

August 15, 2008

Russell G. Golden, Director of Technical Application and Implementation Activities,
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116



File Reference: Exposure Draft on Proposed SFAS No. 133

LETTER OF COMMENT NO. 90

Dear Mr. Golden,

PG&E Corporation is pleased to have the opportunity to comment on Proposed Statement of Financial Accounting Standards ("SFAS") No 133. PG&E Corporation is an energy-based holding company with approximately \$13 billion in revenues and \$36 billion in assets at December 31, 2007. PG&E Corporation conducts its business primarily through its subsidiary, Pacific Gas and Electric Company, a regulated utility that provides natural gas and electricity services to its customers in Northern and Central California.

We support the Board's efforts to simplify accounting for hedging activities and resolving major practice issues related to hedge accounting that have arisen under SFAS No 133. We support eliminating the shortcut method and critical terms matching because of the complexities in application and resulting inconsistencies in practice. We believe a single method of assessing the effectiveness of a hedging relationship would provide consistency in applying hedge accounting and comparability among reporting periods and entities. The elimination of a required quantitative assessment of the effectiveness threshold would simplify the qualifications necessary to apply hedge accounting.

We would, however, request that the Board give further consideration in two areas. First, in the absence of a clear definition of a "reasonably effective" hedging relationship, we recommend eliminating the "reasonably effective" test but keep the "economic relationship" test. Second, we recommend continuing the formal documentation of the economic interest at inception of the hedging relationship but require that hedge accounting cease should the economic interest no longer exist during the hedge term. We have outlined the rationale for our suggestions below.

Issue 4: Reasonably Effective

PG&E Corporation agrees with the Board's intention to create a more qualitative basis of assessing the effectiveness of a hedging relationship in order to apply hedge accounting.

To that end, we agree with a requirement for an economic relationship to exist between the hedging instrument and the hedged item or hedged forecasted transaction that can be qualitatively demonstrated. However, we suggest removing the requirement that any changes in fair value of the hedging instrument be reasonably effective at offsetting the changes in fair value of the hedged item or the variability in the hedged cash flows. The Board notes that the reasonably effective assessment may require a quantitative analysis in certain situations. Since the term "reasonably effective" is undefined, we believe this will inevitably result in a quantitative analysis, which would be inconsistent with an approach towards a more qualitative assessment.

In addition, the undefined term (reasonably effective) does not address practical considerations of using hedging instruments that have varying degrees of effectiveness in offsetting changes in fair value of the hedged items. The degree of effectiveness provided by derivative products may be limited by what is commercially available, particularly within commodity markets that are still relatively immature in their development. These limitations should not preclude a hedging relationship using these derivative products from hedge accounting.

Therefore, we believe the requirement to demonstrate qualitatively the economic relationship, coupled with the addition of the proposed guidance requiring any hedge ineffectiveness, whether from over-hedging or under-hedging of both fair value and cash flow hedges, to be recorded in current period earnings will be sufficient in adequately accounting for a company's hedging activities.

Issue 5: Changing Circumstances Indicate Hedge is no Longer Reasonably Effective

Our suggestion to remove the reasonably effective term would therefore not require an ongoing prospective evaluation of whether the hedging relationship is reasonably effective. However, if the economic relationship established at inception ceases to exist at any point during the hedge term, we believe hedge accounting should be discontinued at such time. A retrospective evaluation should continue to be performed to report any ineffectiveness from over- and under-hedges in a fair value or cash flow hedge to earnings.

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PG&E Corporation appreciates the opportunity to contribute the standard setting process. We would be pleased to further discuss our comments in greater detail upon your request.

Sincerely,



Stephen J. Cairns