

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 12, 2008

Advice Letter 2964-G

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

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

Dear Mr. Cherry:

Advice Letter 2964-G is effective November 19, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth Lewis".

Kenneth Lewis, Acting Director
Energy Division

Attachments 1 through 6 of this document contains confidential market sensitive information and is being filed under seal and under the provisions of Public Utilities Code Sections 583 and 454.5(g)



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October 20, 2008

Advice 2964-G

(Pacific Gas and Electric Company ID U39 G)

Public Utilities Commission of the State of California

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

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

Purpose

The purpose of this advice letter is to comply with Section 5 of the Settlement Agreement adopted in D. 07-06-013, PG&E's Long Term Hedging Decision, which states that "PG&E should file a compliance advice letter after the annual implementation period." This advice letter demonstrates that PG&E is in compliance with its approved 2008 Annual Hedge Implementation Plan (Annual Hedge Plan), which was submitted in Advice Letter 2908-G.

Confidential Attachments 1 through 6 of this advice letter contain confidential and market sensitive information and therefore are being submitted under seal and under the provisions of California Public Utilities Code Section 583 and 545.5(g).

Background

On December 20, 2006 PG&E filed a motion to adopt the Settlement Agreement between PG&E, Division of Ratepayer Advocates (DRA), The Utility Reform

Network (TURN), and Aglet Consumer Alliance (Aglet) under A. 06-05-007. The Commission adopted the Settlement on June 7, 2007, in D. 07-06-013.

The Settlement Agreement specified that, twice yearly, PG&E will file a compliance advice letter—once after the annual implementation period, and another at the end of the winter heating season. The advice letters shall describe the general parameters of the Annual Hedge 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.

Confidential Attachments 1 through 6 are to remain confidential in compliance with Commission Decision (D.) 07-06-013. Findings of Fact 8 of (D.) 07-06-013 states that “The public disclosure of PG&E’s hedging plans would compromise the utility’s negotiating leverage.” In addition, Ordering Paragraph 2 states 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

Hedge Coverage Period:

PG&E is authorized to hedge three years forward.

Budget for Options:

PG&E is authorized to spend a confidential dollar amount in total on options for each Annual Implementation Plan. Of this annual total, up to a specified amount may be spent for (1) the prompt winter (2008-2009), and (2) Winter 2 (2009-2010) and Winter 3 (2010-2011) combined.

Coverage for Swaps:

PG&E is authorized to hedge with swaps for a level of coverage up to a specified percentage of average daily core gas demand for the winter months.

Execution Period:

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

Description of Compliance

In confidential Attachment 1, PG&E summarizes the execution of the 2008 Annual Hedge Plan along with outstanding swap and options executed under the 2007 Annual Hedge Plan. This table includes the total funds spent on hedging instruments, the amount of natural gas supplies hedged, and the anticipated

impact of the Hedging Plan on customer gas bills. It also includes the hedge parameter targets in order to demonstrate compliance with the Annual Plan. A detailed daily list of options and swaps purchased during the 2008 implementation period is provided in confidential Attachments 2A, 2B, 3A, and 3B. By including this information within this advice letter, PG&E provides a complete summary of hedges executed for Winter 2008-2009 on behalf of its core gas customers. Attachments 4, 5A and 5B provide a detailed list of outstanding option and swap transactions executed under the 2007 Annual Hedge Plan, in order to provide a complete picture of all hedges outstanding under PG&E's long-term core gas hedging program.

In addition, confidential Attachments 3A-L, 3B-L, 4-L, 5A-L and 5B-L, PG&E isolates and identifies the options and swaps executed with Lehman Brothers Commodity Services (LBCS) under PG&E's core gas hedging program. In September 2008, LBCS was subject to an event of default under its financial master agreement with PG&E, and PG&E elected to terminate its master agreement with LBCS on September 18, 2008 to mitigate its financial exposure to Lehman Brothers¹. As a result, PG&E had to remove 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 the core gas winter 2008-2009 portfolio is still well within PG&E's hedge coverage target range even with the removal of these hedges.

Confidential Attachment 6 provides information regarding potential margin call activity associated with the hedging for PG&E's core gas customers under the 2008 Annual Hedge Plan. As required by Ordering Paragraph 6 in D.06-11-006, all future gas proceedings authorizing gas hedges should include a discussion of potential margin call activity. Confidential Attachment 6 includes both a probabilistic and a deterministic assessment of the potential for collateral posting.

Conclusion

Overall, PG&E's implementation of the 2008 Annual Hedge Plan was successful. As the confidential Attachments demonstrate, PG&E has met all the 2008 Annual Plan goals and has complied with all the Settlement Agreement and the 2008 Annual Plan parameters.

Protests

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

¹ One of the events of default was that Lehman Brothers Holdings, the parent company and parental guarantor of LBCS, filed for bankruptcy protection on September 15, 2008. And subsequent to the financial master agreement termination, LBCS itself filed for bankruptcy protection on October 3, 2008.

10, 2008 which is 20 days after the date of this filing.² Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjn@cpuc.ca.gov and mas@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

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 that this advice filing become effective on regular notice, **November 19, 2008**, which is 30 calendar days after the date of filing.

² The 20 day protest period concludes on a weekend. PG&E is hereby moving this date to the following business day.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for A.06-05-007. Address changes to the General Order 96-B service list should be directed to Rose de la Torre at (415) 973-4716. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>

A handwritten signature in black ink that reads "Brian K. Cheyette". The signature is written in a cursive style with a horizontal line through the middle of the letters.

Vice President, Regulatory Relations

Attachments

cc: Service List A.06-05-007

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 M)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Megan Lawson

Phone #: 415-973-1877

E-mail: mehr@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) #: 2964-G

Tier: [2]

Subject of AL: Long Term Core Gas Hedging--2008 Annual Plan Compliance Advice Letter

Keywords: compliance, core gas hedging

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

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

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL:

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

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

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information:

Resolution Required? Yes No

Requested effective date: November 19, 2008

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed:

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

CPUC, Energy Division

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

jn@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Brian K. Cherry, Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

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

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