

STATE OF CALIFORNIA

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

ARNOLD SCHWARZENEGGER, Governor



May 17, 2010

Advice Letter 3105-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 Hedging 2009 Annual Plan Compliance Advice Letter

Dear Ms. Yura:

Advice Letter 3105-G is effective April 26, 2010.

Sincerely,

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

Julie A. Fitch, Director
Energy Division

Jane K. Yura
Vice President
Regulation and Rates

Pacific Gas and Electric Company
77 Beale St., Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

Fax: 415.973.6520

March 26, 2010

Advice 3105-G

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

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

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.

In PG&E’s Long-Term Hedging Decision in D.07-06-013, the Commission provided that “PG&E should file a compliance advice letter after the annual implementation period.”¹ This advice letter demonstrates that PG&E is in compliance with its approved 2009 Annual Hedge Implementation Plan (Annual Hedge Plan), which was submitted in Advice Letter 3015-G.

Confidential Attachments 1 through 11 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 CPUC issued D.07-06-013 adopting 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 December 15, 2006, Settlement Agreement specified that, twice annually, PG&E will file a compliance advice letter – once after the annual

¹ PG&E previously submitted its 2009 Hedge Plan advice filing, 3054-G subsequent to the implementation period, October 16, 2009.

implementation period and another at the end of the winter heating season. The advice letters shall describe the general parameters of the Annual Hedging Plan and include a confidential attachment containing information about each transaction executed by PG&E during the implementation period, the date the transaction was executed, and the amount paid for the transactions.

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

Confidential Attachments 1 through 11 are to remain confidential in compliance with PG&E's Settlement Agreement, 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."

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 Winter 2 (2010-2011).

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 the 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 execution period in each year.

Compliance Documentation

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

In confidential Attachments 1 and 1A, PG&E summarizes the execution of the 2009 Annual Hedge Plan along with outstanding swap and options executed under the 2007 and 2008 Annual Hedge Plans. The tables include the total funds spent on hedging instruments, the amount of natural gas supplies hedged, and the anticipated impact of the Hedging Plan on customer gas bills. They also include the hedge parameter targets in order to demonstrate compliance with the Annual Plan.

A detailed daily list of options and swaps purchased during the 2009 Hedge Plan implementation period is provided in confidential Attachments 2 through 5. By including this information within this advice letter, PG&E provides a complete summary of hedges executed during 2009 on behalf of its core gas customers. Attachments 6 through 10 provide a detailed list of outstanding option and swap transactions executed under the 2007 and 2008 Annual Hedge Plans, excluding trades executed with Lehman Brothers Commodity Services (LBCS).² In order to provide a complete picture of all hedges outstanding under PG&E's long-term core gas hedging program, PG&E separately identifies the options and swaps executed with LBCS under PG&E's core gas hedging program in confidential Attachments 7-Lehman, 8-Lehman, and 9-Lehman.

Confidential Attachment 10 provides information regarding potential margin call activity associated with PG&E's 2009 annual core gas hedging implementation plan. As required by Ordering Paragraph 6 in D.06-11-006, all future gas proceedings authorizing core gas hedges should include a discussion of potential margin call activity. Confidential Attachment 10 includes both a probabilistic and a deterministic assessment of the potential for collateral posting. In addition, Confidential Attachment 11 shows the gas price indices used to settle the financial hedges for Winter 2009-2010.

The financial results for all hedges executed for Winter 2009-2010 are summarized in confidential Attachment 1A. The detailed results can be found in confidential Attachments 2, 6, 7, 7-Lehman, 9 and 9-Lehman. The financial results for Winters 2010-2011 and 2011-2012 will be reported at the conclusion of each winter period when the respective hedges have settled.

Conclusion

Overall, PG&E's implementation of the 2009 Annual Hedge Plan was successful. As the confidential Attachments demonstrate, PG&E has complied with all the

² 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.

Settlement Agreement and has met all the 2009 Annual Plan goals 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 periods.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than **April 15, 2010**, 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:

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 26, 2010**, 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 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. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.



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: Contact Person: Linda Tom-Martinez
 ELC GAS Phone #: 415-973-4612
 PLC HEAT WATER 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) #: 3105-G

Tier: [2]

Subject of AL: Long-Term Hedging 2009 Annual Plan Compliance Advice Letter

Keywords (choose from CPUC listing): Core, Procurement

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? No

Summarize differences between the AL and the prior withdrawn or rejected AL: N/A

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for:
Confidential Attachments 1 through 11

Confidential information will be made available to those who have executed a nondisclosure agreement: Y

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: April 26, 2010

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 proposed:

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Jane K. 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

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

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