

R E S O L U T I O N

Resolution G-3520. Pacific Gas & Electric seeks Approval of an Amended Contract for Co-Ownership, Shared Use, and Operation of Certain Natural Gas Transmission Pipelines, under General Order 96-B Section 8.2.3.

PROPOSED OUTCOME:

- Approves Pacific Gas & Electric Company's ("PG&E") Corrected and Restated Amendment to the Co-Ownership Agreement which was originally approved by the Commission in Decision (D.) 97-04-087 on April 23, 1997.

SAFETY CONSIDERATIONS:

- This Resolution is an Amendment of terms and conditions of an existing Co-Ownership Agreement. There is no impact on safety.

ESTIMATED COST:

- There is no cost impact.

By Advice Letter 3675-G-A ("AL 3675-G-A"), filed on June 14, 2016.

SUMMARY

This Resolution approves Pacific Gas and Electric Company's ("PG&E") request in Advice Letter ("AL") 3675-G-A for approval of the Corrected and Restated Amendment to the Agreement For Co-Ownership, Shared Use, and Operation of Certain Natural Gas Transmission Pipelines Between PG&E and The Sacramento Municipal Utility District Submitted under General Order ("G.O.") 96-B Section 8.2.3.

The amended agreement restructures the Pipeline Equity Agreement between PG&E and Sacramento Municipal Utility District ("SMUD") as follows:

- SMUD's ownership percentage of Lines 300 and 401 remains unchanged.
- SMUD's as-available rights and firm rights are combined, such that as-available rights are eliminated, and firm capacity amounts are specified for L 300 and L 401.
- SMUD's combined firm receipt capacity is reduced by 1,929 Mcf/d, which is consistent with the rated physical receipt capacity of the system.
- SMUD's firm capacity rights are to be scheduled and curtailed on the same basis as PG&E's firm transportation contracts.
- SMUD's Operation and Maintenance fee is increased by approximately 25% to \$1.6 million per year.
- PG&E and SMUD agree to meet every three years to review SMUD's firm rights, to take account of changes in physical capacity, and provided that such review would also account for changes following PG&E rate case determinations.

BACKGROUND

PG&E and SMUD entered into a Co-Ownership Agreement on September 16, 1996, pursuant to which PG&E sold to SMUD a qualified, undivided interest in two of PG&E's natural gas transmission pipelines: PG&E's Line 300 and PG&E's Line 401.

On November 15, 1996, PG&E filed an application with the Commission seeking authorization of the sale to SMUD of the aforementioned qualified, undivided interest in Line 300 and Line 401. The Commission approved the sale in D.97-04-087 on April 23, 1997.

SMUD's purchase of a qualified, undivided interest in the pipelines entitled it to certain firm and as-available transportation rights on each of the pipelines. Except for SMUD's rights to use and other rights expressly provided for in the Co-Ownership Agreement, PG&E expressly retains all other rights in the

pipelines and all facilities and lands associated therewith, including all uses and benefits thereof, including operational control.

Under the Co-Ownership Agreement, PG&E retained the right to increase or decrease the capacity of either pipeline. No additional documentation was required for changes in capacity, undivided interest, and for firm or as-available rights.

If PG&E chooses to increase the capacity of either pipeline, it may offer SMUD the option to share the costs and participate in the increase of capacity. If PG&E offers and SMUD declines to share in the costs, SMUD's rights to use capacity on that pipeline shall remain unchanged and its percentage interest shall decrease accordingly.

If Extraordinary Expenditures, as defined in the Co-Ownership Agreement, are required to maintain capacity or the operational integrity of the pipelines, SMUD is required to pay a *pro rata* share of the Extraordinary Expenditures or have its capacity rights reduced accordingly.

Pursuant to the Co-Ownership Agreement, PG&E remains the operator of the pipelines, and SMUD pays PG&E a monthly operation and maintenance fee.

PG&E Advice Letter 3675-G ("AL 3675-G") was filed on January 20, 2016, and Supplemental Advice Letter 3675-G-A ("AL 3675-G-A") was filed on June 14, 2016. PG&E stated that Supplemental AL 3675-G-A is intended to replace the originally filed AL 3675-G in its entirety.

In AL 3675-G-A, dated June 14, 2016, PG&E provided a Corrected and Restated Amendment, dated June 8, 2016, to the original Pipeline Equity Agreement approved in D. 97-04-87 on April 23, 1997. This Amendment had an effective date of January 19, 2016. It restructured the Pipeline Equity Agreement between PG&E and Sacramento Municipal Utility District ("SMUD") as follows:

- SMUD's ownership percentage of Lines 300 and 401 remains unchanged.

- SMUD's as-available rights and firm rights are combined, such that as-available rights are eliminated, and firm capacity amounts are specified for L 300 and L 401.
- SMUD's combined firm receipt capacity is reduced by 1,929 Mcf/d, which is consistent with the rated physical receipt capacity of the system.
- SMUD's firm capacity rights are to be scheduled and curtailed on the same basis as PG&E's firm transportation contracts.
- SMUD's Operation and Maintenance fee is increased by approximately 25% to \$1.6 million per year.
- PG&E and SMUD agree to meet every three years to review SMUD's firm rights, to take account of changes in physical capacity, and provided that such review would also account for changes following PG&E rate case determinations.

NOTICE

Notices of AL 3675-G and AL 3675-G-A were made by publication in the Commission's Daily Calendar. PG&E states that copies of both the Advice Letters were mailed and distributed in accordance with General Order 96-B, Section IV.

PROTESTS

Advice Letter 3675-G-A was not protested.

DISCUSSION

The parties have updated the Co-Ownership Agreement on several occasions to make adjustments to SMUD's firm and as-available rights in accordance with the terms of the Co-Ownership Agreement, among other amendments.

The currently proposed Amendment restructures the terms of the Co-Ownership Agreement, and for this reason PG&E seeks Commission approval of the Amendment.

The Amendment arises out of a dispute between PG&E and SMUD concerning certain Extraordinary Expenditures required under the Co-Ownership Agreement to maintain SMUD's capacity rights, as well as capacity reductions on

Lines 300 and 401 that have affected SMUD's ability to utilize its full capacity rights. The parties have reached a settlement of their dispute, which is reflected in the Amendment.

The proposed Amendment to the Co-Ownership Agreement is not expected to reduce the amount of available firm transportation service on either Line 300 or 401.

However, under limited circumstances where there is a capacity reduction on either Line 300 or 401, the proposed Amendment to the Co-Ownership Agreement may reduce the amount of as-available transportation service available to PG&E's other customers for the duration of the capacity reduction. The reduction in as-available capacity for PG&E's other customers would be less than 1% in most cases.

This Corrected and Restated Amendment also made specific corrections for two errors.

The first was to replace text of Section 8.2.1 covering amounts payable for SMUD's firm rights to use the pipeline capacity. The second was a correction in the formula in Section 8.2.2. for the Monthly Operation and Maintenance Fee - Inflation Index Increase.

In materials filed with AL 3675-G-A, PG&E provided documentation of the amendment as agreed to between SMUD and PG&E. Clarifications sought by Energy Division staff on specific background issues pertaining to the amendments were provided by PG&E.

On the issue of changes made previously, for which approval of CPUC was not sought, PG&E confirmed that under the terms of the original Co-Ownership Agreement, PG&E did not need to inform CPUC nor seek approval for such changes in capacity. This explanation was verified and accepted by Staff, being consistent with provisions for changes in capacity, as stated in Section 2.9 and Section 2.9.6 of the Co-Ownership Agreement.

Typographical errors noted by Staff in the Corrected and Restated Agreement were corrected by PG&E by filing substitute sheets for AL 3675-G-A on November 18, 2016.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. PG&E and SMUD entered into a Co-Ownership Agreement on September 16, 1996, pursuant to which PG&E sold to SMUD a qualified, undivided interest in two of PG&E's natural gas transmission pipelines: PG&E's Line 300 and PG&E's Line 401.
2. The parties have updated the Co-Ownership Agreement on several occasions to make adjustments to SMUD's firm and as-available rights in accordance with the terms of the Co-Ownership Agreement, among other amendments.
3. The proposed Amendment to the Co-Ownership Agreement is not expected to reduce the amount of available firm transportation service on either Line 300 or 401.
4. PG&E's request for approval of AL 3675-G-A is consistent with D. 97-04-087. Clarifications sought by staff were adequately addressed by PG&E and these responses were accepted.

THEREFORE IT IS ORDERED THAT:

1. The request of Pacific Gas and Electric to approve the Corrected and Restated Amendment to the Agreement For Co-Ownership, Shared Use, and Operation of Certain Natural Gas Transmission Pipelines Between PG&E and The Sacramento Municipal Utility District, as requested in Advice Letter 3675-G-A, is approved.

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 January 19, 2017; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director