



*Hedging for Natural Gas Supply
Meeting with Karen Shea*

August 13, 2010

Natural Gas Procurement Strategy

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Physical natural gas supply

Redacted



Electric Company

Sources: Howard Weil February 17, 2010 Enercom, EIA and Advanced Resources International

Natural gas prices

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2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Participants in the natural gas markets

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Why different players hedge

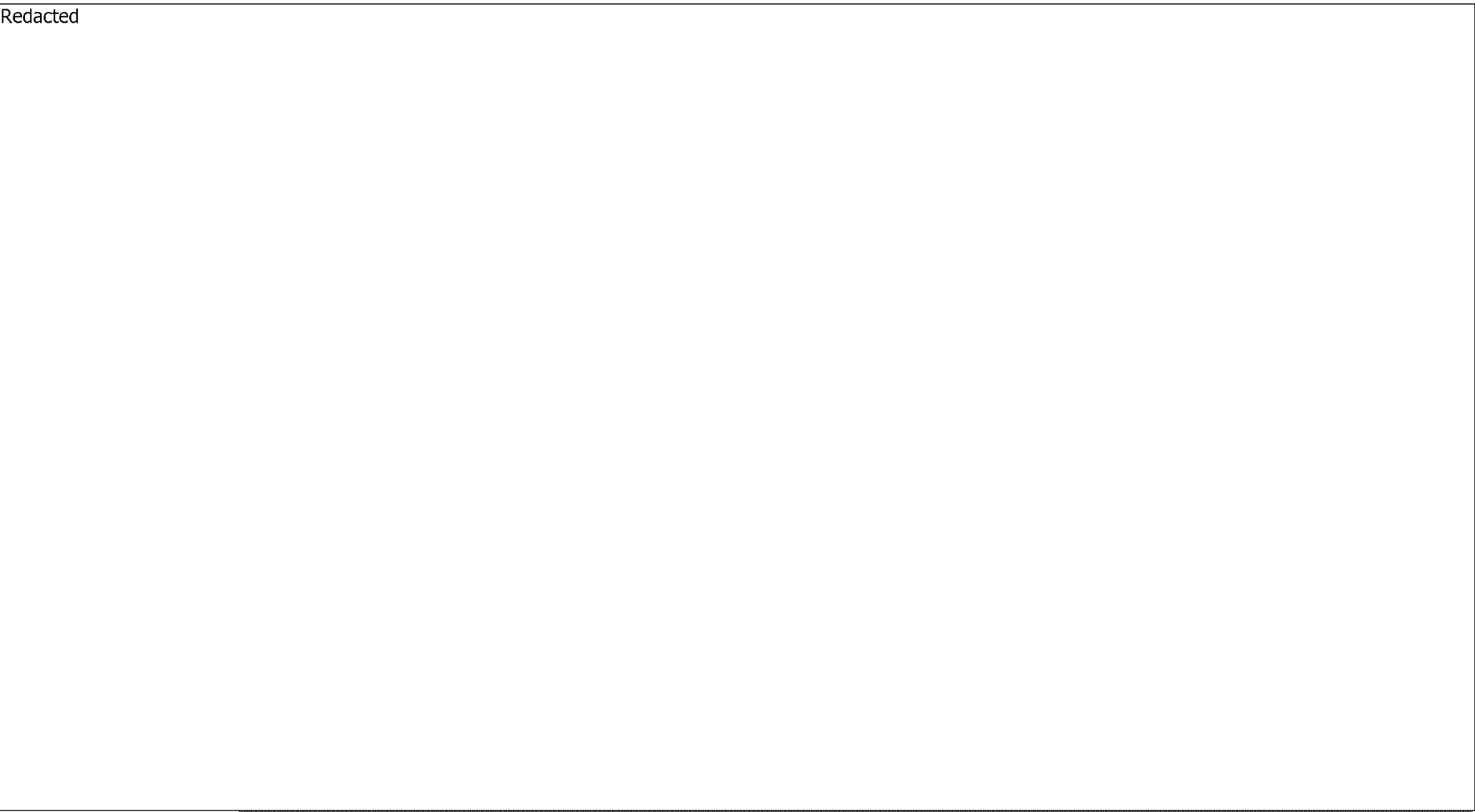
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PG&E implementation of hedging programs

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Core Gas: Core Procurement Incentive Mechanism (CPIM)

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Core Gas: Winter Hedging Program

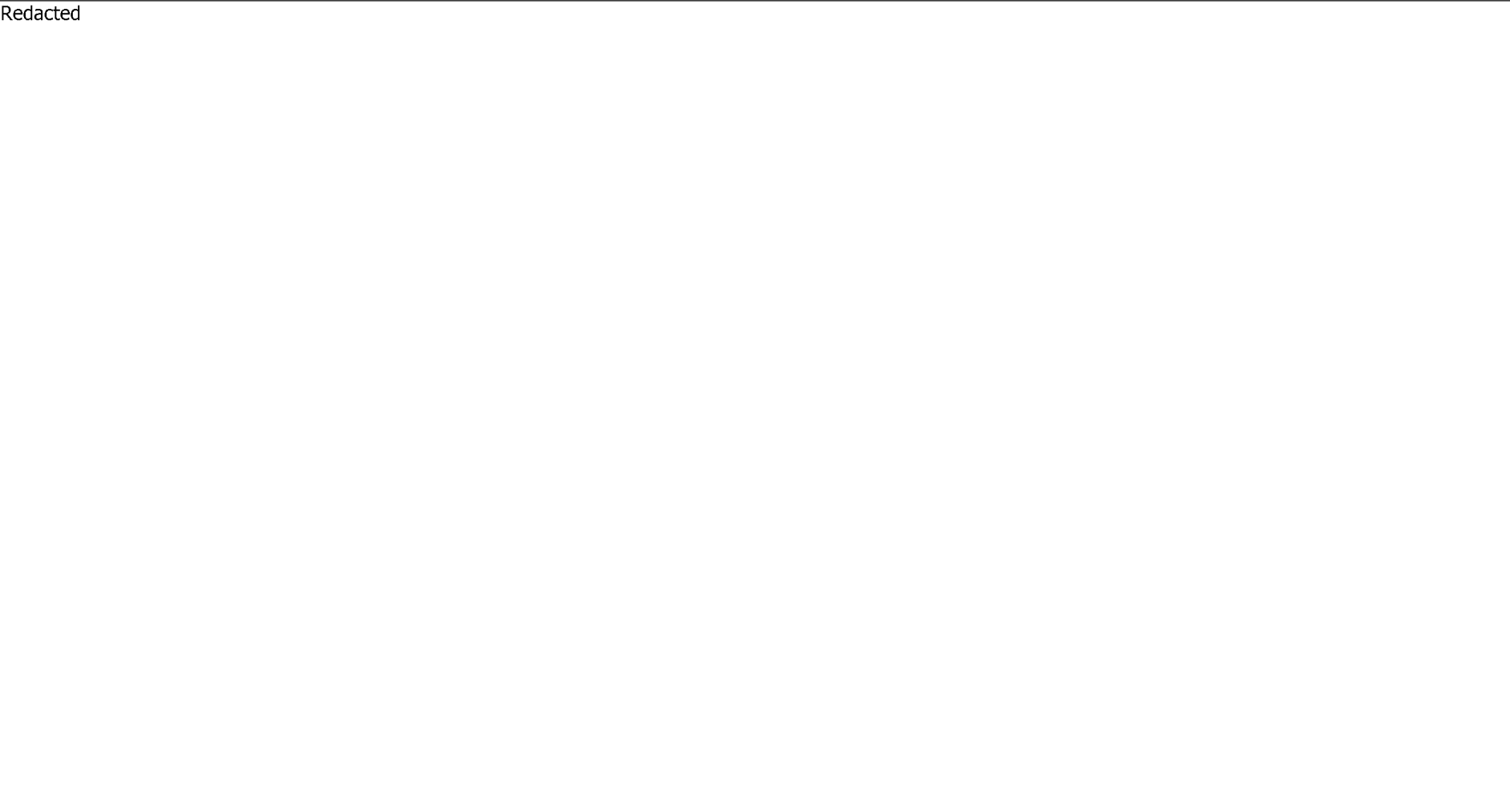
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Core Gas: CPIM Methodology: Customer/Shareholder Sharing

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Core Gas: CPIM Performance Over Recent Years**

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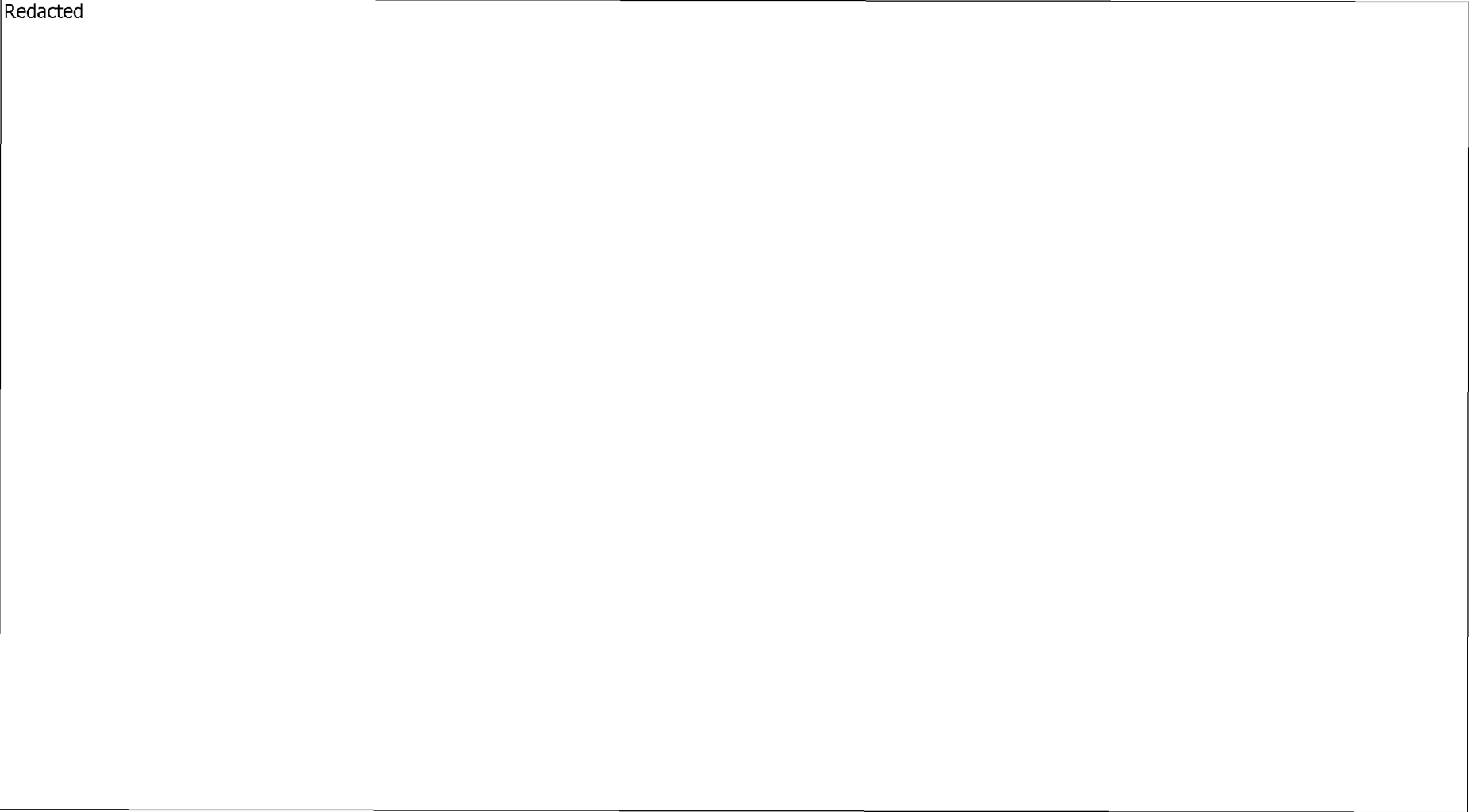


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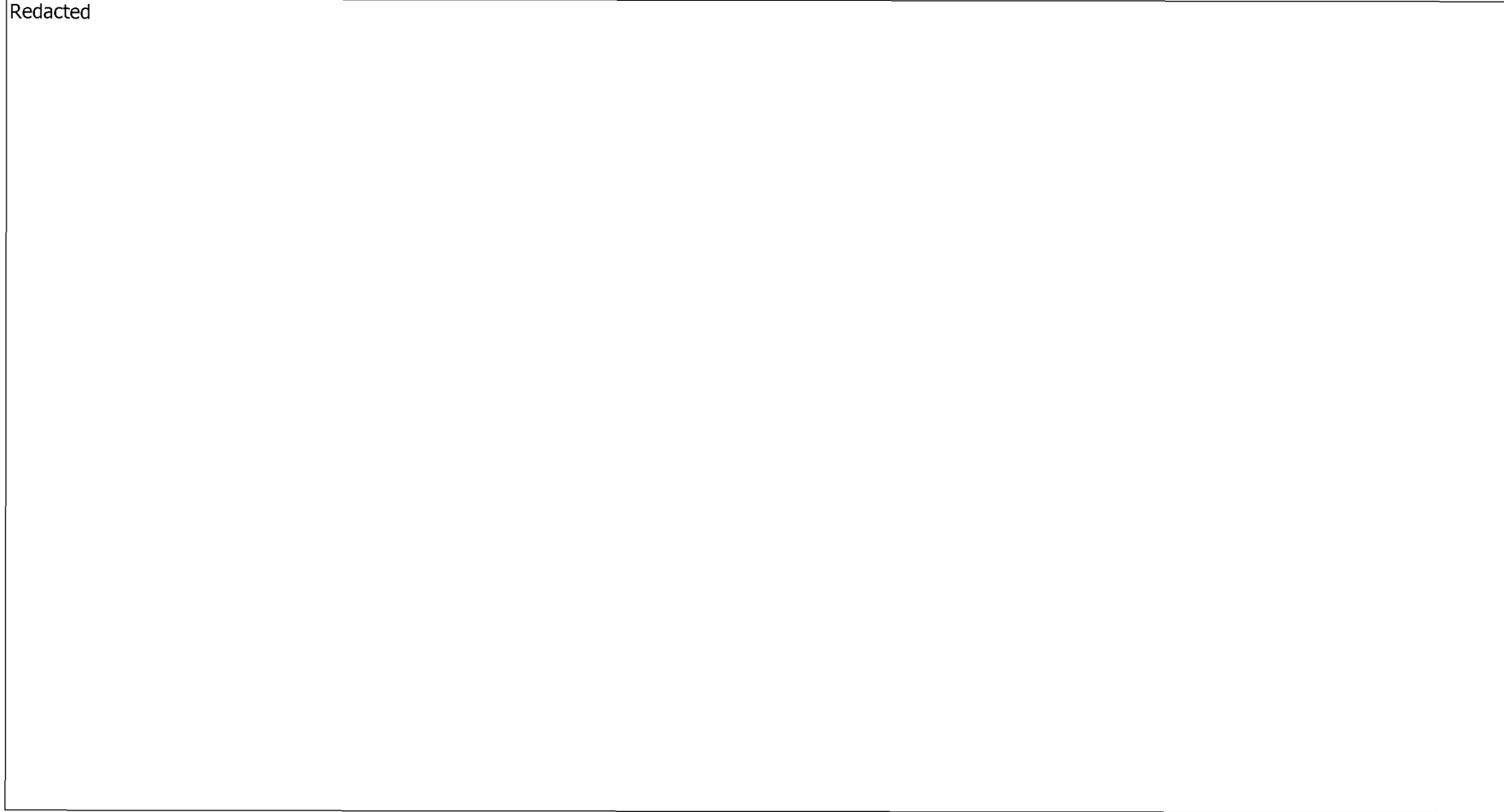
Bundled Electric Portfolio: CPUC's Risk Policy

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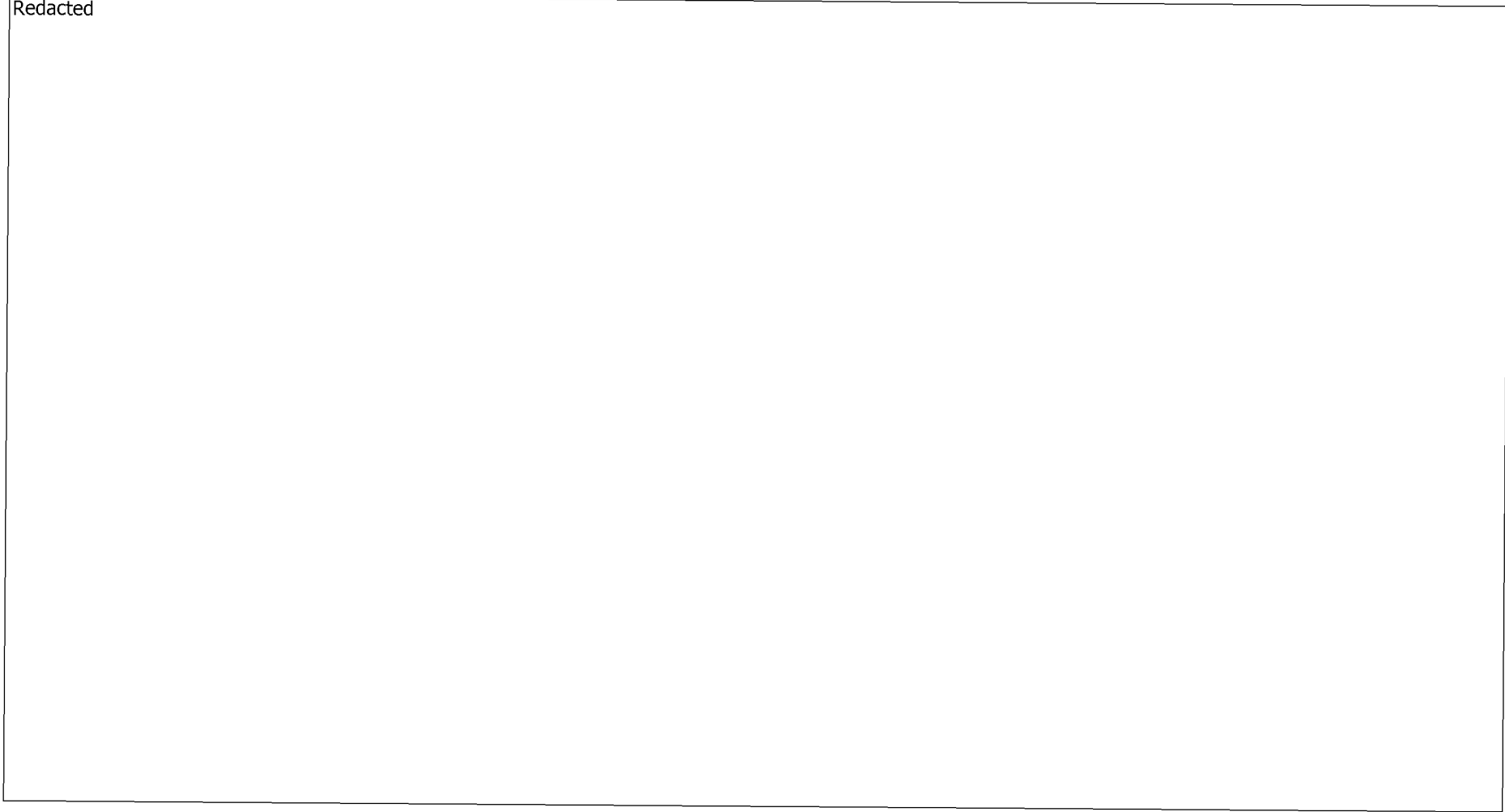
Current Electric Portfolio Hedging Plan

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Bundled Electric Portfolio: Cost Variability

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Risk Measurement: VaR and TeVaR

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Hedging to minimize cost variability

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Reducing Cost Variability

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