advice Letter**

Pacific Gas and Electric Company (PG&E) hereby submits for filing an Advice Letter in compliance with the Settlement Agreement per Application (A.) 06-05-007, approved in Decision (D.) 07-06-013.

**Purpose**

PG&E submits this advice letter in compliance with Section 5 of the Settlement Agreement, which the California Public Utilities Commission (CPUC) approved in D. 07-06-013. This advice letter demonstrates that PG&E has fully complied with its approved 2008 Annual Core Gas Hedging Implementation Plan (Annual Hedging Plan), which was submitted in Advice Letter 2908-G.

**Confidential attachments 1 through 7 of this advice letter contain confidential and market sensitive information under D.06-06-066, Appendix 1, Item I.A.4, and are submitted pursuant to General Order 66-C and Public Utilities Code Section 583.**

**Background**

D. 07-06-013 adopted a Settlement Agreement between PG&E, Division of Ratepayer Advocates (DRA), The Utility Reform Network (TURN), and Aglet Consumer Alliance (Aglet) for approval of a long-term core hedge program for PG&E's core natural gas supplies (A. 06-05-007).

Section 5.1 of the Settlement Agreement specified that, twice yearly, PG&E will file a compliance advice letter - once after the annual implementation period and another at the end of the winter heating season. The advice letters shall describe the general parameters of the Annual Hedging Plan and include a confidential attachment containing information about each transaction executed by PG&E during the implementation period, the date the transaction was executed, and the amount paid for the transactions.

Additionally, Section 5.2 of the Settlement Agreement specified that on or about April 1 of each year, PG&E will provide a report of the financial results of the Annual Plan to the CPUC Energy Division. These financial results are contained within the confidential attachments.

Attachments 1 through 7 are to remain confidential in compliance with D. 07-06-013, Ordering Paragraph 2: "PG&E's annual gas hedging plans shall be treated as a long-term gas hedging plan in a manner consistent with the confidentiality provisions of D. 06-06-066 as modified by D. 07-05-032."

### **General Parameters of the Annual Plan**

The following describes the general parameters of PG&E's 2008 annual core gas hedging implementation plan:

#### **Hedge Coverage Period:**

PG&E is authorized to hedge three years forward.

#### **Budget for Options:**

PG&E is authorized to spend a confidential dollar amount in total on options for each Annual Implementation Plan. Of this annual total, up to a specified amount may be spent for Winter 1 (2008-2009) and Winter 2 (2009-2010),

#### **Coverage with Swaps:**

PG&E is authorized to hedge with swaps for a level of coverage up to a specified percentage of average daily core gas demand for Winters 2 (2009-2010), and 3 (2010-2011).

#### **Execution Period:**

The Settlement agreement calls for hedges (both options and swaps) to be executed over a specified period in each year.

### **Compliance Documentation**

The confidential attachments outline how PG&E has complied with all parameters of its approved 2008 Annual Hedging Plan, as listed above.

In confidential Attachments 1 and 1A, PG&E summarizes the execution of its 2008 Annual Hedging Plan along with outstanding swap and options executed under its 2007 Annual Hedging Plan. This table includes the total funds spent on hedging instruments, the amount of natural gas supplies hedged, and the anticipated impact of the Hedging Plan on the average residential customers' gas bills. Attachment 1 also includes the hedge parameter targets in order to demonstrate compliance with the Annual Hedging Plan.

A detailed daily list of options and swaps purchased during the 2008 implementation period is provided in confidential Attachments 2A, 2B, 3A, and 3B. By including this information within this advice letter, PG&E provides a complete summary of hedges executed for Winter 2008-2009 on behalf of its core gas customers. Attachments 4, 5A, and 5B provide a detailed list of outstanding option and swap transactions executed under the 2007 Annual Hedging Plan, excluding trades transacted with Lehman Brothers Commodity Services (LBCS), in order to provide a complete picture of all hedges outstanding under PG&E's long-term core gas hedging program.

PG&E separately identifies the options and swaps executed with LBCS under PG&E's core gas hedging program in confidential attachments 3A-L, 3B-L, 4-L, 5A-L and 5B-L. In September 2008, LBCS was subject to an event of default under its financial master agreement with PG&E. On September 17, 2008, PG&E elected to terminate its master agreement with LBCS to mitigate its financial exposure to Lehman Brothers Holdings<sup>1</sup>. As a result, PG&E removed hedge transactions executed with LBCS from its core gas hedging portfolio. PG&E chose not to re-establish these hedges with another party in the current market environment, because its core gas winter 2008-2009 portfolio remained within the authorized hedge coverage target range.

Confidential Attachment 6 provides information regarding potential margin call activity associated with PG&E's 2008 annual core gas hedging implementation plan. As required by Ordering Paragraph 6 in D.06-11-006, all future gas proceedings authorizing core gas hedges should include a discussion of potential margin call activity. Confidential Attachment 6 includes both a probabilistic and a deterministic assessment of the potential for collateral posting. In addition, Confidential Attachment 7 shows the gas price indices used to settle the financial hedges for Winter 2008-2009.

### **Conclusion**

Overall, as the confidential attachments demonstrate, PG&E successfully implemented its 2008 Annual Hedging Plan by ensuring that the authorized option

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<sup>1</sup> On September 15, 2008, Lehman Brothers Holdings, the parent company and parental guarantor of LBCS, filed for bankruptcy protection. Subsequent to PG&E's termination of its financial master agreement, LBCS filed for bankruptcy protection on October 3, 2008.

budget was not exceeded, that hedging coverage with swaps did not exceed the authorized levels, and that all hedging was executed during the authorized time periods.

### **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 **April 21, 2009** 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: [jjn@cpuc.ca.gov](mailto:jjn@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto: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

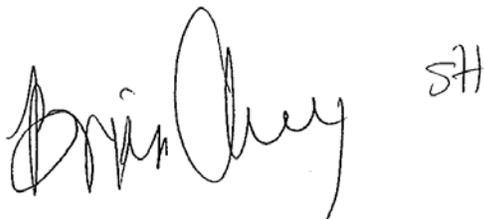
Facsimile: (415) 973-7226  
E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)

### **Effective Date**

PG&E requests that this advice filing become effective on regular notice, **May 01, 2009**, 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 and the parties on the service list for A.06-05-007. 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](mailto:PGETariffs@pge.com). Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>

A handwritten signature in cursive script, appearing to read "Brian O'Leary", followed by the initials "SH" written in a simple, blocky font.

Vice President, Regulatory Relations

Confidential Attachments

cc: Service List A.06-05-007

**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: San Heng

Phone #: 415-973-2640

E-mail: s1hq@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) #: 3009-G

Tier: [2]

Subject of AL: Long Term Core Gas Hedge Program – 2008 Annual Hedging Plan Compliance Advice Letter

Keywords (choose from CPUC listing): Compliance, Core Gas Hedging

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: Decision 07-06-013

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 AL:

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: No

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

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: May 1, 2009

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 proposed:

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: 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-B, Section IV**

Aglet	Department of the Army	Northern California Power Association
Agnews Developmental Center	Dept of General Services	Occidental Energy Marketing, Inc.
Alcantar & Kahl	Division of Business Advisory Services	OnGrid Solar
Ancillary Services Coalition	Douglas & Liddell	PPL EnergyPlus, LLC
Anderson & Poole	Douglass & Liddell	Pinnacle CNG Company
Arizona Public Service Company	Downey & Brand	Praxair
BART	Duke Energy	R. W. Beck & Associates
BP Energy Company	Duncan, Virgil E.	RCS, Inc.
Barkovich & Yap, Inc.	Dutcher, John	RMC Lonestar
Bartle Wells Associates	Ellison Schneider & Harris LLP	Recon Research
Blue Ridge Gas	Energy Management Services, LLC	SCD Energy Solutions
Braun & Associates	FPL Energy Project Management, Inc.	SCE
C & H Sugar Co.	Foster Farms	SESCO
CA Bldg Industry Association	Foster, Wheeler, Martinez	SMUD
CAISO	Franciscan Mobilehome	SPURR
CLECA Law Office	G. A. Krause & Assoc.	Santa Fe Jets
CSC Energy Services	GLJ Publications	Seattle City Light
	Goodin, MacBride, Squeri, Schlotz & Ritchie	Sempra Utilities
California Cotton Ginners & Growers Assn	Green Power Institute	Sequoia Union HS Dist
California Energy Commission	Hanna & Morton	Sierra Pacific Power Company
California League of Food Processors	Heeg, Peggy A.	Silicon Valley Power
California Public Utilities Commission	Hitachi	Smurfit Stone Container Corp
Calpine	Hogan Manufacturing, Inc.	Southern California Edison Company
Cameron McKenna	Imperial Irrigation District	St. Paul Assoc.
Cardinal Cogen	Innercite	Sunshine Design
Casner, Steve	International Power Technology	Sutherland, Asbill & Brennan
Cerox	Intestate Gas Services, Inc.	TFS Energy
Chamberlain, Eric	J. R. Wood, Inc.	Tabors Caramanis & Associates
Chevron Company	JTM, Inc.	Tecogen, Inc.
Chris, King	Los Angeles Dept of Water & Power	Tiger Natural Gas, Inc.
City of Glendale	Luce, Forward, Hamilton & Scripps LLP	Tioga Energy
City of Palo Alto	MBMC, Inc.	TransCanada
City of San Jose	MRW & Associates	Turlock Irrigation District
Clean Energy Fuels	Manatt Phelps Phillips	U S Borax, Inc.
Coast Economic Consulting	Matthew V. Brady & Associates	United Cogen
Commerce Energy	McKenzie & Associates	Utility Cost Management
Commercial Energy	Meek, Daniel W.	Utility Resource Network
Constellation	Merced Irrigation District	Utility Specialists
Constellation New Energy	Mirant	Vandenberg Air Force
Consumer Federation of California	Modesto Irrigation District	Verizon
Crossborder Energy	Morgan Stanley	Wellhead Electric Company
Davis Wright Tremaine LLP	Morrison & Foerster	Western Manufactured Housing Communities Association (WMA)
		White & Case
Day Carter Murphy	New United Motor Mfg., Inc.	eMeter Corporation
Defense Energy Support Center	Norris & Wong Associates	
Department of Water Resources	North Coast SolarResources	