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Decision 98-03-068 March 26, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for an Order Under Section 701 of the Public Utilities Code Granting Pacific Gas and Electric Company Permission to Use Natural Gas-Based Financial Instruments to Manage Gas Costs Associated with Natural Gas Purchased for Utility Electric Generation. (U 39 G)	Application 97-12-004 (Filed December 4, 1997)

OPINION ON USE OF NATURAL GAS-BASED FINANCIAL INSTRUMENTS TO MANAGE RISK ASSOCIATED WITH NATURAL GAS PURCHASED FOR UTILITY ELECTRIC GENERATION

Summary

In this decision, we grant conditional authority to Pacific Gas and Electric Company (PG&E) to use natural gas-based financial instruments to manage price volatility of gas purchased for its utility electric generation (UEG) portfolio. We make this determination pursuant to our broad powers to regulate utilities which are set forth in the Public Utilities Code, including but not limited to §§ 330(e), 330(l), 451, 454, 491, 701, 701.5, 728, 729, and 816 through 830.[1] The authority granted today will end on the earlier of (1) the date upon which PG&E has completely divested all of its fossil generation facilities that PG&E is currently planning to sell; (2) the termination of the rate freeze period, as determined by this Commission, if it is prior to March 31, 2002; or (3) the end of the transition period specified in § 368(a), that is, no later than March 31, 2002. PG&E is

[1] All statutory references are to the Public Utilities Code, unless otherwise noted.

granted an exemption from the Commission's Competitive Bidding Rules[2] set forth in Resolution F-616 for use of the derivatives authorized in this decision.

Background

PG&E filed Application (A.) 97-12-004 on December 4, 1997, and it was noticed on the Commission's Daily Calendar of December 9. No party filed a protest to this application. As of January 1, 1998, a prehearing conference had not been held, nor a determination made to hold a hearing. Because no protests were received, Commissioner Conlon and Administrative Law Judge (ALJ) Minkin determined that no hearings were necessary in this proceeding. Accordingly, consistent with Rule 4(c) of the Commission's Rules of Practice and Procedure, the Senate Bill (SB) 960 rules and procedures do not apply and the other Commission rules and procedures apply to this proceeding.

Decision (D.) 97-08-058 denied PG&E the authority it requested in A.96-11-037 to use energy-related derivative financial instruments (derivatives), including but not limited to futures contracts, forward contracts, options and swaps, to manage gas and electric price risk volatility:

> "If PG&E desires to have this Commission reconsider its request to use energy-related derivative financial instruments, it shall file an application and serve it on parties in Rulemaking 94-04-031 and Investigation 94-04-032. The application shall fully address the interrelationships between the authority it seeks and the issues set forth in this decision, including but not limited to market power concerns; effects on the mandatory buy-sell requirement; incentives and opportunities to manipulate Power Exchange prices; anticompetitive derivative transactions involving PG&E's generation

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[2] The Commission's Competitive Bidding Rules require utilities to request bids for the purchase of bonds, notes, and other evidences of indebtedness and are set forth in D.38614, D.49941, D.75556, D.81908, Resolution F-591 (August 4, 1981), and Resolution F-616 (October 1, 1986).

> facilities or generation affiliates (through third-party intermediaries) or PG&E customers; impacts on transition costs; impacts on the rate reduction bonds; and the inability of ratepayers to share in gains from these transactions." (D.97-08-058, mimeo, Ordering Paragraph 2 at p. 15.)

PG&E's Application

PG&E filed A.97-12-004 in response to the concerns identified in D.97-08-058. PG&E is seeking Commission approval to trade financial instruments including (1) exchange-traded futures and options and (2) over-the-counter (OTC) instruments, such as swaps and non-exchange options. PG&E's request includes all financial instruments whose value changes relative to a change in the underlying commodity or commodity transportation cost, and is limited to financial instruments related to natural gas, for purposes of this application. PG&E explains that the purpose of entering into such trades is to reduce existing or anticipated price risk associated with its UEG portfolio due to volatile gas commodity and related transportation costs. UEG refers to electric generation using fossil fuels. PG&E has eight UEG facilities within its service territory, which burn either natural gas or oil, with natural gas being the primary UEG fuel.

The authority sought would end on the earlier of (1) the date upon which PG&E has completely divested all of its fossil generation facilities that PG&E is currently planning to sell; (2) the termination of the rate freeze period, as determined by this Commission, if it is prior to March 31, 2002; or (3) the end of the transition period specified in § 368(a), that is, no later than March 31, 2002. PG&E affirms that it will not acquire any gas-based financial instruments whose expiration date is after the date upon which PG&E has completely divested all of its fossil generation facilities that PG&E anticipates selling.

Cost control is particularly important to PG&E because of the rate freeze. Rates are frozen at the June 10, 1996 levels and PG&E's fuel costs are no longer subject to balancing account treatment in the Energy Cost Adjustment Clause (ECAC), which was eliminated as of January 1, 1998 in D.97-10-057. PG&E wishes to offset the risk inherent in operating in the marketplace through the use of hedging financial instruments. PG&E proposes that its shareholders bear all trading losses and retain any gains, so that ratepayers are indifferent to the use of these financial instruments. PG&E pledges to ensure that any direct and indirect costs, such as labor and overhead costs, will be funded by shareholders, as well. PG&E requests that none of the costs, gains, or losses from these financial instruments be subject to reasonableness review.

PG&E seeks authority to engage in trades related to futures, options, and swaps. A future is an exchange-traded contract between a buyer and a seller, where upon expiration of trading, the buyer is obligated to take delivery and the seller is obligated to provide delivery of a fixed amount of commodity at a predetermined price at a specified location. An option is a contract which gives the holder (purchaser) the right, but not the obligation, to purchase (in the case of a "call" option) or sell (in the case of a "put" option) a specific amount of commodity at a fixed price, during a specified period or on a specified date in exchange for a one-time premium payment. The option seller collects the premium and must perform if the purchaser exercises the option. A swap is a contract in which parties agree to exchange cash flows at a preset schedule according to a formula. As a result, one party gets the difference in the cash flows. A fixed-for-floating swap is usually the difference between a preset price and an index price to be determined later. A basis swap is the difference

between an index and the New York Mercantile Exchange (NYMEX) reference price plus or minus a basis, or differential.[3]

PG&E seeks such approval under the general authority of § 701. PG&E takes the position that such instruments are not necessarily "evidences of indebtedness" and does not concede that § 818 applies. However, assuming that use of these financial instruments falls within the provenance of this section, PG&E seeks approval under § 818. Additionally, PG&E contends that the Competitive Bidding Rules, which require utilities to request bids for the purchase of their debt securities, do not necessarily apply to these financial instruments. In any case, PG&E seeks an exemption from these rules in order to use such instruments to manage price risk. The Rules require that utilities publish a request for bids in a newspaper and give potential bidders at least a day to respond. PG&E must be able to respond much more quickly to changes in the marketplace in order to effectively make use of these financial instruments.

PG&E proposes a limit of $400 million for its UEG financial instruments, which is a gross market value of all outstanding positions, subject to limited netting. PG&E requests the authority to hedge the cost of gas used for generation which totals approximately $400 million per year (commodity and transportation costs associated with gas purchases for use by PG&E's UEG per the ECAC forecast adopted in D.96-12-080). The limit would mean that the market value of the financial instruments for its UEG portfolio could not exceed $400 million in value at the end of any trading day. This limit would be monitored daily and reported to the Commission.

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[3] A.97-12-004, Appendix A.

In Resolution E-3506, we determined that "we will not allow Edison to recover any increase or perceived increase in its cost of capital due to its hedging activities." (Resolution E-3506, mimeo. at p. 6.) PG&E agrees to this standard, but asks that it be applied based upon increases which are directly or indirectly caused by use of trading in these derivatives, rather than a standard based upon perception.

Under the confidentiality provisions of § 583, PG&E proposes to provide quarterly reports which delineate the aggregate contract volume, market value, and average maturity of all outstanding financial instruments. PG&E will report its end-of-day gross receivable (in-the-money), gross payable (out-of-the-money), and at-the-money positions of its open financial positions, showing both contract volume and market value.

PG&E maintains that certain conditions imposed on Southern California Edison Company (Edison) in Resolution E-3506 should not apply in this proceeding. We directed Edison to include language in any risk management contracts to ensure that the other party to the instrument does not have or will not enter into any contracts with any of Edison's customers, affiliates, or generation facilities. Because Edison was granted authority to hedge the impact of natural gas prices on the cost of electricity and PG&E is not seeking such authority, PG&E contends that such requirements are irrelevant. Further, PG&E believes that the while Edison is required to ensure that the Energy Division receives copies of each hedging contract, there is no reason this requirement should apply to PG&E because it proposes that shareholders fund 100% of the costs and take all risk of hedging activity.

PG&E maintains that this application does not raise electric restructuring or market power issues, because (1) the proposed financial instruments are gas-only and therefore preclude the possibility of taking delivery of electricity under

futures contracts (and thus violating the Preferred Policy Decision's mandatory buy-sell requirement)[4] and (2) PG&E's UEG lacks market power in the relevant gas markets. PG&E contends that because of the relatively small volumes to be traded and limits on the use of these financial instruments, PG&E's UEG will not be able to exert market power in either the exchange or OTC markets.

Response to ALJ Ruling

In response to various questions posed by ALJ ruling, PG&E has made several assertions. PG&E believes that the authority sought in this application will have no anticompetitive impacts involving PG&E's generation facilities or generation affiliates. PG&E is not requesting authority to use electricity-based financial instruments, nor is it requesting authority to hedge electricity purchases or prices. PG&E states that it is requesting authority to use the same tools to manage costs that are already available to other regulated and unregulated market participants, and that its UEG lacks market power in the physical commodity markets, the national market for exchange-traded futures and options, and the over-the-counter financial market. In compliance with the affiliate guidelines promulgated in D.97-12-088, PG&E will not share hedging and financial derivatives and arbitrage services with affiliates or transmit to affiliates any information which would conflict with the affiliate rules.

In response to questions about the $400 million limit for its use of financial instruments to manage UEG gas price risk, PG&E explains that this proposal was based upon the ECAC forecast of UEG costs developed in early 1996 and adopted in D.96-12-080. This limit does not reflect the upcoming divestiture of the Morro Bay and Moss Landing facilities. After the divestiture is complete, it is

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[4] D.95-12-003, as modified by D.96-01-009.

likely that the UEG's gas consumption will be lower than the adopted forecast for a normal hydro year and PG&E explains that it would be willing to accept a limit of $200 million with the sale of these power plants. PG&E also recommends that the limit should not be further reduced to account for fixed gas transportation costs. Although certain contract costs are fixed by long-term contract, fluctuations occur daily in the commodity cost of gas which then create variable gas transportation market prices. PG&E believes it should have the ability to manage the risks associated with these costs.

PG&E proposes that shareholder bear all costs and losses as well as receive all gains from the instruments it will use to manage UEG gas price risk. All PG&E expenses associated with this program will be included in Federal Energy Regulatory Commission (FERC) account 426.5 (Other Deductions), which is used for other miscellaneous non-operating expenses. Because this account is neither a balancing account, nor is included in rate requests, there is no impact on the ratepayer. PG&E will also establish an account to track all gains and losses associated with the UEG's use of gas financial instruments, which will ensure that ratepayers are indifferent.

PG&E explains that it does not anticipate that its cost of capital will be impacted by the use of these financial instruments, particularly because of the limits associated with the requested authority (especially if the limit is reduced to $200 million) and the fact that all such authority will expire when PG&E completes divestiture of its fossil generation facilities. PG&E clarifies that standard estimation methods and models routinely used in the cost of capital proceedings can be used to assess changes to PG&E's cost of capital, and by implication, the impacts of the use of these financial instruments can be separated out.

PG&E explains that it is reasonable that the utility, as the organization responsible for operating the system and managing the costs associated with purchasing natural gas for use in PG&E's generating units, should also be accountable and responsible for the use of financial instruments associated with those fuel costs. It therefore contends that it is reasonable that the utility, rather than the parent holding company, manage these financial instruments and any associated risk.

Discussion

We are satisfied that PG&E's application and ensuing clarifications ameliorate the concerns we raised in D.97-08-058, particularly because these financial instruments will be gas-based only and will not hedge electricity. In D.97-08-058, we expressed concerns regarding the potential for market power abuses and the impact of such transactions on the mandatory buy-sell requirement of the Power Exchange. Because PG&E is limiting its hedging instruments to a gas-only program, such market power concerns are somewhat allayed. PG&E contends that its UEG lacks market power in both the physical commodity markets, the national market for exchange-traded futures and options, and the OTC financial market. These facts have not been disputed in this proceeding.

The FERC has jurisdiction over market power issues and has established a monitoring and mitigation program in its October 30, 1997 Order (*Pacific Gas and Electric Co.*, 81 FERC ¶ 61,122 (1997)). This monitoring and mitigation program includes a review of the behavior of various market participants in each of the Independent System Operator (ISO) and Power Exchange markets. Reports will be submitted to the FERC and this Commission. PG&E maintains that this monitoring and mitigation system and the reports it generates will enable this Commission to remain apprised of any issues impacting competition, bidding, or

market power. PG&E believes that we would have the right to ask the ISO and Power Exchange to follow up on any concerns and that we would have the authority to investigate these concerns as part of our ongoing jurisdiction over PG&E's use of financial instruments. We will direct PG&E to include copies of relevant sections of the FERC reports as part of its quarterly reporting requirements

Consistent with the requirements of D.97-12-088, PG&E is precluded from entering into contracts with its affiliates for such financial instruments and from sharing any information with its affiliates that would conflict with the standards of conduct governing relationships between utilities and their affiliates. Rule V.E. provides, in relevant part:

> "As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates."
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> "Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing." (D.97-12-088, mimeo. Appendix A, p. 11.)

PG&E is required to conform to the rules governing affiliate transactions. We find that no particular language need be added to specific contracts to address these prohibitions.

We will adopt PG&E's proposed adjustment to the $400 million limit. The $200 million limit is more reasonable, given that the sales of the Morro Bay, Moss Landing, and Oakland facilities have been approved in D.97-12-107.[5] PG&E has recently filed A.98-01-008 requesting approval to divest the Hunters Point, Potrero, Pittsburg, and Contra Costa gas-fired power plants, and the Geysers geothermal power plant. As the divestiture proceedings continue, this limit should continue to decline, assuming such sales are approved. We order PG&E to file an advice letter to adjust the daily limit as each divestiture transaction is presented to the Commission for final approval. As PG&E recognizes, there is no need to trade in gas-based financial instruments once its gas-fired facilities are divested.

PG&E requests approval to use its proposed financial instruments under § 701 and any other applicable Code sections. We base our review of PG&E's request on our broad powers to regulate utilities, which is set forth in the Public Utilities Code (see, e.g., §§ 330(e), 330(l), 451, 454, 491, 701, 701.5, 723, and 729). We also review this application in light of the mandates of Assembly Bill 1890 (Stats. 1996, Ch. 854), which are now incorporated into the Public Utilities Code, to ensure a competitive marketplace and our legal duty to look at all elements of public interest, including competitive issues (see *Northern California Power Agency v. Public Util. Com.* (1971) 5 Cal.3d 370, 380).

We adopt PG&E's proposed reporting requirements, with modifications. PG&E should file quarterly reports that provide information on its quarterly maximum end-of-day gross receivable (in-the-money) and gross payable (out-of-

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[5] D.97-12-107 approves PG&E's application for authority, pursuant to § 851, to sell the Morro Bay, Moss Landing, and Oakland fossil-fuel electric generation plants to affiliates of Duke Energy Power Services, Inc.

the-money), and at-the-money volumes on open financial positions, showing both contract volume and market value for the natural gas instruments. To qualify for netting, the instruments must meet three requirements: (1) the financial product must match, (2) the location must match, and (3) time must match (i.e., the product must be bought and sold within the same month). Additionally, the average maturity should be presented as the end-of-day average maturity for both receivables and payables. As stated above, PG&E should include copies of relevant sections of FERC reports. PG&E should identify with specificity exactly what items in each of its quarterly report it requests to be filed under § 583.

To ensure that ratepayers are absolutely indifferent to these transactions, we direct PG&E to establish an account to separately identify all such costs and losses associated with the use of these financial instruments and to exclude these costs and losses from future rate cases or rate change requests. Reasonableness reviews of these transactions are not required because such activities will be shareholder-funded. In addition, neither the UEG fuel costs nor the gas-based financial instruments to hedge such costs can be categorized as transition costs once the new market structure begins, because these costs are specifically identified as "going forward" costs in § 367(c).[6] PG&E is precluded from including any costs of the financial instruments (direct or indirect) or losses as a cost of implementation of direct access, the Power Exchange, or the Independent System Operator under § 376.

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[6] Section 367(c) requires that "going forward costs" must be recovered solely from Power Exchange and Independent System Operator revenues, with certain narrow exceptions.

PG&E retains the burden of proof to demonstrate that any impacts on its cost of capital, related to trading in these financial instruments, are excluded from future cost of capital proceedings. In Resolution E-3506, we recognized the risks inherent in using hedging instruments, but declined to adopt particular protective measures, as have been adopted in the past for similar hedging instruments used to manage interest rate fluctuations. For example, these protective measures have included requirements that the utility deal only with institutions with a credit rating equal to or better than the utility's and that the utility deliver copies of all agreements, along with reports analyzing all costs associated with the agreements in comparison to a projection of all costs without the agreements. We noted that instead of imposing such restrictions, which serve to mitigate concerns regarding the impacts of such hedging activities on a utility's cost of capital, we would instead not allow Edison to recover any "increase or perceived increase in its cost of capital due to its hedging activities." (Resolution E-3506, mimeo. at 6.)

We make a similar finding in this proceeding. We will not adopt any particular protective measures at this time, but will require that PG&E demonstrate through an affirmative showing that such hedging has not increased its cost of capital. We will adopt the requirement of Resolution E-3506 that all copies of each hedging contract be provided to the Energy Division for monitoring purposes.

In general, we prefer that PG&E's use of gas-based derivatives should be limited to those traded at an established exchange regulated by the Commodity Futures Trading Commission. We previously determined that we would not limit Edison to such a restriction, but recognized that these restrictions could alleviate market power concerns and help to mitigate the substantial increase in risk

associated with the use of hedging instruments. (Resolution E-3506, mimeo. at 7.) Because shareholder are shouldering the risk of these activities, we will allow PG&E to engage in OTC transactions as well, but expect that PG&E will include enough information in its quarterly reports to allow us to assess whether such transactions should continue. At any rate, we expect that, because these transactions are tied to PG&E's UEG gas purchases, and because PG&E is in the process of divesting 100% of its fossil-fired generation facilities, use of these financial instruments will be short-lived.

As stated in D.97-08-058, derivatives may be an evidence of indebtedness. Derivatives are contracts that involve the payment of money or the performance of some other act in the future. However, we agree with PG&E's concerns that to manage its risk effectively, it must be able to respond quickly to changes in the market, often within minutes. Publicly requesting bids would put PG&E at a disadvantage relative to other market participants. It is reasonable, therefore, to exempt PG&E's use of gas-based derivatives either traded at an established exchange or OTC, from the Competitive Bidding Rules.[7]

Findings of Fact

1. The purpose of PG&E's request is to manage UEG gas price risk during the rate freeze mandated by § 368.

2. PG&E is requesting authority to use the type of financial instruments to manage gas costs that are already available to other regulated and unregulated market participants.

3. Shareholders will bear all costs and losses as well as receive all gains from the instruments PG&E will use to manage UEG gas price risk.

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[7] "Debt issues for which competitive bidding is not viable or available are exempt." (Resolution F-616, mimeo. at 2.)

4. PG&E asserts that its UEG lacks market power in the physical commodity markets, the national market for exchange-traded futures and options, and the over-the-counter financial market.

5. It is reasonable to adjust PG&E proposed limit for trading in these gas-based financial instruments to a daily limit of $200 million, which reflects the pending divestiture of Morro Bay and Moss Landing generation facilities, and is based on a more updated assessment of UEG fuel costs.

6. Separately identifying and tracking all costs, whether direct or indirect, and all losses associated with the use of the derivatives authorized by this decision will allow PG&E to exclude these costs and losses from future rate change requests.

7. PG&E's costs of using natural gas-based financial instruments to manage gas costs associated with its UEG, whether direct or indirect, and any losses resulting from such instruments are prohibited from being categorized as transition costs, and PG&E may not claim that such costs fit the description of implementation costs of electric restructuring, as described in § 376.

8. The risks associated with trading in gas-based financial derivatives shall not be used to justify PG&E's request for increases in its cost of capital. PG&E has the burden of proof that such risks have no impact on future requests.

Conclusions of Law

1. PG&E's request to trade in natural gas-based financial derivatives does not impact the mandatory buy-sell requirement for electricity purchases and sales, required by the Preferred Policy Decision.

2. In compliance with the affiliate guidelines promulgated in D.97-12-088, PG&E is precluded from entering into contracts for hedging and financial derivatives with its affiliates and from sharing hedging and financial derivatives

and arbitrage services with affiliates or transmit to affiliates any information that conflict with the affiliate rules.

3. It is reasonable that shareholders assume all risks and rewards for these speculative investments.

4. Subjecting PG&E's use of gas-based financial derivatives to the Competitive Bidding Rules would put PG&E at a disadvantage relative to other market participants.

5. It is reasonable to exempt PG&E's use of gas-based financial derivatives for managing the price risk of gas associated with its UEG requirements from the Competitive Bidding Rules.

6. We base our review of PG&E's application on § 701 and on the broad powers of the Commission to regulate utilities, including but not limited to §§ 330(e), 330(l), 451, 454, 491, 701.5, 728, 729, and 816 through 830.

7. The authority granted in this decision should expire at the end of the rate freeze or no later than March 31, 2002.

8. PG&E should not acquire any gas-related derivatives whose expiration date is after March 31, 2002. In addition, PG&E should not acquire any gas-based derivatives whose expiration date is after the date PG&E has completely divested the fossil generation facilities since it anticipates selling.

9. It is reasonable to require PG&E to adhere to the reporting requirements discussed in this decision.

10. It is reasonable to require PG&E to file an advice letter to adjust its daily limit for trading in gas-based financial derivatives as its generation facilities become divested.

11. It is reasonable to require PG&E to submit copies of all hedging contracts to the Energy Division.

12. Should PG&E wish to modify the ratemaking treatment of these gas-based financial instruments, PG&E should file an application with service to the service list in Ruling 94-04-031 and Investigation 94-04-032.

13. This proceeding should be closed.

ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) Application (A.) 97-12-004 is approved with the following conditions:

   a. PG&E's use of gas-based derivatives for the purpose of managing price risk associated with its utility electric generation requirements is limited to $200 million, at any given point in time. This limit may be further adjusted by the requirements of Ordering Paragraph 3.

   b. Costs, whether direct or indirect, and losses associated with the use of these derivatives shall be tracked and recorded in a separate account.

   c. Costs, whether direct or indirect, and losses associated with the use of these derivatives shall be borne by shareholders and shall not be recoverable in future rates or as implementation costs of electric restructuring, as defined in Public Utilities Code Section 376.

   d. PG&E shall not acquire any gas-based financial derivatives whose expiration dates are after March 31, 2002, nor shall PG&E acquire any gas-based financial derivative whose expiration dates are after the date PG&E has completely divested the fossil generation facilities it anticipates selling.

2. On or before January 15, April 15, July 15, and October 15 of each year, beginning with April 15, 1998, PG&E shall file a report for the previous quarter, providing information on PG&E's quarterly maximum end-of-day gross receivable and gross payable and at-the-money volumes on open financial positions, showing both contract volume and market value for the natural gas-based financial instruments. To qualify for netting, instruments must meet three

requirements: (a) the financial product must match; (b) the location must match; and (c) time must match (the product must be both and sold within the same month). PG&E shall differentiate between those instruments traded on an established exchange and those traded over-the-counter. PG&E shall include relevant sections of reports filed at the Federal Energy Regulatory Commission. These reports shall be filed with the Energy Division.

3. As transactions are completed in its divestiture proceedings (A.96-11-020 and A.98-01-008), PG&E shall file advice letters, with service to the electric restructuring service list in Rulemaking 94-04-031 and Investigation 94-04-032, which provide information on how such divested entities impact its utility electric generation requirements and proposing adjustments to the $200 million limit established in this proceeding.

4. Within 10 days of executing each Contract, PG&E shall send a copy of each hedging instrument it enters into under this program to the Energy Division.

5. The authority granted in this decision shall expire at the end of the rate freeze or on March 31, 2002, whichever comes first.

6. A.97-12-004 is closed.

This order is effective today.

Dated March 26, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners