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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA**

Application of Pacific Gas & Electric Company to Revise its Electric Marginal Costs, Revenue Allocation and Rate Design (U39M).	A. 16-06-013
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**PROTEST OF
THE CALIFORNIA INDEPENDENT PETROLEUM ASSOCIATION**

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August 15, 2016

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the California Independent Petroleum Association (CIPA) hereby protests the Application of Pacific Gas & Electric Company to Revise its Electric Marginal Costs, Revenue Allocation and Rate Design. This Protest is submitted within 30 days of the date the notice of the filing first appeared in the Daily Calendar, July 14, 2016, as required under Rule 2.6.

1. Background

CIPA is a non-profit trade association dedicated to representing the interests of independent oil and natural gas producers operating in California. The association's membership currently comprises 500 companies. The association is active in representing the policy interests of our members at the local, state and federal level. We engage in both legislative and regulatory proceedings depending on the prospective impact of an issue to independent operators in California.

California is the third largest oil producing state in the nation – ranking behind Texas and North Dakota. Total annual oil production exceeds 200 million barrels when taking into account state and federal on and offshore production totals. Currently, over 38% of California's total petroleum needs come from in-state production. Tanker supplies from Alaska, Iraq, Saudi Arabia, Venezuela, and Ecuador meet the balance of the state's petroleum needs.

Fifteen percent of the state's daily natural gas needs come from in-state production. Independents are currently responsible for more than 70% of California's entire oil production and nearly all of the state's natural gas production. Annual net natural gas production in California exceeds 328 billion cubic feet (Bcf). The balance of the state's supply comes from several interstate pipelines that supply both Northern and Southern California. These pipelines principally draw supplies from Canada, the Rocky Mountains, New Mexico and Texas.

In-state production has historically played a key role in helping diversify California's natural gas supply needs. The impact of past border supply disruptions, such as the El Paso Pipeline incident from several years ago, have in part been mitigated because of the availability of local production. This would continue to be the case in the event a natural disaster or terrorist incident were to target one of the key interstate or intrastate pipelines serving California.

The legislature in fact recognized the unique and beneficial role played by in-state production when it enacted the California Natural Gas Policy Act under Public Utilities Code (PUC) Section 785 (a):

"To the extent consistent with federal law and regulation and contractual obligations regarding other available gas, the commission shall, in consultation with the Division of Oil and Gas of the Department of Conservation and with the State Energy Resources Conservation and Development Commission, encourage, as a first priority, the increased production of gas in this state, including gas produced from that area of the Pacific Ocean along the coast of California commonly known as the outer continental shelf, and shall require, after a hearing, every gas corporation to purchase that gas which is compatible with the

corporation's gas plant and which is produced in this state having an actual delivered cost, measured in equivalent heat units, equal to or less than other available gas, unless this requirement will result in higher overall costs of gas or other consequences adverse to the interests of gas customers.”

The importance of California’s native supplies was re-confirmed in the Integrated Energy Policy Report (IEPR) put forth by the California Energy Commission (CEC) in 2003: “California gas producers play an important role in meeting the needs of natural gas consumers.” (2003 IEPR, Page 27)

2. Basis of Protest.

PG&E and the agricultural community have been in discussions in the PG&E since the 2011 GRC (General Rate Case). Given the very high oil price when the 2014 GRC was being considered, there was no good argument against phasing it out. As a result, a settlement was reached between PG&E and the other settling parties filed a motion to adopt an Agricultural Rate Design Settlement Agreement, which the Commission adopted in Decision 15-08-005 on August 13, 2015. Specifically, the Settlement provided:

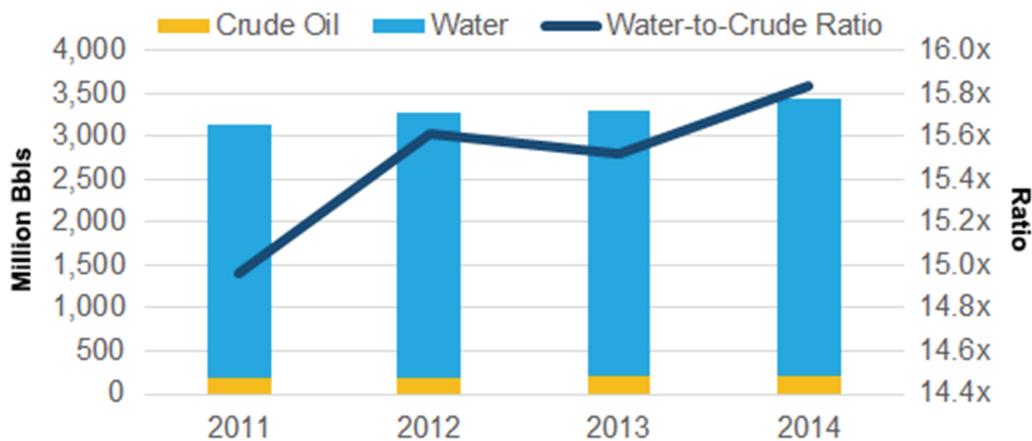
7.1.8.5. Schedule E-37 Elimination

Schedule E-37 shall be terminated for customers with 12 months of interval data beginning on November 1, 2017. Beginning November 1, 2017, or with each successive November 1, Schedule E-37 customers shall be transferred to their otherwise applicable commercial or industrial rate schedule. Customer notification shall utilize the standard customer notification process and billing system platforms and protocols as applicable to the general small and medium business annual November transition window for time-varying pricing.

As a result of this agreement, CIPA members, mainly the oil field customers involved with water pumping, who are being served by Schedule E-37

will migrate to Schedule E-30, which results in much higher rates. The following chart indicates that California oil production is really in the water pumping business, and the maintenance of Schedule E-37 is essential to on-going profitable operations.

Annual California Water-to-Crude Oil Production Ratio 2011 - 2014



Source: California Department of Conservation, NGI's Daily GPI calculations

Beginning in late 2014, crude prices began to fall precipitously, falling more than 70% when they settled at their lowest levels in decades. At the same time, lifting and acquisition costs have risen dramatically making much of California's in-state production non-economic. Given California's prevalence of heavy crude, which is energy intensive to produce, electricity is the single largest expense for many of our members. Adding the large increases in electricity rates will further undermine the economic viability of many in-state producers and make the state more dependent on tankered imports from foreign countries. As Schedule E-37 has not yet phased out, CIPA would like this proceeding to

consider a stop to the phase out or a separate new schedule that will address the water pumping interests.

3. Proposed Schedule.

The schedule proposed by the Applicant is acceptable to CIPA.

4. Communications

For purposes of receipt of all correspondence, pleadings, orders and notices in this proceeding, the following WMA representative should be placed on the service list under the “party” designation:

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Dated: August 15, 2016

Respectfully submitted,

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