



**Pacific Gas and
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March 18, 2009

DOCKET
09-IEP-1J

DATE MAR 18 2009

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ELECTRONIC DELIVERY

California Energy Commission
Docket Office, MS-4
Re: Docket No. 09-IEP-1J
1516 Ninth Street
Sacramento, CA 95814-5512

Re: Natural Gas Procurement by Utilities

PG&E is pleased to provide comments to the Natural Gas Procurement by Utilities workshop. Please feel free to call me at the number above if you have any questions.

Sincerely,

Attachment

PG&E Comments in Response to the March 10, 2009, Joint IEPR and Electricity & Natural Gas Committee Workshop on Natural Gas Core and Non-Core Procurement in Docket No. 09-IEP-1J

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to provide an overview of the natural gas procurement process on behalf of our core customers. PG&E remains committed to working with other non-market participants such as the California Public Utilities Commission's Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN), in a collaborative process to ensure its gas procurement and hedging plans best serve the interests of PG&E's bundled core gas customers.

PG&E believes that the California Public Utility Commission's (CPUC) current policies and rules regulating PG&E's core gas purchases and the winter hedging programs work well because they effectively address two objectives: the Core Procurement Incentive Mechanism's (CPIM) goal of cost minimization and PG&E's hedging goal of providing customers a measure of protection against excessively high natural gas bills due to price spikes during the winter period.

The gas procurement incentive structures, including CPIM, have provided strong incentives for California utilities to improve their gas procurement functions, resulting in significant gas cost savings for customers, while reducing the need for detailed prudence reviews by the CPUC. Under CPIM, PG&E's core gas costs for a twelve-month period are compared to an aggregate market-based benchmark based on a weighted average of published monthly and daily natural gas price indices at the points where PG&E purchases natural gas. A tolerance band is constructed around the benchmark, and is defined as a range of costs that is considered reasonable. All costs within the tolerance band are fully recovered from core customers. PG&E's customers and shareholders will share the savings or costs if total natural gas costs are below or above the tolerance band.

With regard to its core gas hedging program, PG&E works closely with the Energy Division and the consumer advocacy groups, DRA and TURN, to ensure that the hedging plan is transparent and that customer concerns are adequately addressed. The development, pre-approval and execution of PG&E's specific core portfolio hedging plan is a collaborative process in which customer interests are represented through active participation of key ratepayer advocacy organizations in the Core Hedging Advisory Group ("CHAG"), currently comprised of DRA and TURN. The CHAG meets regularly to discuss implementation details and parameters, and to help ensure implementation is consistent with the plan. Thus, the oversight of PG&E's hedge program is both independent and effective.

PG&E is grateful for the opportunity to participate in this discussion and fully supports interagency coordination on policy matters where appropriate.