Decision 07-07-002 July 12, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authorization to Change Certain Allocations of Firm Backbone Pipeline Capacity to Core Natural Gas Procurement Customers, and for Related Changes to the Core Procurement Incentive Mechanism. U 39 G	Application 07-03-024 (Filed March 23, 2007)

OPINION REGARDING THE REQUEST TO CHANGE THE ALLOCATIONS OF FIRM BACKBONE PIPELINE CAPACITY AND RELATED CHANGES

1. Summary

Today's decision addresses the application of Pacific Gas and Electric Company (PG&E) to increase the core's allocation of firm capacity on PG&E's Baja gas transmission pipeline (Baja Path), and to decrease the core's allocation of firm capacity on the Silverado gas transmission pipeline (Silverado Path).[1] This decision approves the request to change the allocations of firm capacity, the request to change the benchmark in the Core Procurement Incentive Mechanism (CPIM) to reflect the change in allocations, and the request to allow PG&E to file

[1] The Baja Path refers to that part of PG&E's backbone transmission system which runs from Topock to PG&E's Citygate. The Baja Path is commonly referred to as Line 300. The Silverado Path refers to that part of PG&E's backbone transmission system that delivers gas produced in California to PG&E's Citygate.

an advice letter to revise a section of PG&E's gas Schedule G-CT – Core Gas Aggregation Service to reflect the change in allocation on the Baja Path.

2. Procedural Background

PG&E filed the above-captioned application on March 23, 2007. No protests or responses to the application were filed.

A prehearing conference was held on May 15, 2007, to discuss the scope of issues and the procedural schedule for resolving the issues. A scoping memo and ruling was issued on May 24, 2007, which set forth the scope of issues to be addressed in this proceeding. In addition, the ruling determined that no evidentiary hearings were needed, that the matter was submitted, and that a proposed decision would be drafted.

The record for this proceeding consists of the application, and the March 23, 2007 prepared testimony of PG&E witness George P. Clavier in support of the application.[2]

3. Discussion

3.1. Introduction

PG&E's Core Gas Supply Department is responsible for making the arrangements to purchase and transport natural gas on behalf of its bundled core customers. The firm capacity that is allocated to the core on PG&E's backbone transmission system is used to deliver gas from the interstate pipelines, and from gas produced in California, to PG&E's core customers.

---

[2] The May 24, 2007 scoping memo and ruling admitted Clavier's prepared testimony into evidence in this proceeding as Exhibit 1.

PG&E's application requests Commission approval of the following proposals: (1) change the amount of firm transmission backbone capacity allocated to PG&E on behalf of its core gas customers on the Baja and Silverado gas transmission paths; (2) approve minor, conforming adjustments to the CPIM; and (3) authorize PG&E to file an advice letter to revise gas Schedule G-CT – Core Gas Aggregation Service to allow Core Transport Agents (CTA) access to a pro rata share of the revised Baja Path capacity holdings effective January 1, 2008.

PG&E notes that this proceeding is related to PG&E's gas transmission and storage services application for 2008 through 2010, Application (A.) 07-03-012, in which PG&E proposes the adoption of the Gas Accord IV Settlement Agreement. Section 3.3 of that settlement agreement requires that the request to change the amount of firm backbone capacity allocated to PG&E's core customers be filed in a separate application. The application before us was filed to comply with that term of the settlement agreement.

PG&E also notes that if its request to change the allocation of firm capacity is not approved as proposed in this application, that this will alter some of the backbone transmission rates in the Gas Accord IV Settlement Agreement in A.07-03-012.

3.2. Change In Backbone Capacity Allocation

The amount of firm capacity allocated to PG&E's core customers was first established in the original PG&E Gas Accord in Decision (D.) 97-08-055 [73 CPUC2d 754], and then revised in PG&E's Biennial Cost Allocation Proceeding (BCAP) in D.01-11-001. As part of the adopted Gas Accord settlement in D.97-08-055, 155 thousand decatherms per day (MDth/d) of annual (year-round) firm capacity on the Baja Path was allocated to PG&E's core customers.[3] In addition, the core was allocated seasonal capacity for November and March of 155 MDth/d, and 464 MDth/d for December to February. (See 73 CPUC2d at pp. 807-808). At that time, the annual firm capacity on the Baja Path matched PG&E's core interstate firm capacity on Transwestern. In addition, PG&E's core was allocated 48 MDth/d on the Silverado Path, with the intention that this would match the supplies from the contracts with California gas producers.

In D.01-11-001, the Commission approved a settlement in the BCAP that reduced the core's capacity allocation on the Silverado Path to 5 MDth/d. That settlement also increased the seasonal Baja capacity by 50 MDth/d. According to PG&E witness Clavier, those two changes reflected the termination of most of PG&E's California gas production contracts, and the addition of capacity on the Baja Path to maintain the core's ability to meet core peak winter demands.

In D.02-07-037, PG&E was ordered by the Commission to acquire at least 200 million cubic feet per day of firm capacity on the El Paso pipeline. The reason for doing so was to ensure that California customers would continue to have access to firm capacity on the El Paso system, which at the time was being turned back and in danger of being lost. (See D.02-07-037, pp. 2, 5.) In response to D.02-07-037, PG&E contracted with El Paso for 202 MDth/d of firm capacity

---

[3] There are two interstate pipelines that connect to the Baja Path at Topock, Transwestern Pipeline Company (Transwestern) and El Paso Natural Gas Company (El Paso). Both of these interstate pipelines provide access to gas supplies from the southwest and the Rocky Mountain production areas.

for the core.[4] PG&E was not required, however, to increase the amount of firm annual capacity on the Baja Path to match the El Paso capacity.

PG&E requests that two changes be made to the amount of pipeline capacity that is allocated to the core. The first proposed change is to increase the amount of annual Baja Path firm capacity that is allocated to the core from 155 MDth/d to 348 MDth/d. This change will allow PG&E to increase its intrastate capacity on the Baja Path to match the capacity that PG&E holds for its core customers on the upstream interstate pipelines transporting gas from the southwest.[5] Since no change is being made to PG&E's total winter allocation of 669 MDth/d, the increase in the annual amount of Baja capacity is to be offset by decreases in the seasonal amounts on the Baja Path, as shown in Table 1 of Exhibit 1.

The second proposed change is to reduce the amount of firm capacity allocated to the core on the Silverado Path from 5 MDth/d to 1 MDth/d. This change reflects a continuing decrease in PG&E's purchases of California gas for its core customers.

PG&E contends that increasing the allocation on the Baja Path to the core will enhance supply reliability by allowing the core to match the firm capacity on the Transwestern and El Paso pipelines, and to transport the gas from those

[4] D.04-01-047 approved the renewal of the capacity contract between PG&E and El Paso, the recovery of those costs from PG&E's core customers, and an adjustment to the CPIM to reflect the El Paso capacity.

[5] PG&E's core firm upstream capacity on Transwestern is 150 MDth/d, and 202 MDth/d on El Paso. There is a 4 MDth/d difference between the total upstream capacity of 352 MDth/d and the proposed capacity allocation on the Baja Path of 348 MDth/d due to shrinkage.

pipelines into the PG&E Citygate on a year-round basis. In addition, due to the change in pricing relationships between Canadian and southwest gas,[6] PG&E contends that the request to increase the Baja Path allocation will benefit PG&E's core customers.

PG&E performed an analysis of the proposed increase in the core's allocation of Baja capacity. The proposed change in allocation will result in a net increase in transmission backbone costs for core customers of about $4.8 million in 2008, and then decline in 2009 and 2010 to about $4 million and $3.2 million, respectively. PG&E's analysis examined the cost of holding the additional capacity, and whether this cost will be offset by the expected savings from purchasing cheaper southwest gas. According to PG&E witness Clavier:

> "The results show that, on average, PG&E's core procurement customers can expect a <u>net</u> benefit of between $2 million and $5 million per year by increasing core's annual Baja Path firm capacity holdings to match the upstream southwest interstate firm capacity holdings throughout the year. This shows that holding the additional Baja Path capacity is in the best interests of PG&E's core gas customers." (Ex. 1, p. 13.)

In deciding whether we should approve the request to revise the capacity allocation for PG&E's core customers, we first note that no one opposed the application. No protests were filed in connection with the application, and no

---

[6] According to PG&E, the change in pricing dynamics has occurred as a result of southwest gas supplies becoming more competitive during the summer months, as compared to the price of Canadian gas supplies. Gas from the Rocky Mountain producing areas has also been lower than Canadian supplies from time to time. By increasing the core's allocation of Baja capacity, PG&E contends it will be able to switch purchases more readily to take advantage of these price differences.

one sought at the May 15, 2007 prehearing conference to expand the scope of issues or to request that evidentiary hearings be held.

Second, as part of the proposed settlement agreement reached in connection with PG&E's long-term core gas hedging application (A.06-05-007), the Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN) agreed that they would not oppose PG&E's proposals to increase the annual Baja Path capacity for the core and that these costs be included in the CPIM benchmark. DRA and TURN also agreed that PG&E will reduce the core's allocation of the Silverado Path capacity.[7] Both DRA and TURN represent the interests of those ratepayers who make up PG&E's core customers. Their non-opposition to the application before us suggests that PG&E's request is of benefit to the core.

Third, PG&E's analysis of the expected cost savings of being able to purchase gas from the southwest with the additional firm Baja Path capacity is in the economic interests of PG&E's core gas customers. Under the analysis, the net benefit of increasing the Baja Path capacity to match the upstream capacity on the southwest interstate pipelines is expected to result in a net benefit of between $2 million and $5 million per year.

Based on the expected benefits to PG&E's core gas customers, and no opposition to PG&E's request to increase the core capacity allocation on the Baja Path and to decrease the core capacity allocation on the Silverado Path, PG&E's

---

[7] This agreement is contained in sections 7.1and 7.3 of that settlement agreement. That settlement agreement was approved in D.07-06-013. The decision also recognized that PG&E's intent to change the pipeline allocations for the core were not issues in A.06-05-007.

request to change the core capacity allocations is granted. PG&E is authorized to increase the core's annual firm Baja Path capacity allocation from 155 MDth/d to 348 MDth/d at the PG&E Citygate, eliminate the core holdings for November to March of seasonal Baja Path capacity, and to reduce the core holdings for December to February of seasonal Baja Path capacity from 359 MDth/d to 321 MDth/d at the PG&E Citygate. PG&E is also authorized to reduce the core's allocation of Silverado Path capacity from 5 MDth/d to 1 MDth/d.

3.3. Changes To The CPIM Benchmark

The CPIM is the mechanism by which PG&E recovers its procurement and transportation costs from its core procurement customers. Under the CPIM, PG&E has a financial incentive to procure gas and transportation services at the lowest reasonable cost. The financial reward or penalty is determined by comparing the actual procurement costs to a benchmark.

PG&E requests that it be allowed to make changes to the CPIM benchmark to reflect the new allocation of pipeline capacity on the Baja and Silverado paths. Specifically, PG&E proposes to adjust the San Juan basin segment of the benchmark so that it is 348 MDth/d at the Citygate for all 12 months, which reflects the matched interstate and Baja Path capacities. PG&E also proposes to adjust the benchmark to reflect the reduction in the Silverado Path capacity from 5 MDth/d to 1 MDth/d.

The change in the amount of capacity that is allocated to the core affects the CPIM. In order to have the CPIM benchmark accurately reflect PG&E's core gas procurement and transmission operations, PG&E's request to adjust the CPIM benchmark to reflect the revised annual Baja Path capacity and Silverado Path capacity is granted.

3.4. Revision of Schedule G-CT

As a result of PG&E's request to change the annual and seasonal firm capacities allocated to the core on the Baja Path, PG&E requests that it be allowed to revise the "Firm Intrastate Pipeline Capacity" section of its Schedule G-CT – Core Gas Aggregation Service by way of an advice letter. Schedule G-CT addresses the core gas aggregation rules. The schedule applies to those core end-use customers who aggregate their gas volumes and obtain their gas supply from parties other than PG&E, and to the party (CTA) who supplies those customers with the gas and provides or obtains the services necessary to deliver that gas to PG&E's distribution system.

The Firm Intrastate Pipeline Capacity section of Schedule G-CT provides that each month, PG&E will offer to the CTA a pro rata share of the firm intrastate capacity on each path that PG&E has reserved for its core customers. The amount of core firm intrastate capacity is listed by path in this section of the schedule. The advice letter would revise this section to reflect the revised annual and seasonal core allocations on the Baja Path, and to allow CTA access to a pro rate share effective January 1, 2008.

Since the Firm Intrastate Pipeline Capacity section of Schedule G-CT lists the amount of core firm capacity on the Baja Path, the revisions to the allocation of capacity on the Baja Path need to be reflected on the schedule so that a pro rata share of the available firm capacity can be offered to the CTA. Accordingly, PG&E's request to file an advice letter to revise Schedule G-CT to reflect the revised Baja Path annual and seasonal core allocations is granted. PG&E's advice letter is to be filed within 60 days from today.

4. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.2(a) of the Commission's the Rules of Practice and Procedure. As provided for in the May 24, 2007 scoping memo and ruling, parties to this proceeding were allowed to file comments on the proposed decision pursuant to Rule 14.3. No comments were filed.

5. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and John S. Wong is the assigned ALJ in this proceeding.

Findings of Fact

1. PG&E's core capacity allocation on the Baja Path was not increased to match PG&E's acquisition of 202 MDth/d of interstate capacity on El Paso as a result of D.02-07-037.

2. No one opposes PG&E's request to increase the annual Baja Path core capacity and to decrease the core capacity allocation on the Silverado Path.

3. Increasing the Baja Path capacity to match the upstream capacity on the southwest interstate pipelines, and the procurement of competitively priced southwest gas, is expected to result in a net benefit of between $2 million and $5 million per year.

4. The change in allocation on the Baja Path and Silverado Path affect the CPIM benchmark.

5. The Firm Intrastate Pipeline Capacity section of gas Schedule G-CT lists the amount of core firm intrastate capacity by path, and the change in allocation on the Baja Path affects this section of the schedule.

Conclusions of Law

1. PG&E's request to change the core capacity allocations on the Baja Path and Silverado Path should be granted.

2. PG&E's request to adjust the CPIM benchmark to reflect the revised annual Baja Path capacity and Silverado Path capacity should be granted.

3. PG&E's request to file an advice letter to revise Schedule G-CT to reflect the revised Baja Path annual and seasonal core allocations should be granted, and the advice letter should be filed within 60 days from today.

O R D E R

IT IS ORDERED that:

1. The application of Pacific Gas and Electric Company (PG&E) is granted and PG&E is authorized to do the following:

    a. To increase the annual firm Baja Path capacity allocation to the core from 155 thousand decatherms per day (MDth/d) to 348 MDth/d at the PG&E Citygate, to eliminate the core holdings from November to March of seasonal Baja Path capacity, and to reduce the core holdings from December to March of seasonal Baja Path capacity from 359 MDth/d to 321 MDth/d at the PG&E Citygate.

    b. To reduce the core allocation of Silverado Path capacity from 5 MDth/d to 1 MDth/d.

    c. To make conforming adjustments to the Core Procurement Incentive Mechanism benchmark to reflect the revised annual Baja Path capacity and Silverado Path capacity.

    d. To file an advice letter within 60 days from today to revise gas Schedule G-CT to allow core transport agents access to a pro rata share of the increased Baja Path annual capacity holdings effective January 1, 2008.

2. Application 07-03-024 is closed.

This order is effective today.

Dated July 12, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners