

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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December 1, 2009

Advice Letter 3054-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 Hedging Plan – 2009 Annual Plan
Compliance Advice Letter**

Dear Mr. Cherry:

Advice Letter 3054-G is effective November 16, 2009.

Sincerely,

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

Julie A. Fitch, Director
Energy Division



Brian K. Cherry
Vice President
Regulatory Relations

Pacific Gas and Electric Company
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San Francisco, CA 94177

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October 16, 2009

Advice 3054-G

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

Subject: Long-Term Core Gas Hedging Plan - 2009 Annual Plan Compliance Advice Letter

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

Purpose

PG&E submits this advice letter in compliance with Section 5 of the Core Gas Hedging Settlement Agreement approved in D. 07-06-013. This advice letter demonstrates that PG&E has fully complied with its approved 2009 Annual Core Gas Hedging Implementation Plan (Annual Hedging Plan), which was submitted in Advice Letter 3015-G.

Confidential Attachments 1 through 10 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 and 454.5(g). Attachments 1 through 10 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."

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 specifies 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 compliance advice letters 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.

General Parameters of the Annual Plan

The following describes the general parameters of PG&E's 2009 annual core gas hedging implementation plan:

Hedging 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 (1) the prompt winter (2009-2010), and (2) Winter 2 (2010-2011) and Winter 3 (2011-2012) combined.

Coverage for 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 (2010-2011), and 3 (2011-2012).

Execution Period:

The Settlement Agreement calls for hedges (both options and swaps) to be executed over a specified period.

Compliance Documentation

The confidential attachments outline how PG&E has complied with all parameters of its approved 2009 Annual Hedging Plan, as listed above.

In Attachments 1 and 1A, PG&E summarizes the execution of the 2009 Annual Hedging Plan along with outstanding swap and options executed under the 2007 and 2008 Annual Hedging Plans. 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 customer's gas bills. Attachment 1 also includes the hedge parameter targets in order to demonstrate compliance with the 2009 Annual Hedging Plan.

A detailed daily list of options and swaps purchased during the 2009 implementation period is provided in confidential Attachments 2, 3, 4 and 5. By including this information within this advice letter, PG&E provides a complete summary of hedges executed for Winter 2009-2010 on behalf of its core gas customers. Attachments 6, 7 and 8 provide a detailed list of outstanding option and swap transactions executed under the 2008 Annual Hedging Plan for the upcoming winter periods. Attachment 9 provides similar detail for transactions executed under the 2007 Annual Hedging Plan. Attachments 6 through 9 are provided to show all hedges outstanding under PG&E's long-term core gas hedging program.

In addition, Attachments 7-Lehman, 8-Lehman, and 9-Lehman identify swaps executed with Lehman Brothers Commodity Services (LBCS) under the 2008 and 2007 annual hedging plans. 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 Holdings¹. 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.

Attachment 10 provides information regarding potential margin call activity associated with PG&E's 2009 annual core gas hedging implementation plan, as required by D. 06-11-006 (Ordering Paragraph 6). Attachment 10 includes both a probabilistic and a deterministic assessment of the potential for collateral posting.

Conclusion

Overall, as the confidential attachments demonstrate, PG&E successfully implemented its 2009 Annual Hedging Plan by ensuring that the authorized option 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 **November 5, 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 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:

¹ 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.

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

Effective Date

PG&E requests that this advice filing become effective on regular notice, **November 16, 2009**, which is 31 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 and all electronic approvals should be directed to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.



Vice President, Regulatory Relations

Attachments - Confidential Attachments 1 - 10

cc: Service List A.06-05-007 (without confidential attachments)
Robert Pocta – CPUC (with confidential attachments)
Ramesh Ramchandani – CPUC (with confidential attachments)
Jacqueline Greig – CPUC (with confidential attachments)
Mike Florio – TURN (with confidential attachments)
Marcel Hawiger – TURN (with confidential 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) #: **3054-G**

Tier: 2

Subject of AL: **Long-Term Core Gas Hedging Plan – 2009 Annual Plan Compliance Advice Letter**

Keywords (choose from CPUC listing): Compliance

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.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 AL¹: _____

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: Attachments 1 - 10

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: Harold Pestana (415) 973-4523

Resolution Required? Yes No

Requested effective date: **November 16, 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 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: Brian K. Cherry

Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

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San Francisco, CA 94177

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

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