PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I.D.# 7354

ENERGY DIVISION RESOLUTION G- 3412

February 28, 2008

R E S O L U T I O N

Resolution G-3412. Pacific Gas and Electric Company (PG&E). This resolution approves PG&E's Advice Letter 2876-G. This resolution has been prepared pursuant to a pilot program specified in Resolution ALJ-202 granting expedited treatment to utility proposals meeting certain requirements.

By Advice Letter 2876-G. Filed on October 12, 2007.

SUMMARY

This resolution approves PG&E's Advice Letter 2876-G requesting California Public Utilities Commission ("Commission" or "CPUC") approval under Public Utilities ("PU") Code Section 851 and Resolution ALJ- 202 for the sale of segments of operating gas gathering pipelines with associated appurtenances (the "Facilities"), and the assignment of associated easement agreements ("Assignment") to TexCal Energy, LP ("TexCal Energy").

Advice Letter 2876-G was processed pursuant to Resolution ALJ-202.

This Resolution is effective immediately.

BACKGROUND

Utilities proposing to sell, lease, dispose of, or otherwise encumber property must comply with PU Code Section 851. Ordinarily, such a proposal would entail a full Application to the Commission, including a review pursuant to CEQA or a demonstration that such a review is not necessary. The Commission on August 25, 2005, initiated a 24-month pilot program per Resolution ALJ-186 that provides for an expedited process for certain transactions meeting criteria specified in the Resolution. On August 23, 2007, the Commission approved Resolution ALJ-202, which extends the pilot program an additional 36 months. Resolution ALJ-202 provides for an expedited process for certain transactions meeting criteria specified in the ALJ Resolution. For proposals that meet the requirements, an Advice Letter may be filed demonstrating the applicability of the pilot program to the utility's proposal and requesting an expedited review of the Advice Letter, resulting in a Resolution confirming that the proposal meets the requirements of Resolution ALJ-202 and granting approval to the proposed project.

On October 12, 2007, PG&E filed Advice Letter 2876-G requesting approval under PU Code Section 851 to allow PG&E to sell its Gas Gathering Pipeline and Assignment of Easements to TexCal Energy, LP. Protests or comments were due to the Commission on November 1, 2007; no protests or comments were filed.

In D.89-12-016, the Commission "strongly encourage[d] PG&E to sell gathering plant when it is offered net book value or more for the plant, consistent with our view that PG&E should phase out its gathering operations…"[1] The Commission stated that its intent was to promote more efficient investments in plant and improve pricing signals among gas supplies from various sources.

On January 9, 2007, PG&E initiated a bidding process for a portion of the Facilities, PG&E's Line 302 Tuttle Gathering Pipeline System (Grimes Gas Field), located in Colusa County, CA. PG&E accepted TexCal Energy's bid to purchase the Facilities and it is this proposed sale for which PG&E now seeks Commission approval.

The operating gas gathering pipeline segment PG&E proposes to sell varies from 3 to 6 inches in diameter and is approximately 26,207 feet long. It runs southwest of the Sacramento River within the 15N, 01W, Sections 25, 26, 35 15N, 01E, Section 31, Mount Diablo base and Meridian ("MDB&M"), Colusa, California. The pipeline condition is considered poor due to its age and lack of operational value to PG&E. Additionally, PG&E believes replacement or retirement would be costly due to requirements to clean liquids from the interior and possibly remove pipeline from the ground for a pipeline system which provides no value to PG&E.

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1. [1] D.89-12-016 [I.88-11-012] (December 6, 1989), page 24

In addition, PG&E has 23 easements for the Facilities, pursuant to those certain Grants of Easements. PG&E will assign the easements to TexCal Energy as part of the sale transaction.

PG&E is not aware of any anticipated change in the use of the Facilities. The Facilities currently are used to transport TexCal Energy's gas well production, and upon completion of the sale, TexCal Energy plans to operate the gas gathering pipeline segment and its associated appurtenances as a private pipeline. However, TexCal Energy agrees that upon request it will make any capacity in excess of its requirements available to third party producers of natural gas in the area served by the subject pipeline segment for the transport of natural gas. PG&E customers will not be impacted by this transaction. The sale of the Facilities is beneficial to PG&E's customers because it alleviates the need for pipeline maintenance or future replacement/retirement.

TexCal Energy has agreed to pay a one-time fee of Fifty Five Thousand, Five Hundred, Thirty-one Dollars and Twenty Cents ($55,531.20) for the Facilities. PG&E is not collecting any fees associated with the assignment of the gas gathering pipeline easements. Because of the significant maintenance and future replacement costs associated with the ownership of the Facilities, it will benefit PG&E and its customer's to sell the Facilities and assign the associated easements. The proposed transaction thus meets the financial threshold of $5 million under Resolution ALJ-202, Appendix A, Section II. 6-7.

In Decision (D.) 89-12-016, the Commission ordered PG&E to record sales of gas gathering facilities "in appropriate accounts for future consideration of gain-on-sale issues." The gain on sale issues were addressed in Rulemaking (R.) 04-09-003, and a final decision (D.06-05-041) was issued on May 25, 2006. D.06-05-041 established a gain on sale policy for sales of depreciable assets that allocates 100% of the gain to ratepayers. Of the one-time fee payment of $55,531.20 TexCal Energy is paying PG&E for the facilities, $13,600.00 in transaction costs will be removed from the sales price for PG&E costs associated with preparing the transaction. The remaining financial proceeds of $41,931.20 will be allocated one hundred percent to ratepayers as a credit through Accumulated Depreciation, consistent with D. 06-05-041.

PG&E does not believe the proposed transaction will have an adverse effect on the public interest because it will not interfere with the operation of PG&E's facilities, or with the provision of service to PG&E's customers. Rather, the proposed transaction will serve the public interest by eliminating significant maintenance costs and potential replacement or retirement costs associated with the ownership of the Facilities.

The Original Cost of the pipeline is $365,443.00. The pipeline is fully depreciated, and Present Net Book Value (NBV) is -$49,916.00. The NBV includes the original facility costs less accumulated depreciation and net salvage, resulting in a negative NBV. The estimated liability (including significant maintenance activities and possible replacement or retirement costs) of the pipeline will be transferred to TexCal Energy as a result of the sale.

The Present Fair Market Value for the Facilities was determined through the bidding process conducted using Protocols and Procedures for a Standard Auction Process.

At the conclusion of the bidding process, PG&E accepted TexCal Energy's bid for $55,531.20 for the facilities.

Along with the sale of the Facilities, PG&E is also assigning 23 easements associated with the property to TexCal Energy, since they will no longer be needed. PG&E will not be collecting any fees associated with the assignment as it does not rise to the level of a right that has any realizable economic value to PG&E.

PG&E is currently conducting auctions of various sections of its operating gas gathering facilities. PG&E's gas gathering system is expansive and not consolidated. Therefore, PG&E expects to conduct separate sales of multiple segments of its gas gathering facilities to various purchasers in the near future. Each proposed sale would be governed by a standard Pipeline Purchase and Sale Agreement. In addition, each sale would be nearly identical, with the exception of the identity of the purchaser, description of the specific gas gathering facility, and the purchase price.

PG&E has provided information in this advice letter to meet the eligibility criteria under the advice letter pilot program. Under the CEQA requirements specified in ALJ-202, the activity proposed in the transaction will not require environmental review by the CPUC as a lead agency. PG&E believes the proposed transaction will not have an adverse effect on the public interest. The proposed transaction will serve the public interest by eliminating significant maintenance costs and potential replacement or retirement costs associated with the ownership of the Facilities.

Pursuant to ALJ-202, the advice letter program only applies to proposed transactions that (a) will not require environmental review by the CPUC as a lead agency or responsible agency under CEQA either because a statutory or categorical exemption applies or (b) because the transaction is not a "project" under CEQA.

Under the existing circumstances, no CEQA review is required for the proposed transaction. Neither this advice letter nor the transaction for which approval is sought has any potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment within the meaning of CEQA Guideline 15378(a). In this instance, ownership of the Facilities is merely being transferred from PG&E to TexCal Energy. The property being exchanged will be used in the same manner as previously, and neither the applicant nor the buyer seeks authority from the Commission for a change in the existing use. Therefore, the granting of the 23 easements associated with the facility does not meet the definition of a "project" as provided in CEQA Guideline 15378, and in accordance with CEQA Guideline 15060(c), CEQA does not apply.

NOTICE

Notice of Advice Letter 2876-G was made by publication in the Commission's Daily Calendar. PG&E states in 2876-G that a copy of the Advice Letter was mailed and distributed in accordance with General Order 96-B Section IV.

PROTESTS

No protests or comments to PG&E's Advice Letter 2876-G were filed.

DISCUSSION

The Energy Division has reviewed PG&E's Advice Letter 2876-G and finds that it satisfies the criteria for inclusion in the pilot program specified in Resolution ALJ-202. Additionally, AL 2876-G satisfies the filing requirements specified in Appendix a Section IV. 1-13 of Resolution ALJ-202

PG&E has provided information in this advice letter to meet the eligibility criteria under the advice letter pilot program. Under the CEQA requirements specified in ALJ-202, the activity proposed in the transaction will not require environmental review by the CPUC as a lead agency. The Commission agrees the proposed transaction will not have an adverse effect on the public interest. The proposed transaction will serve the public interest by eliminating significant maintenance costs and potential replacement or retirement costs associated with the ownership of the Facilities. In this instance, ownership of the Facilities is merely being transferred from PG&E to TexCal Energy. The property being exchanged will be used in the same manner as previously, and neither applicant seeks authority from the Commission for a change in the existing use. Therefore, the granting of the 23 easements associated with the facility does not meet the definition of a "project" as provided in CEQA Guideline 15378, and in accordance with CEQA Guideline 15060(c), CEQA does not apply.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. On October 12, 2007, PG&E filed Advice Letter 2876-G requesting approval under PU Code Section 851 to allow PG&E to sell its Gas Gathering Pipeline and Assignment of Easements to TexCal Energy, LP.
2. Protests or comments were due to the Commission on November 1, 2007
3. No protests or comments were filed.
4. In D.89-12-016, the Commission "strongly encourage[d] PG&E to sell gathering plant when it is offered net book value or more for the plant, consistent with our view that PG&E should phase out its gathering operations…"
5. On January 9, 2007, PG&E initiated a bidding process for a portion of the Facilities, PG&E's Line 302 Tuttle Gathering Pipeline System (Grimes Gas Field), located in Colusa County, CA.
6. PG&E accepted TexCal Energy's bid to purchase the Facilities and it is this proposed sale.
7. The pipeline condition is considered poor due to its age and lack of operational value to PG&E.

8. PG&E believes replacement or retirement would be costly due to requirements to clean liquids from the interior and possibly remove pipeline from the ground for a pipeline system which provides no value to PG&E.
9. In addition, PG&E has 23 easements for the Facilities, pursuant to those certain Grants of Easements.
10. PG&E will assign the easements to TexCal Energy as part of the sale transaction.
11. The Facilities currently are used to transport TexCal Energy's gas well production, and upon completion of the sale, TexCal Energy plans to operate the gas gathering pipeline segment and its associated appurtenances as a private pipeline.
12. TexCal Energy agrees that upon request it will make any capacity in excess of its requirements available to third party producers of natural gas in the area served by the subject pipeline segment for the transport of natural gas.
13. PG&E customers will not be impacted by this transaction.
14. The sale of the Facilities is beneficial to PG&E's customers because it alleviates the need for pipeline maintenance or future replacement/retirement.
15. TexCal Energy has agreed to pay a one-time fee of Fifty Five Thousand, Five Hundred, Thirty-one Dollars and Twenty Cents ($55,531.20) for the Facilities.
16. PG&E is not collecting any fees associated with the assignment of the gas gathering pipeline easements.
17. The proposed transaction thus meets the financial threshold of $5 million under Resolution ALJ-202, Appendix A, Section II. 6-7.
18. Of the one-time fee payment of $55,531.20 TexCal Energy is paying PG&E for the facilities, $13,600.00 in transaction costs will be removed from the sales price for PG&E costs associated with preparing the transaction.
19. The remaining financial proceeds of $41,931.20 will be allocated one hundred percent to ratepayers as a credit through Accumulated Depreciation, consistent with D. 06-05-041.
20. PG&E does not believe the proposed transaction will have an adverse effect on the public interest because it will not interfere with the operation of PG&E's facilities, or with the provision of service to PG&E's customers.
21. The proposed transaction will serve the public interest by eliminating significant maintenance costs and potential replacement or retirement costs associated with the ownership of the Facilities.

22. The Original Cost of the pipeline is $365,443.00.
23. The pipeline is fully depreciated, and Present Net Book Value (NBV) is -$49,916.00.
24. The estimated liability (including significant maintenance activities and possible replacement or retirement costs) of the pipeline will be transferred to TexCal Energy as a result of the sale.
25. The Present Fair Market Value for the Facilities was determined through the bidding process conducted using Protocols and Procedures for a Standard Auction Process.
26. At the conclusion of the bidding process, PG&E accepted TexCal Energy's bid for $55,531.20 for the facilities.
27. Along with the sale of the Facilities, PG&E is also assigning 23 easements associated with the property to TexCal Energy, since they will no longer be needed.
28. PG&E will not be collecting any fees associated with the assignment as it does not rise to the level of a right that has any realizable economic value to PG&E.
29. The granting of the 23 easements associated with the facility does not meet the definition of a "project" as provided in CEQA Guideline 15378, and in accordance with CEQA Guideline 15060(c), CEQA does not apply.

THEREFORE IT IS ORDERED THAT:

1. The request of PG&E requesting Commission approval under PU Code Section 851 to allow PG&E to sell its Gas Gathering Pipeline and Assignment of Easements to TexCal Energy, LP.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February, 28 2008; the following Commissioners voting favorably thereon:

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Paul Clanon
Executive Director