

STATE OF CALIFORNIA

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

ARNOLD SCHWARZENEGGER, Governor



April 17, 2008

Advice Letter 3204-E

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: Submission of the Eleventh Gas Supply Plan (GSP-11)
for the California Department of Water Resources (CDWR)
Tolling Agreements (Apr. 1, 2008 through Sept. 30, 2008)

Dear Mr. Cherry:

Advice Letter 3204-E is effective April 1, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "S. H. Gallagher".

Sean H. Gallagher, 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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February 1, 2008

Advice 3204-E

(Pacific Gas and Electric Company ID U 39 E)
Public Utilities Commission of the State of California

**Subject: Submission of the Eleventh Gas Supply Plan (GSP-11) for the California
Department of Water Resources (CDWR) Tolling Agreements (April 1, 2008,
through September 30, 2008)**

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) its eleventh Gas Supply Plan (GSP-11) for the California Department of Water Resources (CDWR) Tolling Agreements for the period April 1, 2008, through September 30, 2008.

Background

Decision (D.) 02-12-069 and D.03-04-029 direct PG&E to consolidate fuel procurement strategies for the CDWR contracts and to submit them to CDWR and the Commission as a "Gas Supply Plan" on a semiannual basis. Subsequently, D.07-12-052 (the 2006 Long-Term Plan Decision) established an annual utility gas supply plan filing schedule to occur when the annual ERRA filing occurs, i.e., specifically, the forecast filing. The decision also states at page 178, that "If and when DWR agrees to this change, the IOUs should notify the Commission by Advice Letter." Since DWR and PG&E have not yet completed an agreement for annual filings of CDWR GSPs, GSP-11 is hereby being filed on the existing semiannual cycle.

Since March of 2003, PG&E has submitted, and the Commission adopted, ten Gas Supply Plans (GSPs), GSP-1 through GSP-10. GSP-10, covering CDWR tolling agreements for the period October 1, 2007, through March 31, 2008, was approved effective October 1, 2007.

Pursuant to Ordering Paragraph (O.P.) 5 of Resolution E-3845, PG&E continues to provide detailed information concerning its analyses, tools and decision making process concerning gas price volatility and its risk management strategies.

Gas Supply Plan 11

GSP-11 follows the same format as PG&E's previously approved plans and is consistent with PG&E's updated Electric Portfolio Gas Hedging Plan. The Hedging Plan was approved by the CPUC on September 22, 2005, and Gas Hedging Plan Update 1 was approved on November 8, 2005. PG&E filed Gas Hedging Plan Strategy 2006-1 on January 31, 2006, and it was approved with an effective date of March 17, 2006. Subsequently, on December 11, 2006, PG&E filed its 2006 Long Term Procurement Plan (LTPP), which requested CPUC approval of minor revisions to its Gas Hedging Plan. On December 20, 2007, the Commission issued a final decision in the LTPP (D.07-12-052) that did not approve these revisions, but directed PG&E to modify its TeVaR measure used for hedging. Accordingly, PG&E will implement an Interim Gas Hedging Plan, modifying its hedging activities, including hedging for the CDWR portfolio, as directed in D.07-12-052.

PG&E provides a redacted copy of GSP-11 in Attachment C to this Advice Letter. Confidential Attachments D through F are appendices to GSP-11. These confidential appendices (Appendices A, B and C) contain sample calculations, additional volume and cost forecasts, and additional hedging strategies.

Confidential Material

This advice filing contains CONFIDENTIAL PROTECTED material under D.06-06-066 Appendix 1, and pursuant to the May 20, 2003, Modified Protective Order. It is also being submitted under CPUC section 583. Concurrently with this Advice Filing and pursuant to the August 22, 2006, ALJ ruling clarifying interim procedures for complying with D.06-06-066, PG&E is providing the declaration of Michael Kowalewski to support confidential treatment for the confidential, market sensitive information in GSP-11, and to designate the specific protected material as required by ordering paragraphs 2 and 3, as applicable, of D.06-06-066. The public version of the body of GSP-11 contained in Attachment C has been partially redacted in accordance with D.06-06-066. Attachments D through F to this advice letter are fully confidential per D.06-06-066 and therefore have been redacted in full.

Protest Period

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 **February 21, 2008**, 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: jnj@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 the effective date of this filing be **April 1, 2008**.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter excluding the confidential appendices is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for Rulemaking (R.) 06-02-013, R.04-04-003. 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

cc: Service List - R.06-02-013, R.04-04-003, w/o confidential attachments

Attachments:

Attachment A – Declaration of Michael S. Kowalewski supporting the confidential treatment of confidential, market-sensitive information;

Attachment B – Confidentiality Matrix supporting confidential, market-sensitive information;

Confidential Attachment C – Gas Supply Plan (GSP-11) for CDWR Tolling Agreements
(redacted copy provided in public version);

Confidential Attachment D – GSP-11 Confidential Appendix A: Sample Calculations;

Confidential Attachment E – GSP-11 Confidential Appendix B: Projected Gas Volume and Cost
Beyond GSP-11;

Confidential Attachment F – GSP-11 Confidential Appendix C: Risk Management Strategies
Beyond GSP-11; and

Confidential Attachment G – GSP-11 Confidential Appendix D: CDWR Gas Counterparties.

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: David Poster
Phone #: (415) 973-1082
E-mail: dpxu@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) #: **3204-E**

Tier: **2**

Subject of AL: Submission of the Eleventh Gas Supply Plan (GSP-11) for the California Department of Water Resources (CDWR) Tolling Agreements (April 1, 2008, through September 30, 2008)

Keywords (choose from CPUC listing): Compliance, Procurement

AL filing type: Monthly Quarterly Annual One-Time Other Semi-annual

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.02-12-069 and D.03-04-029

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: N/A

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: Yes – See Attached Matrix.

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: Michael Kowalewski – 415-972-5589.

Resolution Required? Yes No

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

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: N/A

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 Avenue
San Francisco, CA 94102
E-mail: 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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECLARATION OF MICHAEL KOWALEWSKI IN SUPPORT OF CONFIDENTIAL
TREATMENT FOR INFORMATION IN
GAS SUPPLY PLAN 11 FOR CDWR TOLLING AGREEMENTS ALLOCATED TO
PACIFIC GAS AND ELECTRIC COMPANY AS CDWR'S LIMITED AGENT

I, Michael Kowalewski, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 1992. My current title is senior gas trader. In this position, my responsibilities include planning and procuring gas supply in support of PG&E's electric generation needs. In carrying out these responsibilities, I have acquired knowledge of gas supplies and markets. I am responsible for the development of Gas Supply Plan 11.
2. Pursuant to the requirements in Decision 06-06-066 and the Administrative Law Judge Ruling issued August 22, 2006, Clarifying Interim Procedures for Complying with Decision 06-06-066, I have prepared this declaration to support confidential treatment of market-sensitive, confidential information contained in Gas Supply Plan 11 (GSP-11) (Protected Information). Based on my knowledge and experience with the contents of GSP-11 and the markets for physical and financial products for gas supply and hedging, I make this declaration seeking confidential treatment of the Protected Information contained in GSP-11. The Protected Information is material, market-sensitive, electric procurement related information within the scope of Public Utilities Code section 454.5(g) and is entitled to confidential treatment under the IOU Matrix, Appendix 1 (IOU Matrix) of Decision 06-06-066.

3. The following categories in the IOU Matrix apply to Protected Information in GSP-11:
 1. IOU Matrix category I. A. 4, “Long-term fuel (gas) buying and hedging plans”
 2. IOU Matrix category I. A. 5, “Monthly California Department of Water Resources gas position updates, including information about hedging activities”
 3. IOU Matrix category IV. G, “Forecast of DWR contracts”
 4. IOU Matrix category I.A. 2, “Utility gas price forecasts”
 5. IOU Matrix category XII, “Monthly Portfolio Risk Assessment”
 6. IOU Matrix category IV. B, “Utility Bundled Net Open (Long or Short) Position for Energy”
4. The IOU Matrix categories for the Protected Material in GSP-11 are detailed in the attached Identification of Confidential Information Matrix. GSP-11 Appendices A, B and C are confidential in their entirety and the applicable IOU Matrix categories are noted on the cover of each appendix.
5. GSP-11 and its confidential appendices, like the previous Gas Supply Plans 1 through 10 and their confidential appendices, go into great depth on PG&E’s planning, assumptions, strategies, analyses, and implementation for cost-effectively meeting the multi-year gas supply needs of the CDWR tolling agreements. The requirement to file gas supply plans and the scope of the gas supply plan activities and responsibilities for fuel management and hedging for the CDWR tolling agreements are described in the PG&E Operating Agreement with CDWR (Operating Agreement), Exhibit B, Fuel Management

Protocols¹. The gas supply plans are intended to give the Commission and CDWR a meaningful understanding of the fuel needs for CDWR's tolling agreements, what procurement and hedging strategy should be followed to meet those needs, why that strategy is best, what PG&E intends to do in the markets to execute the strategy, and when PG&E intends to be in the markets. Accordingly, the gas supply plans inherently include a large amount of confidential, market sensitive information. GSP-11 is no exception.

6. GSP-11 information is confidential and market sensitive because if other participants in the gas-related markets involved in the GSP were to obtain the information,² PG&E's ability to execute the strategy and obtain results cost-effectively could be impaired. If the detailed information in GSP-11 about PG&E's strategy and plans is not kept confidential, PG&E would be de-positioned relative to other market participants who would have PG&E's confidential, market sensitive data, when other market participants' comparable confidential, market sensitive data would not be in the public domain.
7. The Protected Information in GSP-11 is primarily for CDWR tolling agreements. PG&E's role under the Operating Fuel Management Protocols is as CDWR's limited agent. The confidential treatment of Protected Information also should be maintained to avoid adverse impact to CDWR's exposure for transactions undertaken pursuant to GSP-11.

¹ Section IV, Exhibit B to the Operating Agreement requires PG&E to submit the fuel procurement strategies, including risk management, and submit them to the Commission as a "Utility Gas Supply Plan" on a semiannual basis.

² The markets include natural gas, gas-derivative financial contracts, gas transportation, storage, and energy.

8. The Protected Information in GSP-11 should remain confidential for more than 3 years.

The analysis, strategies, assumptions and planning in the gas supply plans are part of a continuum that stretches over multiple years. In addition, the hedging strategy that is effective for CDWR tolling contracts may not change radically from one gas supply plan to the next. Therefore, releasing the Protected Information in GSP-11 or past gas supply plans may amount to releasing the same information as contained in the current gas supply plan. Therefore, Protected Information contained in GSP-11 should continue to be accorded confidential treatment for three years beyond the point in time when PG&E ceases to manage gas supply for the CDWR tolling agreements.

9. I am not aware of any instances where the Protected Information identified in this

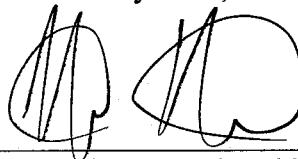
declaration has been disclosed to the public. The Protected Information cannot be provided in a more aggregated, partially redacted, or summarized form.

10. Attached to my declaration are both a confidential copy of GSP-11 with Protected

Information unredacted and a non-confidential copy of GSP-11 with Protected Information removed.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this first day of February 2007, at San Francisco, California.



Michael S. Kowalewski
Pacific Gas and Electric Company

PACIFIC GAS AND ELECTRIC COMPANY
 Document: Gas Supply Plan 11 for CDWR Tolling Agreements
 IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066

Date: February 1, 2008

Redaction Reference	1) Time material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D-06-066 (Y/N)	2) Which category or categories in the Matrix hidden column the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	5) The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure (Y/N)	PG&E's justification for Confidential Treatment	Length of Time
7							
8	Document: Gas Supply Plan 11 for CDWR Tolling Agreements						
9	page ii	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
10	pages 1-2	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
11	page 3	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
12	Figure 1	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
13	Figure 1	Y	2	I.A.5	Y	Y	Monthly California Department of Water Resources gas position updates, including information about hedging activities
14	Figure 1	Y	3	IV.G	Y	Y	Forecast of DWR contracts
15	page 4	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
16	page 5	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
17	Tables 1, 2, 3	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
18	Tables 1, 2, 3	Y	2	I.A.5	Y	Y	Monthly California Department of Water Resources gas position updates, including information about hedging activities
19	Tables 1, 2, 3	Y	3	IV.G	Y	Y	Forecast of DWR contracts
20	page 6	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans
21	page 6	Y	2	I.A.5	Y	Y	Monthly California Department of Water Resources gas position updates, including information about hedging activities
22	page 7	Y	1	I.A.4	Y	Y	Long-term fuel (gas) buying and hedging plans

1	PACIFIC GAS AND ELECTRIC COMPANY					
2	Document: Gas Supply Plan 11 for CDWRR Tolling Agreements					
3	IDENTIFICATION OF CONFIDENTIAL INFORMATION PER DECISION 06-06-066					
4	Date: February 1, 2008					
5	1) Time material submitted constitutes a particular type of data listed in the Matrix, appended as Appendix 1 to D-06-066 (Y/N)	2) Which category or categories in the Matrix column the data correspond to:	3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data (Y/N)	4) That the information is not already public (Y/N)	PG&E's Justification for Confidential Treatment	Length of Time
6	Redaction Reference page 27	Y	1	Y	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
55	Page 28, Table 12	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
56	page 28, section 5.d.ii	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
57	pages 29, 30, 31	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
58	page 31, second sentence	Y	2	I.A.5	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
59	page 32, table 13	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
60	page 32, table 13	Y	2	I.A.5	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
61	pages 32, 33, 34	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
62	pages 37, 38, section 11.a.	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
63	pages 37, 38, section 11.a.	Y	4	I.A.2	Utility gas price forecasts	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
64	pages 38, 39, and 40 section 11.b.i.	Y	1	I.A.4	Long-term fuel (gas) buying and hedging plans	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
65	pages 38, 39, and 40 section 11.b.i.	Y	4	I.A.2	Utility gas price forecasts	3 years after PG&E ceases to manage gas supply for the CDWRR tolling agreements.
66						

Attachment C

Gas Supply Plan (GSP-11) for CDWR Tolling Agreements

(redacted copy provided in public version)

Gas Supply Plan 11
for
CDWR Tolling Agreements

April 1, 2008

through

September 30, 2008

PUBLIC VERSION



February 1, 2008

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1. Executive Summary

This document represents Pacific Gas and Electric Company's (PG&E's) eleventh semiannual Gas Supply Plan for California Department of Water Resources (CDWR) Tolling Agreements (GSP-11), covering the period April 1, 2008, through September 30, 2008.

As in previous gas supply plans, PG&E has concluded that it is [REDACTED]

[REDACTED] In

addition, PG&E concluded that it is cost effective and appropriate for PG&E in its role as CDWR's limited agent to take on Fuel Manager responsibilities for several of these agreements, as allowed by the contracts.

The following contracts include conditions that prevent PG&E, as CDWR's limited agent, from taking on the Fuel Manager role:

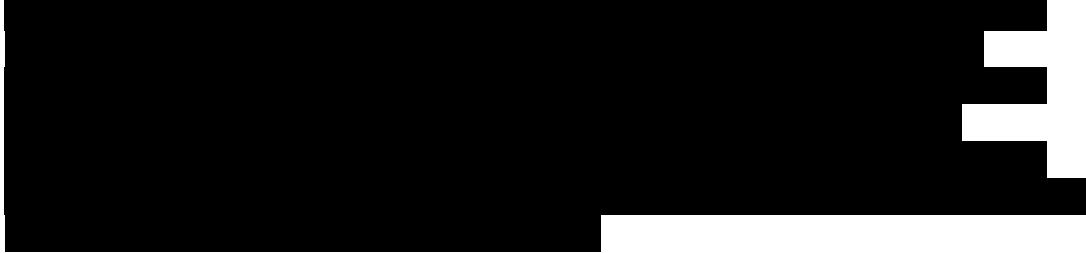
- The PPM Energy contract does not allow CDWR to become the Fuel Manager; and
- The Coral contract, which became a tolling agreement on January 1, 2006, only allows CDWR to deliver gas to the California border.

PG&E's goals for the term of GSP-11 include building a flexible gas portfolio to manage the fluctuating gas loads from the tolling agreements. To manage price risk, PG&E will continue to manage the gas open position of the CDWR portfolio according to the gas hedging framework described in prior Gas Supply Plans and consistent with PG&E's Electric Portfolio Gas Hedging Plan, as updated. [REDACTED]

On December 11, 2006, PG&E filed its 2006 Long-Term Procurement Plan (LTPP), which requested CPUC approval of minor revisions to its Gas Hedging Plan.¹ On December 20, 2007, the Commission issued a final decision in the LTPP (D.07-12-052) that did not approve these revisions, but directed PG&E to modify its TeVaR measure used for hedging. Accordingly, PG&E will implement an Interim Gas Hedging Plan, modifying its hedging activities, including hedging for the CDWR portfolio, as directed in D.07-12-052. This will retain a consistent Hedging Plan for PG&E's electric portfolio, which includes the CDWR contracts allocated to PG&E for administrative purposes.

¹ Pacific Gas and Electric Company 2006 Long-Term Procurement Plan (Rulemaking 06-02-013), Volume 1, Section III, Attachment IIIA.

PG&E's LTPP also requested CPUC approval of a PG&E Gas Supply Plan² for PG&E's electric portfolio. In its December 20 LTPP decision, the CPUC did not approve this Gas Supply Plan. As discussed in GSP-10, PG&E's LTPP proposals would not have altered significantly transactions undertaken for CDWR physical supply. Therefore, the LTPP Decision does not alter transactions proposed in this CDWR Gas Supply Plan.



This Gas Supply Plan is consistent with PG&E's experience managing these agreements since January 1, 2003, and with PG&E's currently approved Short- and Long-Term procurement plans.³ PG&E will adhere to the CDWR Fuels Protocols, which were issued in completed form on December 8, 2003, and modified in August 2004. PG&E requests that the CPUC approve this Gas Supply Plan effective April 1, 2008.

2. Introduction

On July 9, 2004, PG&E filed its Long-Term Procurement Plan and the California Public Utilities (Commission) subsequently approved this plan with modifications on December 16, 2004 (D.04-12-048). PG&E's 2006 Long-Term Procurement Plan more explicitly discusses the contribution of fuel (natural gas) to the value and price sensitivity of PG&E's open market position. Fuel management for the CDWR contracts is a part of the strategies discussed in PG&E's procurement plans.

On April 3, 2003, the Commission approved the Operating Agreement between CDWR and PG&E (D.03-04-029). The Operating Agreement was subsequently modified on October 28, 2004, in D.04-10-020. The Operating Agreement enables PG&E to perform the operational, dispatch, and administrative functions for CDWR's Long-Term Power Purchase Contracts as CDWR's limited agent. The Operating Agreement requires PG&E to submit a semiannual fuel plan for these gas-tolling arrangements to CDWR and the Commission for review and approval.

² Pacific Gas and Electric Company, 2006 Long-Term Procurement Plan, Volume 1, Section 3 Attachment IIIB, December 11, 2006, R.06-02-013.

³ 2004 Long-Term Procurement Plan D.04-12-048 and 2004 Short-Term Procurement Plan D.03-12-062.

PG&E submitted its tenth Gas Supply Plan (GSP-10, October 1, 2007, through March 31, 2008) on August 1, 2007 (Advice 3097-E). That plan was approved by the Commission's Energy Division on December 11, 2007. This document, Gas Supply Plan 11, covers the period April 1, 2008, through September 30, 2008. PG&E submitted a draft GSP-11 to its Procurement Review Group (PRG) and CDWR on January 15, 2008.⁴ GSP-11 was discussed at the PRG meeting January 9, 2008.

Of the 12 CDWR contracts allocated to PG&E and active during the period of this plan, eleven, representing seven different counterparties, have unexpired provisions for gas tolling. The seven counterparties include Calpine, CalPeak, Coral, GWF, Kings River, PPM Energy, and Wellhead. These contracts represent 1,648 megawatts (MW) of dispatchable contract capacity. Construction has not yet begun at the generating facility underlying CDWR's contract with the City and County of San Francisco.

The CDWR tolling agreements have a variety of options for CDWR including the options to supply fuel (tolling) and to manage deliveries to the plants.

If CDWR does not elect to supply fuel, the generators in most cases will supply and manage fuel under the terms of each contract and under the terms of a CDWR-reviewed fuel plan.

In December 2007, CDWR announced its renegotiation of the Calpine 2 power purchase agreement (PPA) from a 1,000 MW fixed priced energy contract to a tolling agreement for the output of Calpine Corporation's Los Esteros Critical Energy Facility in San Jose, California. This tolling agreement covers the entire output of the plant, 180 MW, at a 10.5 MMBtu/MWh heat rate. The contract tenor begins January 1, 2008, through December 31, 2009, with an option for CDWR to extend the contract three additional years. The contract requires that CDWR manage the plant's gas supply and PG&E has incorporated Calpine Los Esteros into this gas supply plan.

3. CDWR Tolling Agreements Managed by PG&E

⁴ PG&E's submittal of a draft GSP-11 allows CDWR and PG&E's PRG the required two weeks to review the draft plan prior to the filing date established by the Commission in Resolution E-3845.

a. For Contracts Where Generator Provides Gas

This section provides a brief description of the terms of the generator contracts and fuel plans and a forecast of the expected cost of fuel provided under these plans for the period April 1, 2008, through

September 30, 2008, based on market conditions as of [REDACTED]
Forecasts for periods beyond the six-month term of this plan appear in Appendix B.

i. Fuel Supply Timeline

The following chart illustrates CDWR's deadlines to notify generators that CDWR will elect to supply gas for a particular tolling agreement.



[REDACTED]



ii. Projected Monthly and Daily Gas Volume

Gas volumes for each of the CDWR contracts were forecasted using GenTrader, a software tool for power generation asset optimization produced by Power Costs, Inc., of Norman, Oklahoma. GenTrader simulates optimal dispatch of all PG&E resources, including the CDWR contracts, based on each resource's specific operating constraints, flexibility and market prices. GenTrader assists PG&E in minimizing generation costs and maximizing the value of generation assets, including CDWR contracts, Utility Retained Generation (URG) and market purchases.

The key assumptions behind the forecast include:

- Current electric and gas forward curves, [REDACTED]
- Operating characteristics of URG including hydro and pumped storage;

- Operating characteristics and contract terms of the CDWR contracts; and
- Operating characteristics and contract terms of PG&E contracts.

PG&E has run this model under a range of assumptions and has found that the [REDACTED]

Table 1 includes the total gas volumes for [REDACTED]

[REDACTED], Table 2 includes [REDACTED]
and Table 3 includes [REDACTED]

[REDACTED] Delta-equivalent volumes represent expected-case values.

[REDACTED]

5 [REDACTED]

6 [REDACTED] is in-the-money, that is, the incremental cost of generation is lower than the current market price of power.

7 Each tolling agreement represents a spark spread option, and for each such spread option the [REDACTED]

Pacific Gas and Electric Company

Table 18

Million MMBtu

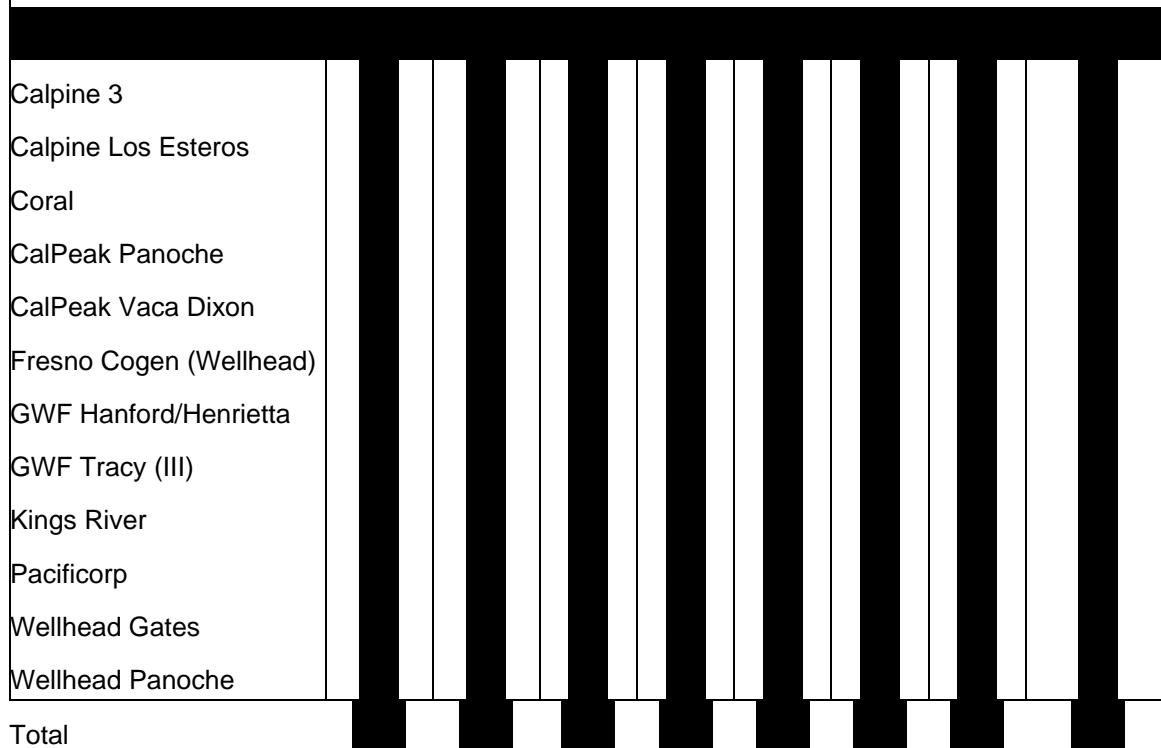


Table 2 displays current obligations on a delta-equivalent basis. This is an important representation of the CDWR gas positions because the emphasis of PG&E's Gas Hedging Plan is to [REDACTED]

⁸ Note that column and row totals may appear incorrect because of number rounding.

Pacific Gas and Electric Company
Table 2

Million MMBtu

Pacific Gas and Electric Company
Table 3

Million MMBtu

Calpine 3

Calpine Los Esteros

Coral

CalPeak Panoche

CalPeak Vaca Dixon

Fresno Cogen (Wellhead)

GWF Hanford/Henrietta

GWF Tracy (III)

Kings River

Pacificorp

Wellhead Gates

Wellhead Panoche

Total

iii. Gas Pricing Mechanisms

Complete descriptions of the generator fuel cost mechanisms are included in Appendix A of PG&E's GSP-2⁹ and are incorporated in this plan by reference because they have not changed. Table 4, below, describes the approach of each mechanism by generator:

⁹ Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003, through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), Appendix A.

Pacific Gas and Electric Company Table 4 Generator Fuel Cost Mechanisms	
Generator	Pricing Mechanism Approach
CalPeak	PG&E Citygate: Monthly, daily, and intraday indexes, adders for market risk (variable), LDC transport, fuel management and the option of risk management
Calpine 3	PG&E Citygate: Daily and intraday indexes, adders for market risk (fixed) and LDC transport
Calpine Los Esteros	No generator fuel option
Coral	Starting 1/1/06, Topock into SoCal Gas: Monthly NGI bidweek index only, no adders
GWF	PG&E Citygate: Monthly and daily indexes, adders for market risk (fixed daily, variable monthly), LDC transport, fuel management, taxes & fees
Kings River	No generator fuel option
PPM Energy	Alberta (AECO 'C'): Monthly & daily indexes (C\$), adders for pipeline variable charges and shrinkage, and heat rate (based on dispatch levels)
Wellhead	PG&E Citygate: Monthly, daily and intraday indexes, adders for fuel management, the option of risk management, LDC transport, mainline extension, taxes & fees

iv. Projected Monthly and Seasonal Gas Costs

Table 5 provides the results of applying the gas pricing mechanism in each contract and Generator Fuel Plan to the volumes forecasted with GenTrader using forward curves from [REDACTED] PG&E calculated the cost through the end of September 2008 as if the generators were providing fuel under every CDWR contract (see Appendix A for sample calculations).¹⁰ The estimated six-month total gas cost under this scenario is shown at the bottom of Table 5

[REDACTED] Both the addition of Calpine Los Esteros and higher market heat rates, when compared with GSP-10, helped increase the GSP-11 volume forecast. The average Citygate gas price from GSP-10 was \$7.65, compared with [REDACTED] for GSP 11.

¹⁰ Since CDWR's Kings River and Calpine Los Esteros agreements do not allow for generator-supplied fuel, PG&E uses its projected cost in place of a generator forecast.

Pacific Gas and Electric Company

Table 5

(Million \$)

| Calpine 3 | [REDACTED] |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Calpine Los Esteros | [REDACTED] |
| Coral | [REDACTED] |
| CalPeak Panoche | [REDACTED] |
| CalPeak Vaca Dixon | [REDACTED] |
| Fresno Cogen (Wellhead) | [REDACTED] |
| GWF Hanford/Henrietta | [REDACTED] |
| GWF Tracy (III) | [REDACTED] |
| Kings River* | [REDACTED] |
| Pacificorp | [REDACTED] |
| Wellhead Gates | [REDACTED] |
| Wellhead Panoche | [REDACTED] |
| Total | [REDACTED] |

b. For Contracts Where PG&E As CDWR's Limited Agent Provides Gas

This section provides a forecast of the cost of fuel provided by PG&E As CDWR's Limited Agent using the same forecast period and pricing date as Section 3a, above. This plan assumes that PG&E [REDACTED]

[REDACTED] The remainder of this plan is devoted to presenting the details of how this portfolio would be constructed and managed. Forecasts for periods beyond the six-month term of this plan appear in Appendix B.

i. Projected Monthly and Daily Gas Volume

The projected monthly and daily gas volumes [REDACTED]

[REDACTED] listed in Tables 1, 2 and 3.

ii. Projected Monthly and Seasonal Gas Costs

Table 6 is the result of applying PG&E's projected gas cost to each contract at the volumes forecasted with GenTrader. The estimated six-month total gas cost under this scenario is shown at the bottom of Table 6.¹¹

Pacific Gas and Electric Company Table 6									
	(Million \$)								
Calpine 3	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Calpine Los Esteros	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Coral	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
CalPeak Panoche	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
CalPeak Vaca Dixon	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Fresno Cogen (Wellhead)	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
GWF Hanford/Henrietta	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
GWF Tracy (III)	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Kings River*	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Pacificorp	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Wellhead Gates	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Wellhead Panoche	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████
Total	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████	██████████

The total cost under the PG&E Gas Supply Plan is ██████████ for the six-month term of this plan. These savings are based on forward prices as of ██████████ and will change as market prices change. The savings result from ██████████

Specifically, the savings result from ██████████

¹¹ Note: this cost does not include PG&E's administrative cost for procuring fuel for the CDWR contracts. Administrative costs are included in PG&E's General Rate Case.

[REDACTED] The projected savings are similar to those forecasted under GSP-10.

4. Gas Supply Strategies Where PG&E As CDWR's Limited Agent Supplies Gas

This section describes, in detail, the portfolio [REDACTED]

a. Six-Month Goals

PG&E has established the following goals for the term of GSP-11:

- Update the physical position of the CDWR portfolio including mark-to-market at the end of each trading day;
- [REDACTED]
- Working with CDWR, continue to implement PG&E's gas hedging strategy;
- Adhere to the CDWR Fuels Protocols (see Appendix B of GSP-3 for the first release of the completed protocols); and
- Report weekly position updates to CDWR.

b. Recommended Gas Supply Portfolio

i. Fuel Supplier and Manager Roles

[REDACTED]

- [REDACTED];
- [REDACTED];

¹² The availability of this capacity was confirmed by a letter agreement between CDWR and PPM Energy on November 10, 2003. [REDACTED]

- [REDACTED];
- [REDACTED];
- [REDACTED]

The tolling agreements allow CDWR to become the Fuel Supplier, the Fuel Manager, or both. The Fuel Supplier purchases gas and delivers it to the Fuel Manager. [REDACTED]

Fuel Supplier: Purchases gas and delivers it to the Fuel Manager at the PG&E Citygate or a pre-determined location.

Fuel Manager: Receives gas from the Fuel Supplier and manages daily and monthly deliveries from the Citygate (or other point) to the plant.

The Fuel Manager schedules deliveries to the plant and manages monthly and daily balancing.



Table 7 summarizes PG&E's role (As CDWR's Limited Agent) as Fuel Manager and Supplier:

¹³ Per its PPA with CDWR, CalPeak has the right to select the Fuel Manager and to charge a fee to CDWR for Fuel Manager services when CDWR is not Fuel Manager.

Pacific Gas and Electric Company
 Table 7
 PG&E As CDWR's Limited Agent Role Elections

Generator	Fuel Supplier	Fuel Manager
Calpine 3		
Calpine Los Esteros	Yes	Yes
PPM Energy	Yes	No (not allowed by contract)
GWF		
Kings River	Yes	Yes
Wellhead		
CalPeak	Yes	Yes (receive the benefits)
Coral		

ii. Physical Gas Supply

[REDACTED] Table 8 provides a brief description of each contract and its typical contribution to the supply portfolio.

Pacific Gas and Electric Company
 Table 8

Supplier	Term	Volume (MMBtu/day)	Location	Pricing
Calpine 3				
Calpine Los Esteros				
PPM Energy				
Coral				
Kings River				
Wellhead				
CalPeak				
GWF				
Balancing				

[REDACTED]

[REDACTED]

The Coral PPA is a must-take agreement providing Coral the option to select the delivery location and quantity of MWh delivered within specified limits. The default fuel supply under the PPA is from Coral and priced at the *Natural Gas Intelligence* (NGI), SoCal Topock, bidweek index with no adders. CDWR has the option to supply fuel for Coral by providing Coral 60-days written notice. [REDACTED]

[REDACTED]

iii. Approved Suppliers

The list of gas suppliers approved by CDWR for use by PG&E, SCE and SDG&E is now part of CDWR's Fuel Protocols (see Appendix B of GSP-3). CDWR continues to add additional approved suppliers to the list. Appendix D contains a current list of suppliers.

PG&E will work closely with CDWR to ensure that CDWR remains within its credit limits and, if necessary, will request that CDWR increase credit limits.

PG&E will use CDWR-approved counterparties for financial trading per Resolution E-3825. In addition, CDWR is using NYMEX Over-the-Counter (OTC) clearing services through a brokerage account to reduce counter-party credit risk and to reduce collateral requirements.

iv. Supply Basin Mix

PG&E has no particular supply basin preference. Philosophically, it is better to build basin diversity into the portfolio. [REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

v. Interstate Pipeline Mix

PG&E's recommended pipeline capacity choices are based upon market valuation and portfolio fit.

PG&E reviewed the market value of interstate and intrastate capacity for the year beginning April 1, 2008. As shown in Table 9, holding pipeline capacity at full reservation charges may yield positive value on at least some pipeline paths.

[REDACTED]

[REDACTED]

Pacific Gas and Electric Company
Table 9

San Juan to Topock	El Paso		\$0.24		
San Juan to Topock	Transwestern		\$0.20		
Rockies to Daggett	Kern River		\$0.27		
Topock to Citygate	CGT Baja		\$0.19		
AECO to Malin	Nova Gas Trans., Foothills BC, GTN		\$0.21		
Malin to Citygate	CGT Redwood		\$0.24		

Notes: All prices and costs are US \$/MMBtu as [REDACTED].

Rates on California Gas Transmission (CGT) Baja and Redwood are [REDACTED].

The PPM Energy contract includes 51,840 MMBtu/day of firm capacity on TransCanada's Nova Gas Transmission (Alberta), TransCanada's Foothills BC (British Columbia) and Gas Transmission Northwest (GTN) pipelines. The full reservation charges for each pipeline are included in the fixed capacity charge under CDWR's Power Purchase Agreement with PPM Energy. If PPM Energy supplies fuel under the contract, it has the benefit of the pipeline capacity when the plant is not dispatched. If CDWR supplies fuel, it has the option to receive the benefit of the capacity when the plant is not dispatched. This is the main benefit of supplying fuel under this contract. [REDACTED]

[REDACTED] Note that PPM Energy is the shipper of record on GTN and will not release the capacity to CDWR, per CDWR's letter agreement with PPM Energy. PPM delivers CDWR gas to the plant when it is dispatched or to CDWR at Malin when the plant is not dispatched.

vi. Pricing Mechanisms

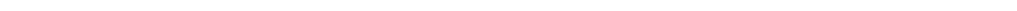
There are several standard pricing mechanisms that are accepted practice in the gas industry (see Table 10). The choice of a particular pricing method is based on the risk position of PG&E's electric portfolio, the nature of the load that the gas is supplying, and the amount of credit consumed by using a particular method.

PG&E As CDWR's Limited Agent intends to use the following pricing methods shown in Table 10 for the majority of physical gas purchases. Other methods may be added as market conditions change.

Pacific Gas and Electric Company Table 10 Pricing Methods	
Pricing Method	Description
Intraday Fixed	Fixed price for nominations during cycles 2 – 4
Daily Fixed	Fixed price for gas the following day (cycle 1)
Monthly Fixed	Fixed price for a fixed daily volume for a calendar month
Daily Index	Floating price for a single day, published on the day after flow day by <i>Gas Daily</i> , <i>Canadian Gas Price Reporter</i> or other trade journal
Monthly Index	Floating price for a fixed daily volume for a calendar month, published after the close of the NYMEX contract for the month of flow by <i>Natural Gas Intelligence</i> (NGI), <i>Canadian Gas Price Reporter</i> or other trade journal

c. Recommended Interstate/Canadian Pipeline Plan

As stated above, PG&E As CDWR's Limited Agent's pipeline choices will be driven by market conditions and the needs of its portfolio.



d. Recommended Intrastate/Distribution Pipeline Plan

i. Intrastate Pipeline Capacity



ii. Distribution Pipeline Capacity

Each of the facilities under contract with CDWR and allocated to PG&E has existing transportation contracts with their local distribution companies (LDCs). The generators will continue to contract for distribution capacity with their LDC.

e. Recommended Storage Plan

[REDACTED] Based on CDWR's goals of reducing its role in energy procurement and its assessment of the value of natural gas storage,

[REDACTED]

5. Recommended Gas Price Risk Management Strategies

The gas price risk management strategy associated with the dispatchable CDWR contracts is part of the overall PG&E electric and electric fuels portfolio management program. PG&E proposed updates to its long-term and short-term procurement plans in its 2006 LTPP which was filed with the CPUC on December 11, 2006¹⁴ and approved on December 20, 2007.¹⁵ The CPUC decision approving PG&E's 2006 LTPP, however, did not approve PG&E's proposed hedging plan or gas supply plan. The Commission directed PG&E to continue hedging under its existing risk management plans which includes the 2004 LTPP,¹⁶ the 2005 Short-Term Procurement Plan¹⁷ and PG&E's Electric Portfolio Gas Hedging Plan and subsequent updates.¹⁸

The CPUC's 2006 LTPP decision also directed PG&E to reduced the measurement interval for its To-expiration Value at Risk (TeVaR) metric from the 99th percentile to the 95th percentile (TeVaR 95%). That decision retained the Customer Risk Tolerance level of \$0.01/kWh, which as measured by TeVaR for PG&E's entire portfolio, is [REDACTED] on a rolling 12-month basis. The decision also retained the risk tolerance notification limit at 125% of the CRT, which for PG&E is [REDACTED], also on a rolling

¹⁴ Pacific Gas and Electric Company, 2006 Long-Term Procurement Plan, Volume 1, Section III, December 11, 2006, R.06-02-013.

¹⁵ D.07-12-052, Opinion Adopting Pacific Gas and Electric Company's, Southern California Edison Company's, and San Diego Gas & Electric Company's Long-Term Procurement Plans.

¹⁶ Pacific Gas and Electric Company's 2004 Long-Term Procurement Plan, submitted July 9, 2004 and approved December 18, 2004 (D.04-12-048).

¹⁷ Pacific Gas and Electric Company's 2005 Short-Term Procurement Plan, Chapter 3, approved in D.04-01-050.

¹⁸ Advice Letter 2685-E filed July 15, 2005 and approved by Resolution E-3951 (September 22, 2005), Advice Letter 2723-E (effective November 1, 2005), and Advice Letter 2775-E (effective March 17, 2006).

12-month basis.¹⁹ The Commission also reaffirmed that TeVaR is “the primary metric for guiding hedging decisions”.²⁰ The net effect of this change is to increase the tolerance for price risk in PG&E’s electric portfolio.

GSP-11 continues the alignment of PG&E’s hedging strategies for its CDWR gas exposure with its hedging strategies for its own gas exposures, as directed by the CPUC. Both the Hedging Plan and the Gas Supply Plan include a consistent framework for PG&E’s management of the gas price risk associated with its short gas position. While PG&E’s gas exposure from its allocated CDWR tolling agreements is included in the positions discussed in the Gas Hedging Plan, PG&E’s management of the physical gas supply and financial hedging for its allocated CDWR tolling agreements is governed solely by the Operating Agreement and this and future CDWR gas supply plans. The hedging strategies in the two plans are complimentary and use the same basic framework, as discussed below.

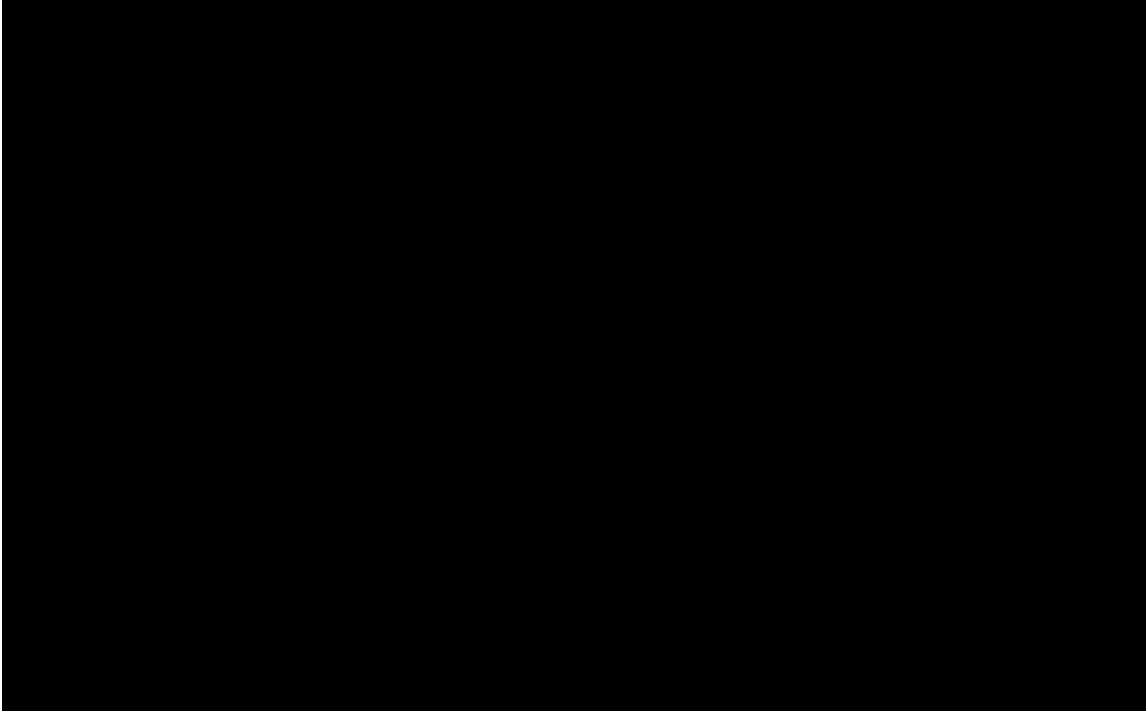
a. Risk Assessment over the Next Six Months

Market conditions continue to have a dramatic impact on PG&E’s electric portfolio TeVaR. Longer-term prices remain strong. Figures 2 below demonstrate the trend in forward prices over the previous three years.

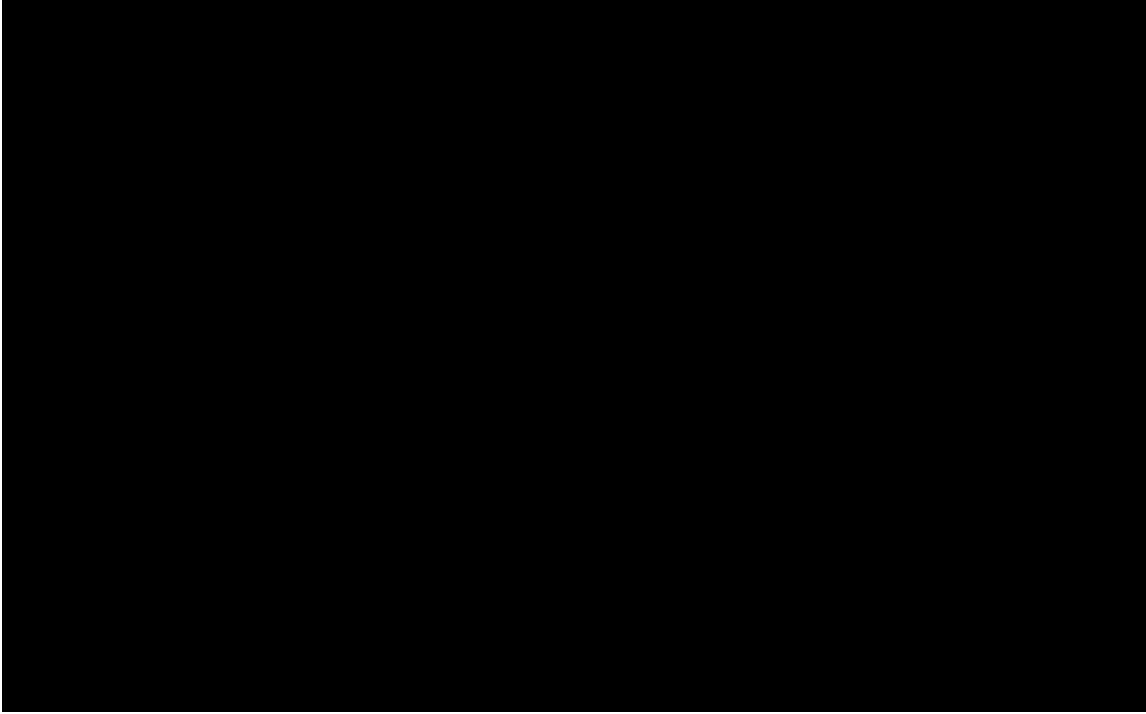
¹⁹ The risk tolerance level of [REDACTED] corresponds to a potential rate increase of one cent per kWh over a one-year period. The notification limit of [REDACTED] is 125% of the [REDACTED] million risk tolerance level.

²⁰ D.07-12-052 at 177.

Pacific Gas and Electric Company
Figure 2a



Pacific Gas and Electric Company
Figure 2b



Pacific Gas and Electric Company
Figure 2c

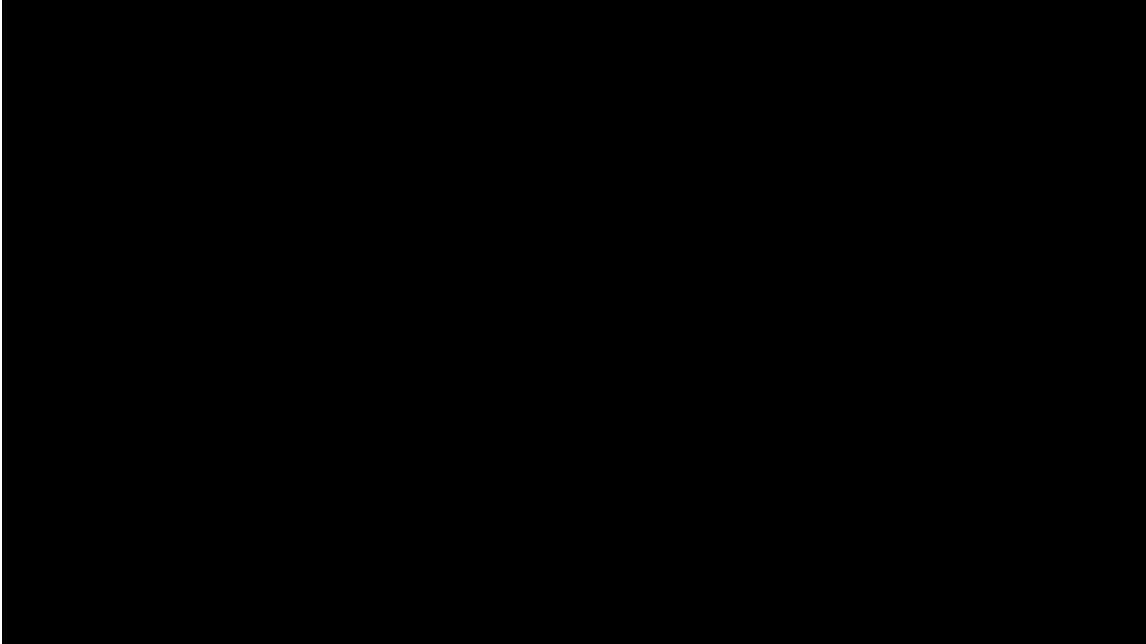


Figure 3 below, based on current forward prices and volatilities, shows PG&E's historical TeVaR portfolio risk measure from December 2006 through January 2008. Note that the TeVaR values Figure 3 are measured at the 99th percentile prior to December 20, 2007 and at the 95th percentile after that date. Figure 3 also projects TeVaR for [REDACTED] As this figure demonstrates, PG&E expects 1-12 month TeVaR to [REDACTED]



b. Risk Management Goals

PG&E has established the following risk management goals for the term of GSP-11:

- Evaluate the risk position of PG&E's electric portfolio and the contribution of CDWR's tolling agreements to that position and report to CDWR on a weekly basis.
- Measure the electric portfolio TeVaR 95% on a weekly basis and manage TeVaR within the levels described above.
- Implement PG&E's gas hedging framework including the operating targets, product mix targets, and execution strategy consistent with PG&E's Gas Hedging Plan Update 2006-1 as modified to comply to the Commissions TeVaR 95% directive.
- Monitor the hedge positions already in place [REDACTED]

- [REDACTED]

c. CDWR Prior Review and Consent

In the past, some of CDWR's counterparties for financial transactions have required CDWR to consent to and execute each transaction. If these counterparties maintain this requirement, PG&E will submit all financial transactions with these counterparties to CDWR for review, approval and execution, as described in CDWR's Fuels Protocols.²¹

d. Hedging Strategy

i. [REDACTED]

[REDACTED]

[REDACTED]

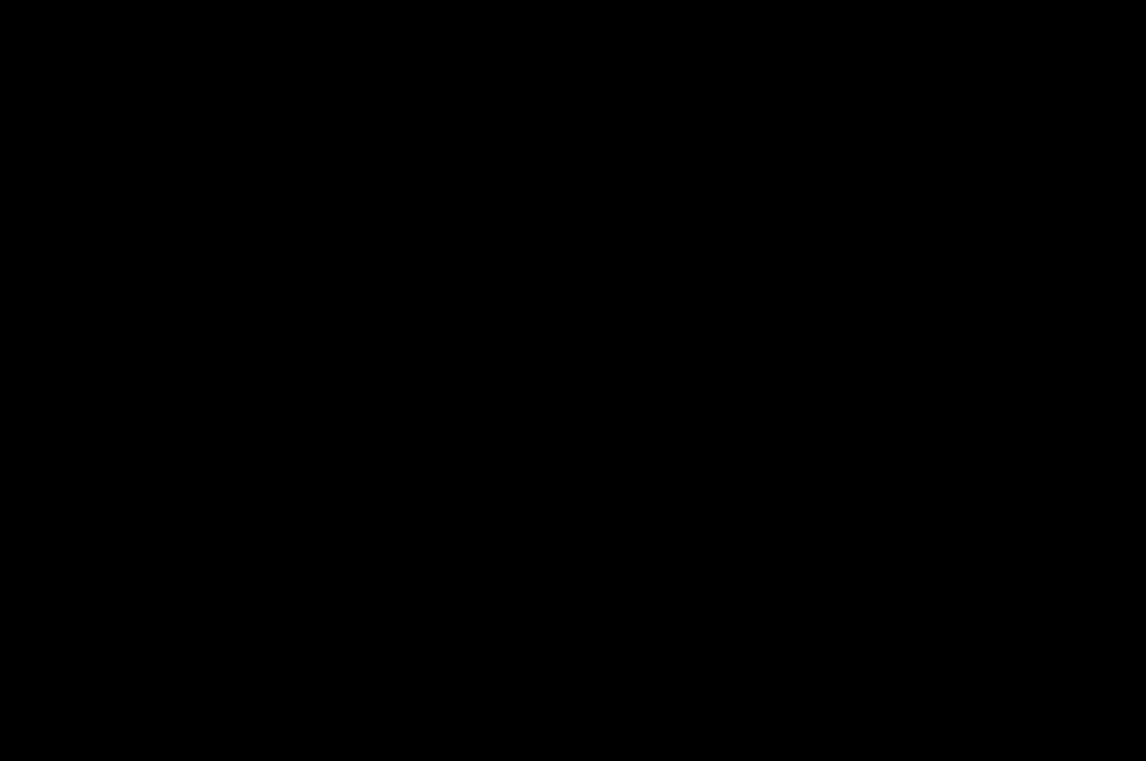
[REDACTED]

[REDACTED]

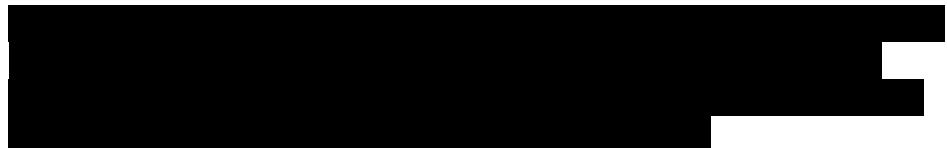
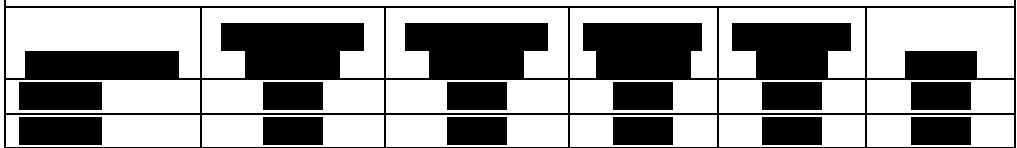
²¹ Gas Supply Plan 3 for DWR Tolling Agreements, April 1, 2004, through September 30, 2004, Pacific Gas and Electric Company, February 2, 2004, AL. 2471-E, Appendix B.



Pacific Gas and Electric Company
Figure 4



Pacific Gas and Electric Company
Table 11



Pacific Gas and Electric Company
Table 12

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

ii. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Pacific Gas and Electric Company
Figure 5

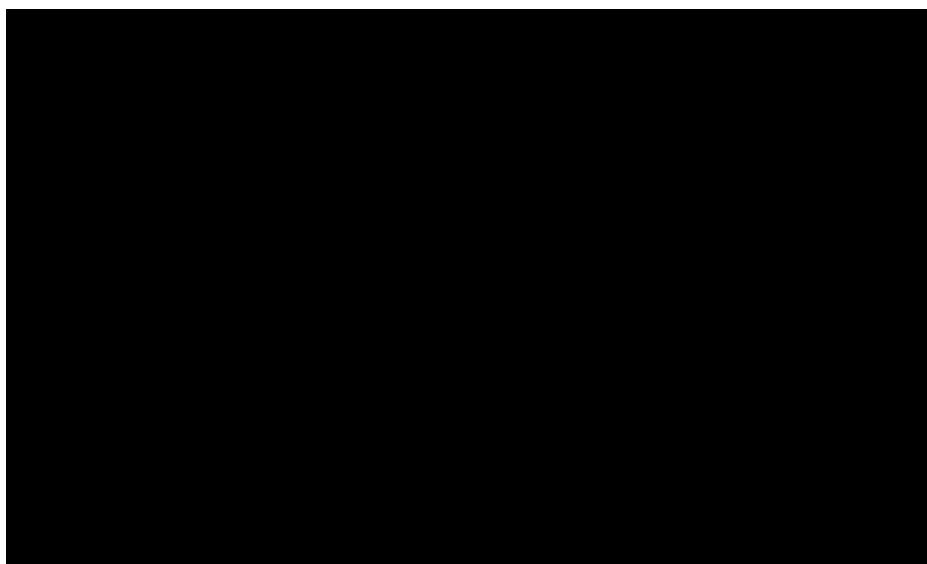


iii.





Pacific Gas and Electric Company
Figure 6



[REDACTED]

[REDACTED]

iv. [REDACTED]

[REDACTED]

Pacific Gas and Electric Company
Table 13

Assumptions:

Basis contracts are 2,500 MMBtu/day and must be purchased in groups based on the number of days in a month. For example, October basis contracts must be purchased in groups of 31 contracts.

Futures contracts are 10,000 MMBtu/contract.

e. Recommended Use of Risk Management Products

Table 14 provides a list of financial risk management tools²⁴

24 Storage, which is a physical tool for managing gas price risk in winter, is covered in Section 4.e. above.

Pacific Gas and Electric Company
 Table 14
 Risk Management Tools

Tools	Physical Product Use	Financial Product Use
Fixed Price ²⁵ (daily, balance of month, monthly)	Buy forward gas at a fixed price	None
Index/Swap for Fixed ²⁶	Buy forward at monthly index	Swap floating price for fixed
Index/Futures+Basis ²⁷	Buy forward at monthly index	Long futures & Long basis swap
Swing Swap ²⁸	Buy forward at monthly index	Swap monthly floating price for daily floating price
Index/Buy Call Option ²⁹	Buy forward at monthly index	Buy call option
Index/Buy Collar ³⁰	Buy forward at monthly index	Buy collar (sell put, buy call)
Call Spread ³¹	Buy forward at monthly index	Buy call option, sell call option at a higher strike price
Synthetic Call Option ³²	Buy forward at monthly index	Swap floating price for fixed and Buy put option

²⁵ Referred to as “Gas Purchases” in Authorized Procurement Products table in D.03-12-062. PG&E, like SCE, needs the ability to transact daily gas products.

²⁶ Referred to as “Financial Swap” in Authorized Procurement Products table in D.03-12-062.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Referred to as “Financial call (or put) option” in Authorized Procurement Products table in D.03-12-062.

³⁰ Ibid.

³¹ Ibid.

³² See Section 5.g.i for a description of this tool.

Pacific Gas and Electric Company
Table 15

Objectives	Physical/Financial Tools	Notes

i. Illustrative Examples

In order to streamline this plan, the illustrative examples of hedge transactions provided in GSP-2 are not repeated here but are incorporated by reference, since they will not change.³³ The example of a hedge using a synthetic call option was provided in GSP-4 is not repeated here but is incorporated by reference.³⁴

f. [REDACTED]

[REDACTED]

[REDACTED]

³³ Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003, through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), pp. 32-35.

³⁴ Gas Supply Plan 4 for DWR Tolling Agreements, October 1, 2003, through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003.

6. Gas Operations Plan

In order to streamline this plan, the Gas Operations Plan provided in GSP-2 is not repeated here but is incorporated by reference from GSP-2.³⁵ Should the substance of PG&E's operations change in the future, PG&E will include a revised Gas Operations Plan in future Gas Supply Plans.

7. Transactions for Use of Utility-Owned Facilities

PG&E will transact for utility-owned facilities or services subject to this presumption of reasonableness standard per Commission Resolution E-3825:

- a) In cases where an RFO is issued and offers are received, it is presumed that a reasonable price is paid if PG&E's charge to CDWR for the use of the utility's facilities or services is the same as or lower than the bid(s) received.
- b) In cases where there are no competitive alternatives for comparison, it is presumed that a reasonable price is paid if PG&E's charge to CDWR for the use of the utility's facilities or services is either: (1) the tariff recourse rate for the service; or (2) if the price is negotiated, no higher than the volume weighted average of the price the utility negotiated (except for CDWR) for each similar service in the same month and for the same period the service is provided. In addition, negotiated prices above this weighted average are not per se unreasonable, but require PG&E to show the Commission why they were reasonable.

8. Transactions Outside the Scope of the Gas Supply Plan

As authorized by the Commission in Resolution E-3825, PG&E may pursue activities outside the scope of the approved Gas Supply Plan, subject to Commission reasonableness review, in the event extraordinary circumstances arise and it is necessary for PG&E to meet its administrative and operational responsibilities consistent with Commission decisions and with the CDWR Fuels Protocols. PG&E shall document and describe these occurrences including an explanation of resulting ratepayer benefits. Additionally, PG&E is required to notify CDWR and the Commission's Energy Division when contemplating taking such actions via a letter and obtain CDWR's prior consent where such consent is required by CDWR's Fuels Protocols.

³⁵ Gas Supply Plan 2 for DWR Tolling Agreements, November 13, 2003, through March 31, 2004, Pacific Gas and Electric Company, August 15, 2003 (Supplemental Filing November 24, 2003), pp. 36-41.

9. Additional Information

As directed by the Commission in Resolution E-3825, PG&E will provide additional information regarding this plan to CDWR upon CDWR's request. Also, as directed by the Commission in Resolution E-3845, PG&E will make available: "all pertinent information (e.g., prices, quantities, etc.) and supporting documentation concerning transactions as well as analyses, forecasts and related data used for decision making purposes pursuant to its approved Gas Supply Plans to the Commission staff upon request."

10. Physical Gas Trading Between PG&E and CDWR

From time to time PG&E finds itself trading opposite positions for its own portfolio and the CDWR portfolio. That is, one portfolio is short and the other is long. Balancing both portfolios requires two physical trades in which each portfolio incurs the cost of the bid-ask spread.

To reduce such costs, PG&E, with CDWR's concurrence, requested in GSP-7 the authority to trade physical gas with CDWR under certain limited circumstances, such as the following:

- Trades are for portfolio balancing;
- Trades are limited to terms of one month or less, including imbalance gas;
- All trades will be priced at the Gas Daily index price for the date in question, with no adders;
- The CDWR side of the trade will be executed by an authorized CDWR employee;
- Trades will be executed under a North American Energy Standards Board (NAESB) Master Agreement between PG&E and CDWR; and
- Such trades will be specifically identified in PG&E's quarterly ERRA transaction filings.

This request was approved with GSP-7. PG&E and CDWR will finalize a NAESB Master Agreement specifying the limitations of trading between the two parties, and will file that Agreement for CPUC approval prior to implementing physical gas trading between PG&E and CDWR.

11. Market Assessment for the Next 12 Months

This section provides the background information needed to produce this plan and to assess the costs and risks of the strategies.

a. Gas Price Forecasts

Rather than use a forecast of gas prices based on econometric models, PG&E prefers to use forward price quotes from physical and financial markets. The following forward gas prices are based on a combination of physical and financial market quotes from market makers. These prices reflect market conditions as of the end of the trading day,

██████████ PG&E's Utility Risk Management department updates these prices on a daily basis. The prices listed here were used for all of the analysis presented in this plan.

i. Basin and Border Prices

Pacific Gas and Electric Company
Table 16a
[redacted]

Pacific Gas and Electric Company
Table 16b
[REDACTED]

Pacific Gas and Electric Company
Table 17a

All prices are in U.S. \$/MMBtu

Pacific Gas and Electric Company
Table 17b

All prices are in U.S. \$/MMBtu

b. Gas Supply Outlook

i. Production Outlook for Gas Basins

[REDACTED]

Gas production in the Rockies continues its strong growth, with Rockies supply forecast to more than offset declines in the San Juan and the Western Canadian Sedimentary Basin (WCSB) basins.

[REDACTED]

Rockies gas traded at a \$3.68 and \$1.48/MMBtu discount to the NYMEX Henry Hub contract last summer (April 2007 through October 2007) and winter (November 2006 through March 2007), respectively. Looking forward, Rockies gas is currently trading at a

³⁶ Wood Mackenzie, North American Gas Mid-Term Outlook, November 2007.

[REDACTED] to the NYMEX for next summer (April 2008 through October 2008) and at a [REDACTED] for the remainder of this winter (February 2008 through March 2008).

San Juan production is expected to [REDACTED] [REDACTED]³⁷ San Juan gas traded at a \$1.03 /MMBtu discount to NYMEX for the summer of 2007, and a \$0.83/MMBtu discount last winter. San Juan gas is currently trading at a [REDACTED] to NYMEX for the coming summer and at a [REDACTED] for the remainder of the winter.

Permian Basin

Permian gas traded at a \$0.86/MMBtu discount to NYMEX last summer and a \$0.73/MMBtu discount last winter. The Permian basin is currently trading at a [REDACTED] to NYMEX for the summer and at a [REDACTED] for winter. Permian supplies are expected to remain a marginal source of California supply.

California Production

California's very mature gas production totaled approximately 850,000 MMBtu/d in 2005 and is expected to decline annually by approximately 25,000 MMBtu/day over the remainder of the decade.

Alberta and British Columbia

Western Canada is seeing a decline in conventional gas production as older fields become less productive.³⁸ Natural gas production from the WCSB is expected to decline from approximately 16.2 Bcf/d in 2007 to approximately 12.7 Bcf/d by 2015.³⁹ Exacerbating these declines, exports are expected to decline further as a result of local demand, especially from oil sands production. Baker Hughes reports 360 Canadian natural gas rigs in operations during December 2007, down from 635 in February 2007. In April 2007, Canadian exports averaged roughly 3.4 Bcf/day, the lowest level since May 1999.

WCSB gas at the AECO 'C' hub gas traded at a \$0.91/MMBtu discount to NYMEX last summer and a \$0.76/MMBtu discount last

³⁷ Wood Mackenzie, North American Gas Mid-Term Outlook, November 2007.

³⁸ *Canada's Energy Future*, National Energy Board
<http://www.neb-one.gc.ca/clf-nsi/rthnb/nwsrls/2007/fctsht38ntrlg-eng.html>.

³⁹ Wood Mackenzie analysis, Pacific Gas and Electric Company Request for Approval of Ruby Pipeline Transportation Arrangements, A.07-12-021, pages 2-3.

winter. AECO gas is now trading at a [REDACTED] to Henry Hub for this summer and at a [REDACTED] for the rest of winter.

Sources: Wood Mackenzie, All Quiet on the Western Front: West Coast Supply Update – February 2006, and Rocky Mountains Supply Growth & Consolidation – June 2006. PIRA, Gas Production Outlook: Regional, May 23, 2005. CERA's No Rest for the Weary: North American Production Set to Be More Turbulent than in 2004. North American Gas Seasonal Outlook, May 2007, Wood Mackenzie Midterm Market Update – June 2007. Turn the Decade to Mark Turn in Gas Market, Spring 2007, CERA North American Natural Gas Watch, 2007, Cambridge Energy Research Associates, Inc.

ii. Potential Supply Concerns

PG&E has no supply shortage concerns for the term of GSP-11.

iii. Anticipated Pipeline Outages

PG&E regularly monitors the pipelines' Web sites for scheduled outages. Monitoring these and other pipeline notices is part of PG&E's gas scheduler's duties.

c. Regulatory Updates Pertinent to CDWR Gas Supply

On October 31, 2007, Gas Transmission Northwest Corporation ("GTN") filed an uncontested, all-party settlement with the Federal Energy Regulatory Commission resolving its Rate Case. On November 1, 2007, settlement rates were placed in effect, reducing the cost of Kingsgate to Malin transportation from the \$0.45 rate placed in effect in January 2007 to \$0.33 (per Dth on a 100% load factor basis). FERC approved this settlement on January 7, 2008.

Rates on TransCanada's Alberta system and Foothills BC systems increased January 1, 2008, by 7% and 24%, respectively, as the result of annual rate setting proceedings at the Alberta Utilities Commission and the National Energy Board.

12. Conclusion

This Gas Supply Plan describes PG&E's plans to manage gas supply and gas price risk for the CDWR tolling agreements assigned to PG&E for administrative purposes. PG&E requests the CPUC approve this Gas Plan effective April 1, 2008.

**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	Dynegy Inc.	Price, Roy
Anderson Donovan & Poole P.C.	Ellison Schneider	Product Development Dept
Applied Power Technologies	Energy Law Group LLP	R. M. Hairston & Company
APS Energy Services Co Inc	Energy Management Services, LLC	R. W. Beck & Associates
Arter & Hadden LLP	Exelon Energy Ohio, Inc	Recon Research
Avista Corp	Exeter Associates	Regional Cogeneration Service
Barkovich & Yap, Inc.	Foster Farms	RMC Lonestar
BART	Foster, Wheeler, Martinez	Sacramento Municipal Utility District
Bartle Wells Associates	Franciscan Mobilehome	SCD Energy Solutions
Blue Ridge Gas	Future Resources Associates, Inc	Seattle City Light
Bohannon Development Co	G. A. Krause & Assoc	Sempra
BP Energy Company	Gas Transmission Northwest Corporation	Sempra Energy
Braun & Associates	GLJ Energy Publications	Sequoia Union HS Dist
C & H Sugar Co.	Goodin, MacBride, Squeri, Schlotz &	SESCO
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
Cambridge Energy Research Assoc	JTM, Inc	Turlock Irrigation District
Cameron McKenna	Luce, Forward, Hamilton & Scripps	U S Borax, Inc
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	