

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



April 28, 2011

**Advice Letter 3198-G**

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: Long-Term Core Hedge Program 2010 Compliance Advice Letter**

Dear Ms. Yura:

Advice Letter 3198-G is effective April 28, 2011.

Sincerely,

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

Julie A. Fitch, Director  
Energy Division



March 29, 2011

**Advice 3198-G**

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

**Subject: Long-Term Core Hedge Program 2010 Compliance Advice Letter**

**Purpose**

Pacific Gas and Electric Company (“PG&E”) hereby submits for filing an Advice Letter in compliance with Section 5 of the December 15, 2006, Settlement Agreement approved in Decision (“D.”) 07-06-013, as modified by Section B of the Settlement Agreement approved in D.10-01-023.

**Confidential Attachments 1 through 8 of this advice letter contain confidential and market-sensitive information and therefore are being submitted pursuant to General Order 66-C, Public Utilities Code Section 454.5(g), 583 and the provisions of PG&E’s Settlement Agreement under D.07-06-013.**

**Background**

On June 7, 2007, the California Public Utilities Commission (“CPUC” or “Commission”) issued D.07-06-013 adopting a Settlement Agreement between PG&E, the 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 5.2 of the December 15, 2006, Settlement Agreement specified that on or about April 1 of each year, PG&E will provide a report of the financial results of the long-term core hedge program to the CPUC’s Energy Division. These financial results are associated with hedges that settled in the 2010-2011 winter period and are contained within the confidential attachments.<sup>1</sup>

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<sup>1</sup> The financial results contained within the confidential attachments relate to hedges executed for Winter 2010-2011 that were entered into in 2008 and 2009 in accordance with PG&E’s 2008 annual core gas hedging implementation plan and PG&E’s 2009 annual core gas hedging implementation plan. The general parameters of these two hedging plans were described previously in advice letters 3009-G and 3105-G, respectively.

On January 25, 2010, the CPUC issued D.10-01-023, *Decision for an Incentive Framework to Motivate Optimal Use of Natural Gas Hedging*. D.10-01-023 approved a Settlement Agreement between PG&E, DRA, and TURN that incorporates winter hedging transactions executed by PG&E on or after November 1, 2009, for Core Procurement Incentive Mechanism (“CPIM”) years beginning on or after November 1, 2010 into PG&E’s CPIM. Accordingly, winter hedges executed in 2010 are excluded from this report. Additionally, D.10-01-023 discontinued the requirement for PG&E to seek formal CPUC authority for annual hedge plans.<sup>2</sup>

Confidential Attachments 1 through 8 of this advice letter are to remain confidential in compliance with D.07-06-013. Finding of Fact 8 of D.07-06-013 provides that “the public disclosure of PG&E’s hedging plans would compromise the utility’s negotiating leverage.” In addition, Ordering Paragraph 2 provides that “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.”

### **Compliance Documentation**

The financial results for all hedges executed for Winter 2010-2011 are summarized in confidential Attachment 1. Attachments 2 through 5 provide a detailed list of outstanding option and swap transactions executed under the 2008 and 2009 Annual Hedge Plans, excluding trades executed with Lehman Brothers Commodity Services (“LBCS”).<sup>3</sup> 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 Attachment 6. Confidential Attachment 7 shows the gas price indices used to settle the financial hedges for Winter 2010-2011.

Confidential Attachment 8 provides information regarding potential margin call activity associated with the remaining hedges executed through 2009 under D.07-

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<sup>2</sup> D.10-01-023, Ordering Paragraph 3.

<sup>3</sup> 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. 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.

06-013. 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 8 includes both a probabilistic and a deterministic assessment of the potential for collateral posting.

The financial results for PG&E's Winter 2011-2012 hedges executed under D.07-06-013 will be reported at the conclusion of that winter period, when the respective hedges have settled.

### **Conclusion**

As the confidential Attachments demonstrate, PG&E has complied with Section 5.2 of the Settlement Agreement by reporting the financial results of Winter 2010-2011 hedges executed under D.07-06-013.

### **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 18, 2011**, 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: [ijnj@cpuc.ca.gov](mailto:ijnj@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:

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

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

### **Effective Date**

PG&E requests that this advice filing become effective on regular notice, **April 28, 2011**, 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 service list A.06-05-007. 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>.

Handwritten signature of Jane Yura in cursive script, followed by a forward slash and the word "ent" in a smaller, less legible script.

Vice President - Regulation and Rates

cc: Service List A.06-05-007

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) #: **3198-G**

**Tier: 2**

Subject of AL: **Long-Term Hedging 2010 Annual Plan**

Keywords (choose from CPUC listing): Agreements, 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, D.10-01-023

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<sup>1</sup>: \_\_\_\_\_

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: **April 28, 2011**

No. of tariff sheets:

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<sup>1</sup>: 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](mailto:jnj@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)**

**Pacific Gas and Electric Company**  
**Attn: Jane 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](mailto:PGETariffs@pge.com)**

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

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