Decision 06-11-006 November 9, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to issue, sell, and deliver one or more series of Debt Securities and to guarantee the obligations of others with respect to the issuance of Debt Securities, the total aggregate principal amount of such long-term indebtedness and guarantees not to exceed $2 billion; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, an aggregate amount not to exceed $200 million par or stated value of First Preferred Stock -- $25 Par Value; to issue an aggregate $2 billion of short-term debt obligations; to utilize various debt enhancement features; enter into interest-rate hedges; and for an exemption from the Commission's Competitive Bidding Rule. (U 39 M)	Application 04-05-041 (Filed May 27, 2004)

OPINION REGARDING PACIFIC GAS AND ELECTRIC COMPANY'S PETITION TO MODIFY DECISION 04-10-037

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O P I N I O N

1. Summary

This opinion resolves Pacific Gas and Electric Company's (PG&E) petition to modify Decision (D.) 04-10-037 by increasing the amount of short-term debt[1] that PG&E may issue by $500 million so that PG&E may finance margin calls on gas-purchase contracts and gas hedges. The cost of the debt issued by PG&E to finance margin calls shall be treated the same for ratemaking purposes as the margin calls. So that the Commission may monitor margin calls, this opinion requires PG&E to provide notice when margin calls that are not offset by other hedges reach $300 million. Finally, this opinion retains the requirement in D.04-10-037 that PG&E maintain as a financial reserve the ability to issue $500 million of short-term debt for the following contingencies:

i. Procurement of natural gas and electricity for PG&E's utility customers when there is a large spike in the total cost to procure gas and/or electricity.

ii. Respond to major natural disasters and other cataclysms.

iii. Provide liquidity during a major disruption in PG&E's ability to bill, collect, and/or process utility customer bills.

2. Background

D.04-10-037 authorized PG&E to issue $2 billion of short-term debt pursuant to Pub. Util. Code §§ 816 – 830,[2] including the amount authorized by

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[1] Short-term debt matures in 12 months or less from the date of issuance.

[2] All statutory references are to the Public Utilities Code unless otherwise indicated.

§ 823(c).[3] Of the $2 billion, PG&E may use $1.5 billion for the following purposes:

1. Finance gas storage inventories at a level of $200 - $250 million.
2. Respond to contingencies such as temporary under-collections of balancing accounts.
3. Credit support for energy procurement.
4. Short-term bridge financing for infrastructure construction.
5. Self-insurance collateral for workers' compensation.
6. General working capital.

D.04-10-037 restricted PG&E's use of the remaining $500 million of authorized short-term debt to the following contingencies:

- Procurement of natural gas and electricity for PG&E's utility customers during spikes in the cost to procure gas and/or electricity, with a "spike" defined as an increase in the total monthly cost to procure gas and/or electricity that exceeds by 50% the monthly average for the preceding 12 months.
- Responding to major natural disasters or other cataclysms.
- Providing liquidity during a major disruption of PG&E's ability to bill, collect, and/or process utility customer bills.

Subsequent to the issuance of D.04-10-037 the Commission authorized PG&E to use hedges to protect core gas and electric ratepayers from increases in the price of natural gas.[4] Hedges can be risky, however. For example, if PG&E hedges against an increase in the price of natural gas by agreeing to buy large quantities at a fixed price, and the market price of gas declines below the fixed

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[3] § 823(c) allows a utility to issue, without Commission authorization, short-term debt equal to 5% of the par value of the utility's outstanding long-term securities.

[4] PG&E purchases a substantial amount of electricity from gas-powered generators. The prices paid by PG&E for this power is tied to the price of gas.

price, ratepayers will be worse off with the hedge. Under this scenario, PG&E's counterparty may demand collateral from PG&E to mitigate the risk that PG&E will not pay the agreed-upon price, and instead purchase lower cost gas from another party. The demand for collateral constitutes a "margin call." Depending on the counterparty, a margin call could be in the form of cash or letters of credit (NYMEX only accepts cash, while others accept cash or letters of credit).

PG&E filed a petition to modify D.04-10-037 (Petition) on July 28, 2006. Notice of the Petition appeared in the Commission's Daily Calendar on August 1, 2006. There were no protests or other responses to the Petition.

In its Petition, PG&E states that margin calls could reach $900 million or more.[5] Given the potential magnitude of margin calls, PG&E is concerned that the $1.5 billion of general short-term debt authorized by D.04-10-037 (i.e., $2 billion total authority less $500 million of restricted authority) may not be sufficient to handle both large margin calls and PG&E's normal short-term credit needs. Therefore, to ensure that it can finance large margin calls, PG&E asks the Commission to modify D.04-10-037 to expand the list of contingencies for which PG&E may use the $500 million of restricted short-term debt authorized by D.04-10-037 to include margin calls on gas hedges.

3. Discussion

PG&E's Petition requests authority to issue short-term debt to finance margin calls on gas hedges. Therefore, the Petition is subject to §§ 816, 823(b), 823(c), and 823(d) which state, in relevant part, as follows:

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[5] PG&E reports that as of September 22, 2006, its total margin calls on gas hedges stood at $272 million. (See PG&E amended supplement filed on October 4, 2006.)

> **§ 816:** The power of public utilities to issue [debt] is a special privilege, the right of supervision, regulation, restriction, and control of which is vested in the State, and such power shall be exercised as provided by law under such rules as the commission prescribes.
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> **§ 823(b):** A public utility may issue notes, for proper purposes and not in violation of any provision of law, payable at periods of not more than 12 months after the date of issuance of the notes without the consent of the commission.
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> **§ 823(c)**: Notwithstanding the provisions of subdivision (b), no public utility . . . shall, without the consent of the commission, issue notes payable at periods of not more than 12 months after the date of issuance of the notes if such notes and all other notes payable at periods of not more than 12 months after the date of issuance of such notes . . . would exceed in aggregate amount 5 percent of the par value of the other securities then outstanding. In the case of securities having no par value, the par value for the purposes of this subsection shall be the fair market value as of the date of issue.
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> **§ 823(d):** No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by [debt or equity] . . . without the consent of the commission.

The Commission has broad discretion to determine if a utility should be authorized to issue short-term debt pursuant to § 816, *et seq*. The primary standard used by the Commission is whether a utility has demonstrated a reasonable need to issue short-term debt for proper purposes.[6] Where necessary

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[6] The term "proper purposes" refers to expenditures that promote legitimate objectives of a public utility of the type concerned. (207 Cal 630 (1929).)

and appropriate, the Commission may attach conditions to the issuance of short-term debt in order to protect and promote the public interest.

When D.04-10-037 was issued, the Commission had not yet authorized PG&E to engage in large-scale hedging activities. Consequently, the amount of short-term debt authorized by D.04-10-037 was not sized to provide PG&E with the means to finance large margin calls on gas hedges, which could total $900 million or more according to PG&E.

After the issuance of D.04-10-037, the Commission authorized PG&E to use hedges to protect electric and gas ratepayers from increases in the price of natural gas. In particular, Resolution E-3951, issued on September 22, 2005, authorized PG&E to hedge the gas price risk associated with its electric portfolio. Likewise, D.05-10-015 authorized PG&E to hedge the price of gas purchased for core customers. D.06-08-027 modified D.05-10-015 to limit PG&E's expenditures for many types of hedges to $14 per core customer for the 2006-2007 winter season. However, hedges commonly known as futures and swaps are excluded from the $14 per-customer limit on hedging expenditures.[7] This is an important exclusion, as it is precisely these types of hedges that can produce large margin calls.[8] Additionally, D.06-08-027 excluded from PG&E's Core Procurement Incentive Mechanism (CPIM) all of the costs and benefits of hedges resulting from PG&E's gas hedging plan approved by the Decision. Thus, PG&E has no risk for margin calls on gas hedges that result from its approved hedging plan. D.06-08-027 also required PG&E to provide a report by April 1, 2007, that

[7] D.06-08-027 is silent on whether forward contracts are excluded from the $14 per-customer limit on hedging expenditures.

[8] Margin calls of $900 million or more would easily exceed the $14 per-customer limit for hedging expenditures adopted by D.06-08-027.

contains specified information concerning the results of PG&E's hedges for the 2006-2007 winter season.[9]

We conclude that because PG&E is authorized to enter into hedges (including fixed-price purchase contracts) that can result in large margin calls, and because PG&E represents that its existing $1.5 billion of general short-term debt authority may be insufficient to finance large margin calls, PG&E should be granted authority under § 816 *et seq*., to issue additional short-term debt to finance margin calls on gas hedges.[10] However, PG&E's request to use the $500 million of restricted short-term debt established by D.04-10-037 to finance margin calls is not consonant with the Commission's reason, repeated below, for creating the restricted short-term debt:

> PG&E contends that it will need…to issue more than $1.5 billion of short-term debt when abnormal circumstances occur. We agree that it is prudent for PG&E to maintain financial reserves to cope with extraordinary events such as major natural disasters that temporarily reduce cash remittances from customers or dramatic surges in the price of wholesale gas or electricity. Because the frequency and magnitude of such events is inherently uncertain, we must use our experience and judgment to determine the amount of slack financial capacity that should be maintained to cope with such events. We conclude that authorizing PG&E to issue $500 million of additional short-term debt should provide an adequate financial cushion for many scenarios.

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[9] The report will not include information for hedges related to PG&E's electric portfolio.

[10] PG&E should have informed the Commission and the interested parties at the time PG&E requested authority to enter into gas hedges that PG&E also needed authority to issue additional short-term debt to finance large margin calls gas hedges.

> For the preceding reasons, we will authorize PG&E to issue $2 billion of short-term debt, including the amount authorized by Section 823(c). Of this amount, PG&E shall maintain a reserve capacity to issue $500 million of short-term debt that can only be used for the following purposes:
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> - Procure natural gas and electricity for PG&E's utility customers during spikes in demand and/or the price of gas or electricity.
> - Respond to major natural disasters, large scale terrorist attacks, or other cataclysms.
> - Provide liquidity during a major disruption of PG&E's ability to bill, collect, and/or process utility customer bills.
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> PG&E may use the remaining $1.5 billion of short-term debt authorized by [D.04-10-037] for the…previously listed purposes. (D.04-10-037, *mimeo.*, pp. 10-11. Footnote omitted.)

We continue to believe that it is prudent for PG&E to maintain as a financial reserve the ability to issue $500 million of short-term debt to cope with the contingencies listed in D.04-10-037. Therefore, we decline to grant PG&E's request to use the $500 million financial reserve established by D.04-10-037 for margin calls on gas hedges. Instead, we will provide PG&E with the ability to finance large margin calls by expanding PG&E's general short-term debt authority from $1.5 billion to $2.0 billion.

The incremental cost of debt used by PG&E to finance margin calls shall be treated the same for ratemaking purposes as the margin calls financed by the debt. For example, the $14 per-core-customer limit on gas-hedge expenditures for the 2006-2007 winter season set by D.06-08-027 shall exclude the interest on debt issued by PG&E to finance margin calls to the same extent that expenditures for margin calls (e.g., cash collateral) are excluded from, the $14 per-customer limit. Similarly, the CPIM shall exclude interest on debt issued to finance margin calls, since gas hedges are excluded from the CPIM.

Consistent with § 824, PG&E shall maintain records to identify the specific short-term debt issued pursuant to this opinion and to demonstrate that the proceeds from such debt have been used only for the purposes authorized by this opinion. PG&E shall also include margin calls on all gas hedges[11] and the incremental cost of all debt issued to finance margin calls in the report that PG&E is required to submit by April 1, 2007, pursuant to D.06-08-027.[12]

As a final matter, we are concerned that PG&E's margin calls on gas hedges could reach $900 million. If this were to occur, it could signal the possibility of an impending large-scale failure of PG&E's hedging activities in that PG&E's ratepayers might have to pay $900 million more than the then-current market price of gas. So that we may monitor significant margin calls, we will require PG&E to provide notice when margin calls that are not offset by other hedges reach $300 million, $600 million, $900 million, and each $300 million increment thereafter.[13] Such notice shall be filed and served within

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[11] PG&E should report all margin calls that were outstanding during the period covered by the report on (i) gas hedges associated with core gas procurement, (ii) gas hedges associated with electric procurement, and (iii) and gas hedges entered into before and after D.06-08-027 was issued.

[12] The report should include: (i) a summary of margin calls on gas hedges during the period covered by the report; (ii) the amount of each type of consideration (cash, letters of credit, etc.) provided by PG&E to satisfy margin calls; (iii) the quantity of gas associated with the margin calls; and (iv) the incremental cost of debt issued by PG&E to finance margin calls on gas hedges.

[13] PG&E should serve the required notice on the service lists for (i) the consolidated proceedings in which D.06-08-027 was issued, (ii) A.06-05-007 re: PG&E's application for approval of a long-term hedging program for core gas supplies, and (iii) PG&E Advice Letter 2685-E, which was approved in Resolution E-3951.

five business days of margin calls reaching the specified levels. The notice shall include (1) the potential per-customer impact of the margin calls, (2) an estimate of the likelihood of higher margin calls, and (3) a description of the steps PG&E has or will take to mitigate the ratepayer impact of the margin calls. PG&E should also demonstrate in future proceedings authorizing gas hedges (such as the proceeding in which D.06-08-027 was issued) the magnitude of potential margin calls, the steps PG&E has taken (or plans to take) to limit ratepayers' exposure to significant losses from margin calls, and PG&E's plans for financing margin calls.

4. General Order 24-B

General Order (GO) 24-B requires utilities to submit a monthly report to the Commission that contains, among other things, the following information: (1) the amount of debt issued by the utility during the previous month; (2) the total amount of debt outstanding at the end of the prior month; (3) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (4) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

In recent years the Commission has routinely authorized utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs.[14] Consistent with this practice, PG&E may report on a quarterly basis the information required by GO 24-B for

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[14] See, for example, D.06-05-029, Ordering Paragraph (OP) 6; D.05-05-047, OP 8; D.04-04-041, OP 5; D.04-01-009, OP 11; D.03-12-052, OP 6; D.03-12-004, OP 13; D.03-11-018, OP 13; and D.03-09-020, OP 6.

debt issued pursuant to this opinion, except that PG&E shall report this information on a monthly basis if directed to do so by Commission staff.

5. Matters Not Addressed

This opinion does not address the reasonableness of (1) any expenditures made by PG&E with the proceeds from the short-term debt authorized herein, or (2) the cost, rates, terms, or conditions of debt issued by PG&E pursuant to this opinion. These matters will be addressed in other proceedings, as appropriate.

6. Fees

Whenever the Commission authorizes a utility to issue debt, the Commission is required to collect a fee in accordance with § 1904(b). This statute states, in relevant part, as follows:

> **Section 1904(b)**: For a certificate authorizing an issue of bonds, notes, or other evidences of indebtedness, two dollars ($2) for each one thousand dollars ($1,000) of the face value of the authorized issue or fraction thereof up to one million dollars ($1,000,000), one dollar ($1) for each one thousand dollars ($1,000) over one million dollars ($1,000,000) and up to ten million dollars ($10,000,000), and fifty cents ($0.50) for each one thousand dollars ($1,000) over ten million dollars ($10,000,000), with a minimum fee in any case of fifty dollars ($50). No fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has theretofore been paid to the commission.

The following table shows the calculation of the fee that PG&E is required to pay pursuant to § 1904(b) for the $500 million of additional short-term debt authorized by today's opinion:

Computation of § 1904(b) Fee for $500 million of Additional Short-Term Debt	
Fee on First $1 Million	$2,000
Fee on $2 Million - $10 Million	$9,000
Fee on $10 Million to $500 Million	$245,000
Total Fee	**$256,000**

PG&E shall remit the required fee to the Commission's Fiscal Office. The authority granted by this opinion shall not become effective until the fee is paid.

7. California Environmental Quality Act

The Commission is required by the California Environmental Quality Act (CEQA) and Rule 17.1 of the Commission's Rules of Practice and Procedure (Rules) to consider the environmental consequences of projects that are subject to the Commission's discretionary approval.[15] Thus, in deciding whether to approve PG&E's petition to modify D.04-10-037, we must consider if doing so will alter an approved project, result in new projects, change facility operations, etc., in ways that have an environmental impact.

Today's opinion authorizes PG&E to issue short-term debt to finance margin calls on gas hedges. We do not authorize any new construction, changes to PG&E's operations, or changes in the use of existing assets and facilities. Therefore, it can be seen with certainty that today's opinion will not have a significant effect on the environment and, for this reason, qualifies for an

[15] Pub. Resources Code Section 21080.

exemption from CEQA pursuant to Section 15061(b)(3)(1) of the CEQA guidelines.[16] Consequently, there is no need for further environmental review.

8. Comments on the Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with § 311 and Rule 14.2(a) of the Commission's Rules of Practice and Procedure. There were no comments on the proposed decision.

9. Assignment of the Proceeding

Michael R. Peevey is the Assigned Commissioner and Timothy Kenney is the assigned ALJ in this proceeding.

Findings of Fact

1. PG&E is authorized by D.04-10-037 to issue $2.0 billion of short-term debt, including the amount allowed by § 823(c). Of the $2 billion, $500 million may only be issued for specified contingencies.

2. PG&E is authorized to use hedges to protect its gas and electric ratepayers from significant increases in the price of natural gas. However, if the price of gas declines, these hedges might result in margin calls of $900 million or more.

3. PG&E believes the $1.5 billion of general short-term debt authorized by D.04-10-037 may not be sufficient to finance both (i) large margin calls on gas hedges, and (ii) PG&E's normal short-term debt needs.

[16] Section 15061(b)(3)(1) of the CEQA guidelines states: "Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA."

4. PG&E's petition to modify D.04-10-037 asks the Commission to add margin calls on gas hedges to the list of contegnecies for which PG&E may issue the $500 million of restricted short-term debt established by D.04-10-037.

5. It is prudent for PG&E to maintain as a financial reserve the ability to issue $500 million of short-term debt for the contingencies listed in D.04-10-037, including (i) a major natural disaster that disrupts PG&E's ability to bill and collect, and (ii) significant increases in the total cost to procure wholesale gas and/or electricity.

6. D.06-08-027 requires PG&E to provide a report by April 1, 2007, regarding the results of PG&E's core gas hedges for the 2006-2007 winter season.

7. GO 24-B requires utilities to submit a monthly report that contains, among other things, the following information: (i) the amount of debt issued by the utility during the previous month; (ii) the total amount of debt outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds from the issuance of debt during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

8. In recent years the Commission has routinely authorized utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs.

9. It can be seen with certainty that this opinion will not have a significant effect on the environment because this opinion does not authorize new construction, changes to PG&E's operations, or changes in the use of existing assets and facilities.

Conclusions of Law

1. PG&E's petition to modify D.04-10-037 is subject to Commission approval under § 816 *et seq*. The Commission has broad discretion under these statutes to approve, modify, or reject PG&E's Petition.

2. PG&E should be authorized pursuant to § 816 *et seq*., to issue $500 million of additional short-term debt, for total short-term debt authority of $2.5 billion, including the amount authorized by § 823(c). Of the $2.5 billion, PG&E should use $2.0 billion for the following: (i) the purposes specified in D.04-10-037, *mimeo*., pp. 6 -7; and, (ii) to finance margin calls on gas purchase contracts and Commission-authorized hedges that result from declines in the price of natural gas. The remaining $500 million should be used only for the following purposes:

   i. Finance the procurement of natural gas and electricity for PG&E's utility customers when there is a spike in the total cost to procure gas and/or electricity, with a "spike" defined as an increase in the total monthly cost to procure gas and/or electricity that exceeds by 50% the monthly average of the preceding 12 months.

   ii. Respond to major natural disasters and other cataclysms.

   iii. Provide liquidity if there is a major disruption in PG&E's ability to bill, collect, and/or process utility customer bills.

3. Debt issued by PG&E to finance the margin calls identified in Conclusion of Law 2 ("margin calls") should receive the same ratemaking treatment as the margin calls financed by the debt.

4. The report that PG&E submits by April 1, 2007, pursuant to D.06-08-027 should include (i) a summary of the margin calls during the period covered by the report; (ii) the amount of each type of consideration (cash collateral, letters of credit, etc.) provided by PG&E to satisfy the margin calls; (iii) the quantity of gas

associated with the margin calls; and (iv) the incremental cost of debt issued by PG&E to finance the margin calls.

5. PG&E should provide notice when margin calls reach significant levels.

6. In future proceedings authorizing gas hedges, PG&E should provide information about the magnitude of potential margin calls, PG&E's plan for limiting ratepayers' exposure to significant losses from margin calls, and PG&E's plan for financing margin calls.

7. § 1904(b) requires PG&E to pay a fee of $256,000 for the $500 million of additional short-term debt authorized by this opinion. The authority granted by this opinion should not become effective until PG&E has paid the required fee.

8. Because it can be seen with certainty that this opinion will not have a significant effect on the environment, the decision herein to authorize PG&E to issue $500 million of additional short-term debt qualifies for an exemption from CEQA pursuant to Section 15061(b)(3)(1) of the CEQA guidelines, and there is no need for further environmental review.

9. PG&E should maintain records pursuant to § 824 and GO 24-B that (i) identify the specific short-term debt issued pursuant to this opinion, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes authorized by this opinion.

10. PG&E should be authorized to report quarterly the information required by GO 24-B regarding debt issued pursuant to this opinion, except that PG&E should report this information monthly if directed to do so by Commission staff.

11. The following order should be effective immediately so that PG&E may issue as soon as possible the short-term debt authorized therein.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is granted authority under Pub. Util. Code § 816 *et seq.*, to issue $2.5 billion of short-term debt, including the amount of short-term debt authorized by § 823(c). Of the $2.5 billion, PG&E shall use $2.0 billion for the following: (i) the purposes specified in Decision (D.) 04-10-037, *mimeo.*, pp. 6 -7; and, (ii) to finance margin calls (i.e., to provide collateral or make payments pursuant to gas purchase contracts and/or Commission-authorized hedging transactions) that result from declines in the price of natural gas. The remaining $500 million shall be used only for the following purposes:

   i. Finance the procurement of natural gas and electricity for PG&E's utility customers beginning in months when the total monthly cost to procure gas and/or electricity exceeds by 50% the monthly average of the preceding 12 months.

   ii. Respond to major natural disasters and other cataclysms.

   iii. Provide PG&E with liquidity during a major disruption of PG&E's ability to bill, collect, and/or process utility customer bills.

2. The amount of short-term debt authorized by this Order supersedes the amount of short-term debt authorized by D.04-10-037.

3. The incremental cost of any debt issued by PG&E to finance the margin calls identified in Ordering Paragraph 1 ("margin calls") shall be treated the same for ratemaking purposes as the margin calls financed by the debt.

4. The report that PG&E submits by April 1, 2007, pursuant to D.06-08-027 shall include the following: (i) a summary of the margin calls during the period covered by the report as described in the body of this decision; (ii) the amount of

each type of consideration (cash collateral, letters of credit, etc.) provided by PG&E to satisfy the margin calls; (iii) the quantity of gas associated with the margin calls; and (iv) the incremental cost of debt issued to finance margin calls.

5. PG&E shall file and serve notice when margin calls that are not offset by other hedges reach $300 million, $600 million, $900 million, and each $300 million increment thereafter. The notice shall include (i) the potential per-customer impact of the margin calls, (ii) an estimate of the likelihood of higher margin calls, and (iii) a description of the steps that PG&E has taken or will take to mitigate the ratepayer impact of the margin calls. PG&E shall file and serve the notice within five business days of the margin calls reaching the previously specified levels. The notice shall be served on the service lists for (i) the consolidated proceedings in which D.06-08-027 was issued, (ii) Application 06-05-007, and (iii) PG&E Advice Letter 2685-E, which was approved in Resolution E-3951.

6. In future proceedings authorizing gas hedges, PG&E shall provide information about the magnitude of potential margin calls, PG&E's plan for limiting ratepayers' exposure to significant losses from margin calls, and PG&E's plan for financing margin calls.

7. PG&E shall pay the fee required by § 1904(b) by remitting to the Commission's Fiscal Office a check for $256,000. The decision number of this Order shall appear on the face of the check. The authority granted by this Order shall not become effective until PG&E remits the required fee.

8. PG&E may report quarterly the information required by General Order (GO) 24-B regarding short-term debt issued pursuant to this Order. PG&E shall report this information monthly if directed to do so by Commission staff.

9. Pursuant to § 824 and GO 24-B, PG&E shall maintain records that (i) identify the specific short-term debt issued pursuant to this Order, and (ii) demonstrate that the proceeds from the short-term debt issued pursuant to this Order have been used only for the purposes authorized by this Order.

10. PG&E's petition to modify D.04-10-037 is granted and denied to the extent set forth in the previous Ordering Paragraphs.

11. Application 04-05-041 is closed.

This order is effective today.

Dated November 9, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners