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DRA, TURN and PG&E's Core Gas Hedging Settlement

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PG&E's Proposed Core Gas Hedging Settlement Attributes

- Joint settlement with DRA and TURN
- Maintains current Core Procurement Incentive Mechanism (CPIM) structure
 - Reporting and monitoring of hedging transaction will be done through CPIM reporting process
- Balances customer and shareholder interests
- Incorporates an appropriate level of winter hedging costs into CPIM
 - Provides utility reasonable incentive to maintain winter hedging while minimizing overall core gas portfolio costs

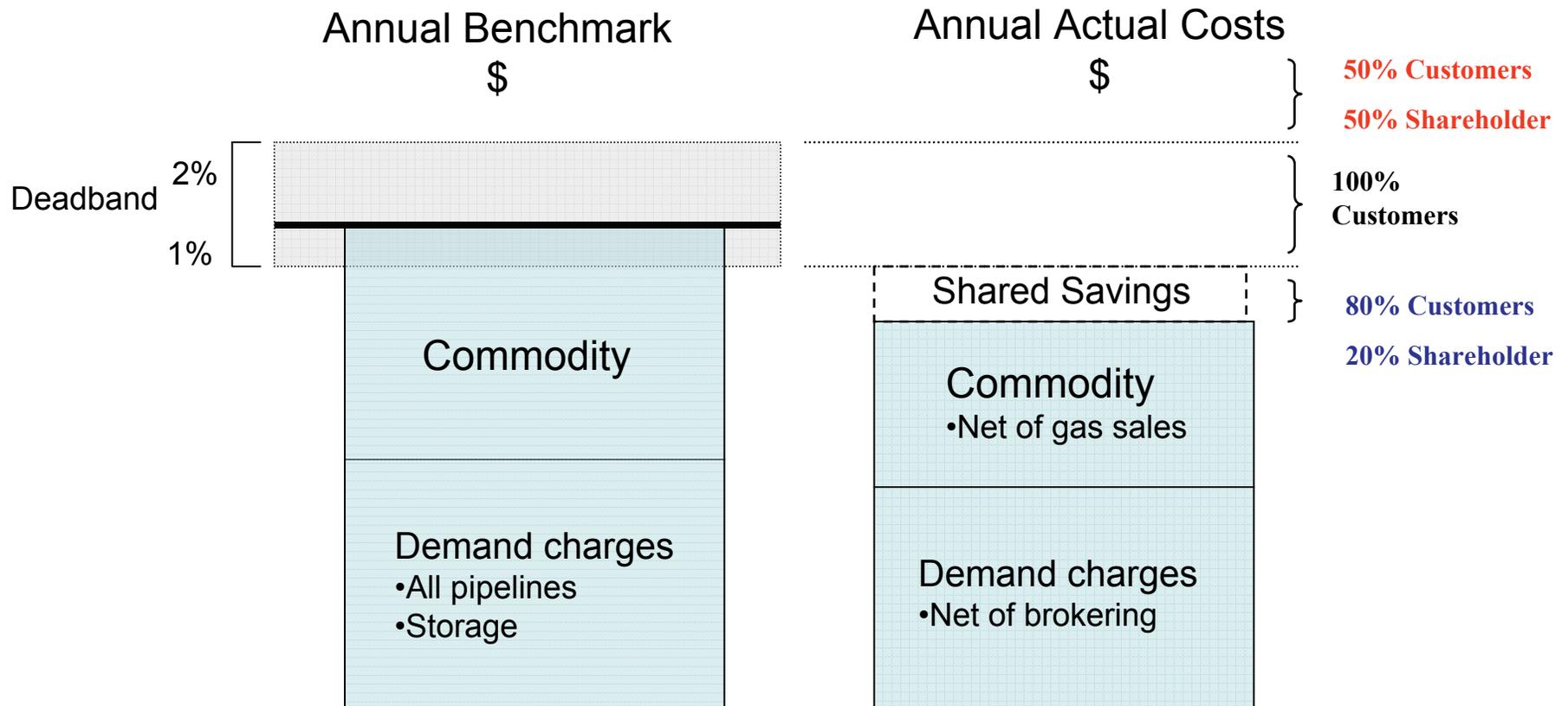
Core Portfolio Hedging Objective

- Provide insurance to protect gas customers from exposure to extremely high winter bills
 - Hedging winter months appropriate as much higher winter customer usage creates potential for economic hardship
- Hedging is intended to reduce portfolio exposure to uncertainty
 - Hedge transactions executed relatively evenly over time, to diversify risk, similar to dollar cost averaging
 - Hedges are left in place to protect against uncertainty
- Hedging is not:
 - Taking speculative positions
 - Trading in and out to generate gains

Hedging Within CPIM Must be Balanced

- Existing CPIM Structure has benefited customers through reduced gas portfolio costs
- Potential for shareholder awards focuses management efforts on cost savings and efficiency
- Settlement places 20% of hedging costs at risk in the CPIM
 - Will provide a balanced incentive to prudently manage hedging program while allowing for adequate winter hedge coverage

CPIM Methodology: Customer/Shareholder Sharing



Hedging:	Include 80% Net Hedging Costs	Include 100% Net Hedging Costs	20% Difference Impacts CPIM Results
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Proposed Hedging Settlement is in the Public Interest

- Maintains integrity of CPIM and the overall objective to minimize customer gas costs
- Protects customers against extremely high winter price scenarios
- Continues alignment of customer and shareholder interests
- Provides a consistent structure and process for DRA and the Commission to monitor and review PG&E's hedging activities within the context of overall gas prices

Commission decision by end of year allows adequate time for implementation of Settlement for 2010 – 2011 winter hedging program.