

Decision 07-09-045 September 20, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Establish Revenue Requirements, Rates, and Terms and Conditions of Service for Gas Transmission and Storage Services, for the Period 2008-2010.

Application 07-03-012
(Filed March 15, 2007)

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OPINION REGARDING THE GAS ACCORD IV SETTLEMENT

1. Summary

Today's decision addresses Pacific Gas and Electric Company's (PG&E) gas transmission and storage (GT&S) application for 2008 through 2010. PG&E reached a settlement of the GT&S issues with 30 other parties. We have reviewed the terms of the settlement, and approve and adopt the Gas Accord IV Settlement Agreement (Settlement Agreement) that is appended to this decision as Attachment A.

The Settlement Agreement continues the Gas Accord market structure for PG&E for another three years. The Settlement Agreement also sets the revenue requirements and the rates for each of the four GT&S functions for the next three years. Under the Settlement Agreement, the overall revenue requirement increases in each of the three years (2008: \$446,493,000; 2009: \$458,875,000; and 2010: \$471,299,000) over the 2007 revenue requirement of \$443,688,000. The only rates that increase under the Settlement Agreement are the local transmission

rates and the backbone transmission rates on the Baja Path. All other rates decrease or remain at the 2007 rates.

The revenue requirements and rates agreed to in the Settlement Agreement represent a compromise by the various parties of their positions on many different issues. Had the Settlement Agreement not been reached, PG&E would have requested much higher revenue requirements and rates. By reaching a settlement, all of the customers who use PG&E's GT&S services will be assured that the present market structure will continue during the next three years at the revenue requirements and rates agreed to in the Settlement Agreement.

We also conclude that the two reports that PG&E submitted with its application comply with our past directives. However, since the Line 57C project has not been completed, it is too early for us to decide the reasonableness of the project and the rate setting that should apply.

2. Background

Before the application was filed, PG&E held a series of meetings with interested parties to discuss a possible settlement of the issues. Pursuant to Rule 12 of the Commission's Rules of Practice and Procedure, a settlement conference was held on March 1, 2007.¹

PG&E reached a settlement of the issues with 30 other parties, which was incorporated into the March 15, 2007 Settlement Agreement.² The Settlement

¹ Although the settlement conference was held prior to the filing of this application, all parties to this proceeding were served with the notice of settlement conference.

² The parties to the Settlement Agreement are: PG&E; Axiom Energy Marketing, Inc.; ABAG Publicly Owned Energy Resources; California Cogeneration Council; California

Footnote continued on next page

Agreement was attached to PG&E's application, and is attached to this decision as Attachment A. PG&E requests that the Settlement Agreement be approved.

In response to Decision (D.) 07-01-014, PG&E's Report on the Line 57C Project (Line 57C Report) was attached to the application as Appendix 4. In response to D.03-12-061 and section 4.3 of the Gas Accord III Settlement Agreement (Gas Accord III Settlement) that was adopted in D.04-12-050, PG&E's Report on Additional Storage Capacity for Pipeline Balancing Service (Storage for Balancing Report) was attached to the application as Appendix 5. PG&E requests that the Commission find that these two reports comply with the prior decisions.

A prehearing conference was held on May 15, 2007 to discuss the scope of issues in this proceeding and the procedural schedule for resolving the issues. The scoping memo and ruling (scoping memo) was issued on May 24, 2007. In accordance with Rule 12.2, the scoping memo allowed interested parties to file comments on the Settlement Agreement.

The only document filed in response to the scoping memo was the June 8, 2007 Joint Comments In Support of Gas Accord IV Settlement. The joint

Manufacturers & Technology Association; Calpine Corporation; Canadian Association of Petroleum Producers; City of Coalinga; City of Palo Alto; Commercial Energy; Division of Ratepayer Advocates; Department of General Services; El Paso Natural Gas Company; Ikun, LLC; Indicated Producers (representing Chevron U.S.A. Inc., ConocoPhillips Company, and BP North America Gas & Power); Lodi Gas Storage, LLC; LS Power Generation, LLC (the predecessor entity of Dynergy Moss Landing, LLC); Northern California Generation Coalition (NCGC, representing City of Redding, Modesto Irrigation District, Turlock Irrigation District, City of Santa Clara, and Northern California Power Agency); Redwood Resources Marketing, LLC; Sacramento Municipal Utility District; School Project for Utility Rate Reduction; TransCanada Gas Transmission Northwest; The Utility Reform Network; Transwestern Pipeline Company; and Wild Goose Storage, LLC (Wild Goose).

comments were filed by PG&E and 22 other parties. No one requested that hearings be held in connection with the Settlement Agreement.

Since no one filed any opposition to the settlement and no hearings were requested, this proceeding was submitted on June 25, 2007.

The March 15, 2007 prepared testimony of PG&E's witness, Steve Whelan, in support of the Settlement Agreement, was served at the same time PG&E's application was filed. That prepared testimony is marked and received into evidence in this proceeding as Exhibit 1.

3. PG&E's Gas Transmission and Storage Application

3.1. The Gas Accord Market Structure

The term "Gas Accord" refers to the original settlement of the issues pertaining to PG&E's GT&S system in the Gas Accord Settlement Agreement that was adopted in D.97-08-055 [73 CPUC2d 754]. The Gas Accord became effective on March 1, 1998, and was to end on December 31, 2002.³ A settlement was subsequently reached and approved in D.02-08-070 which extended the Gas Accord structure and rates for an additional year to December 31, 2003. That settlement is referred to as the Gas Accord II Settlement.

The parties did not reach a settlement of PG&E's GT&S application for 2004. Instead, a comprehensive review of the Gas Accord market structure, rates, and terms and conditions of service took place. In D.03-12-061, the Gas Accord market structure, with certain modifications, was continued for an

³ During the original five-year term of the Gas Accord settlement, some provisions of the Gas Accord were modified by D.00-02-050 and D.00-05-049.

additional two years and the revenue requirements and rates for 2004 were approved.

After PG&E filed its GT&S rate case for 2005, the parties reached a settlement, referred to as the Gas Accord III Settlement, which was approved in D.04-12-050. That settlement continues the Gas Accord market structure from January 1, 2005 through December 31, 2007, and approved rates for that three-year term.

The main features of the market structure for PG&E's GT&S operations are the unbundled, tradable, rights to backbone transmission and storage services. The backbone transmission service is provided over specific paths on a firm or as-available basis. Storage services are also available on a firm or as-available basis. This market structure provides gas marketers and end use customers and their agents with a variety of tools to manage their gas commodity and transportation costs over the PG&E system.

3.2. The Gas Accord IV Settlement Agreement

This section describes the terms of the Settlement Agreement. The Settlement Agreement proposes to extend the Gas Accord III Settlement for three additional years, with some minor changes. If approved, the Settlement Agreement will set the revenue requirements, rates, and terms and conditions of service for PG&E's gas transmission services for the three-year period starting January 1, 2008 through December 31, 2010, and for PG&E's gas storage services from April 1, 2008 through March 31, 2011.

Section 8 of the Settlement Agreement addresses the revenue requirements and rates for each of the four GT&S functions. These four functions are backbone transmission, local transmission, gas storage, and the Customer Access Charge (CAC). All of the Settlement Agreement's revenue requirements and rates are

derived from escalating the 2007 authorized revenue requirements and rates, with the exception of the Schedule G-XF revenue requirement and rate.⁴

Under the Settlement Agreement, the total GT&S revenue requirement will increase about 0.6% for 2008 (from \$443,688,000 in 2007 to \$446,493,000 in 2008), another 2.8% for 2009 (to \$458,875,000), and another 2.7% for 2010 (to \$471,299,000).⁵ The rates that are derived from the revenue requirement are shown in Appendix B of the Settlement Agreement. The only rates that increase under the Settlement Agreement are the local transmission rates and the backbone transmission rates for the Baja Path.⁶ All other rates decrease or remain at the 2007 Gas Accord III Settlement level.⁷ All of the rate changes, including storage rates, are to be effective January 1 of each year.

Section 10 of the Settlement Agreement provides that the rates established by the settlement can only be changed as provided for in the settlement, or if agreed to by the settlement parties and approved by the Commission. No rate changes are to be made during the term of the settlement as a result of any change in PG&E's authorized cost of capital. However, other PG&E gas rate

⁴ The revenue requirement and rate for Schedule G-XF are based on the forecasted cost of PG&E's Line 401 facilities and the contractual agreements with the customers served under this rate schedule.

⁵ The increases in the revenue requirements and rates are based on the annual escalators that were negotiated and reflected in sections 8.1, 8.2, 8.3 and Table A-4 of Appendix A of the Settlement Agreement.

⁶ The parties agreed in section 8.2 of the Settlement Agreement to use the 76.5 percent backbone load factor for 2007 that was agreed to in the Gas Accord III Settlement to calculate PG&E's backbone rates for 2008 through 2010.

⁷ As provided for in section 6 of the Settlement Agreement, the CAC rate may change as long as the overall revenue requirement stays the same.

components that are not set in this proceeding may change from time to time in other Commission proceedings and decisions.

The parties agree in section 7 of the Settlement Agreement that PG&E has the authority to negotiate rate discounts for backbone transmission service, storage services, or for bundled end-use services, and that nothing in the Settlement Agreement modifies existing negotiated agreements between PG&E and its GT&S customers.

In section 8.4 of the Settlement Agreement, the settling parties negotiated adjustments for five large local transmission capital projects, whose timing of operation and scope may change. The costs of these projects are not covered by the local transmission escalators described in section 8.3, and were not included in the local transmission revenue requirements or rates of the Settlement Agreement. Instead, the parties agreed to increase the adopted local transmission revenue requirement and rates on January 1 following the operational date for each project.⁸ These adjustments to the local transmission revenue requirement and rates will be handled through PG&E's Annual Gas True-Up filing. Table A-2 of Appendix A of the Settlement Agreement lists the five projects and their respective revenue requirement and rate adders.⁹

We now turn to the other elements of the Settlement Agreement. The backbone transmission, local transmission, storage services, and CAC are described in sections 3, 4, 5 and 6 of the Settlement Agreement, respectively. The

⁸ Additional details about how this capital project adjustment will work are described in sections 8.4.1, 8.4.2 and 8.4.3 and Table A-2 of Appendix A of the Settlement Agreement.

⁹ Section 8.4 provides that "PG&E assumes the risk of changes in the capital costs and other factors that would otherwise result in different revenue requirement and rate adjustments during the Settlement Period."

Settlement Agreement retains the current Gas Accord market structure and service options with some adjustments as described below.

In section 3 of the Settlement Agreement, the backbone transmission path structure and the backbone services remain the same. PG&E's firm backbone capacity for the Redwood and Baja paths are shown in Appendix A, Table A-1 of the Settlement Agreement. Section 3.1 of the Settlement Agreement describes how the delivered firm capacities on these two paths were derived.

Section 3.2 of the Settlement Agreement confirms that PG&E's core customers and PG&E's wholesale core customers will continue to have firm rights to the 615.6 thousand decatherms per day (MDth/d) of the vintage Redwood Path capacity, as provided for in the Gas Accord III Settlement.

Section 3.3 provides that PG&E is to file a separate application to obtain Commission approval of a change in the core's allocation of firm backbone capacity which were approved in prior Commission decisions and reflected in the Gas Accord III Settlement. If the modification to the core's allocation of firm backbone capacity is not approved or the allocation deviates from the request, this will affect the backbone rates in the Settlement Agreement.¹⁰

In section 3.4 of the Settlement Agreement, two changes have been made to the eligibility criteria in PG&E's Rule 1 for Backbone Level End-Use Service. Backbone Level End-Use Service allows PG&E customers located along PG&E's backbone transmission to take service from the backbone transmission facilities

¹⁰ On March 23, 2007, PG&E filed its application to change the core's allocation of firm capacity. In D.07-07-002, we granted PG&E's request to change the core allocations on the Baja Path and the Silverado Path.

without having to pay the local transmission rate component.¹¹ The two changes allow PG&E Exchange Service customers, and the owner of Moss Landing Power Plant Units 1 and 3, the opportunity to qualify for Backbone Level End-Use Service.

PG&E Exchange Service allows a new PG&E customer to use the facilities of an independent storage provider (ISP) that connects to PG&E's backbone for what is essentially the new customer's local transmission service.¹² This service avoids having a customer build a service line to PG&E, or for PG&E to build a local transmission line to the new customer. The Exchange Service customer has to pay a fee to the ISP for the use of the ISP's facilities, and to pay PG&E's rate for the use of PG&E's facilities.¹³ Wild Goose, an ISP, has an existing pipeline that branches off the pipeline that connects to PG&E's backbone transmission pipeline. This spur pipeline was part of Wild Goose's original connection to PG&E's local transmission system. Section 3.4.1 of the Settlement Agreement allows a PG&E Exchange Service customer connected to any Commission-approved Wild Goose facilities existing as of January 1, 2007 to have the opportunity to receive Backbone Level End-Use Service so long as the customer meets all the other criteria. To accommodate this change, PG&E's Rule 1 will be modified by adding section 5.c. as shown in the Settlement Agreement.

Section 3.4.2 of the Settlement Agreement provides that the owner of Moss Landing Power Plant Units 1 and 2, for the two units that went into operation in

¹¹ Backbone Level End-Use Service was authorized by the Commission in D.03-12-061.

¹² This Exchange Service was approved in D.06-09-039 at pages 100 to 105.

¹³ As of the filing of this application, no PG&E customers have been served by the Exchange Service arrangement.

mid-2002, can connect to PG&E's backbone transmission line if the owner provides its own local transmission service and meets the other criteria for Backbone Level End-Use Service. To accommodate this exception, PG&E's Rule 1 criteria for a Backbone Level End-Use Customer will be revised as shown in the Settlement Agreement.

PG&E contends that the changes to its Rule 1 to allow Moss Landing Units 1 and 2 and certain PG&E Exchange Service customers to be eligible for Backbone Level End-Use Service are in the public interest and should be approved by the Commission.

Section 4 of the Settlement Agreement states that no changes have been made to how local transmission service is provided. The section also provides that local transmission service is non-bypassable for all on-system end-use and wholesale customers taking service from PG&E, except for customers who qualify for Backbone Level End-Use Service. Section 8.3 of the Settlement Agreement addresses how the rates for the local transmission function are to be escalated.

Section 5 of the Settlement Agreement addresses PG&E's storage services, and states that the storage services and assignments of firm storage to PG&E's Core Gas Supply, pipeline balancing, and noncore storage are to remain the same as the Gas Accord III Settlement. As explained in section 8.3 and as shown in Table 10 of Appendix B of the Settlement Agreement, the rates for storage services do not change from the 2007 rates. Section 5.1 provides that PG&E will not hold an open season for existing firm storage capacity at the beginning of the Gas Accord IV settlement term. Section 5.2 provides that PG&E retains the right to file an application pursuant to Public Utilities Code § 851 to sell noncycle working gas in order to expand its annual ability to cycle storage on behalf of its

storage customers, and that the parties retain the right to take any position if such an application is filed.

Section 6 of the Settlement Agreement provides that the rate design for the CAC may be addressed and modified in PG&E's Biennial Cost Allocation Proceeding (BCAP) during the settlement period so long as the total revenue requirement used to set the CAC remains at the level agreed to in the Settlement Agreement. Otherwise, the rate for the CAC remains at the Gas Accord III Settlement 2007 level, as provided for in section 8.3 of the Settlement Agreement.

The parties agreed in section 8.5 of the Settlement Agreement to continue the local transmission bill credit for the Moss Landing Power Plant Units 1 and 2, and that a bill credit be provided to four public entity members of the NCGC who installed combined cycle electric generation facilities after the implementation of the original Gas Accord. These bill credits are shown on Table A-3 of Appendix A of the Settlement Agreement. In 2008, the bill credit for Moss Landing is \$2.08 million, and \$200,000 for the four public entities.

The bill credit for Moss Landing is an extension of the \$2 million bill credit that was agreed to in the Gas Accord III Settlement. In D.04-05-061, the decision which approved the Gas Accord III Settlement, the Commission stated that this bill credit was a reasonable compromise of possible litigation positions concerning the eligibility for backbone level service which avoided the prospect of additional cost-shifting to local transmission customers. PG&E contends that a similar litigation risk exists for the four NCGC members, and that it is reasonable to extend the bill credit to them as well.

As shown in Table A-3 of Appendix A of the Settlement Agreement, the revenue responsibility for these local transmission bill credits will be shared in three ways. First, three-fourths of the Moss Landing bill credit will be funded

through a volumetric surcharge on all backbone transmission rates. Second, the remaining one-fourth of the Moss Landing bill credit and one-half of the NCGC bill credit will be funded through a volumetric surcharge on the Backbone Level End-Use rate paid for by eligible customers under rate Schedules G-EG and G-NT. And third, the remaining one-half of the NCGC bill credit will not be included in rates, which places PG&E at risk for recovery.

Other issues addressed in the Settlement Agreement include the following: (1) section 8.8 requires PG&E to implement a cost accounting change, pursuant to a Federal Energy Regulatory Commission ruling, that will expense, rather than capitalize, the initial in-line inspection tool for the Pipeline Integrity Management Program; (2) section 9.1.1 requires PG&E to establish a Diversion and Curtailment Working Group to address alternatives or clarifications to PG&E's rules regarding system supply diversion or local transmission curtailment; (3) section 9.1.2 provides that the Operational Flow Order (OFO) Forum established by D.00-02-050 may be used to discuss and resolve other operational issues; (4) section 9.2 sets the Core Brokerage Fee at \$0.032 per decatherm for the term of the Settlement Agreement, and in the future the fee is to be addressed in the BCAPs;¹⁴ and (5) section 9.3 provides that the Core Procurement Incentive Mechanism is to continue indefinitely until modified or terminated by the Commission.

Section 2.3.1 of the Settlement Agreement provides that PG&E is to file its next GT&S rate case by February 1, 2010, unless an extension is granted. Section 2.3.2 provides that if the Commission does not approve new rates for the

¹⁴ In the Gas Accord III Settlement, the core brokerage fee was set at \$0.030 per decatherm.

period beginning January 1, 2011, then the interim rates will equal the rates in effect on December 31, 2010, except for: (1) a two percent escalator for local transmission rates; (2) any effective rate adders if one of the designated local transmission projects become operational in 2010; and (3) G-XF rates, which will continue to be calculated based on the Line 401 incremental costs. These interim rates are to remain in effect until the Commission approves rates for the remainder of 2011.

PG&E also seeks Commission approval of some minor tariff changes that are needed to implement the Settlement Agreement. These changes have been attached as pro forma tariff sheets in Appendix 3 of the application and do not affect rates. According to PG&E, these pro forma tariff changes were developed in consultation with the settlement parties. Once the Settlement Agreement is approved, then all of the tariff sheets will be submitted by advice letter for implementation effective January 1, 2008.

3.3. Discussion

The Joint Comments of June 8, 2007 support the approval of the Settlement Agreement. No one opposed the Settlement Agreement.

In deciding whether a settlement should be approved or not, Rule 12.1(d) of the Commission's Rules of Practice and Procedure states that a settlement will not be approved "unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest."

A number of arguments are set forth in the application, the Settlement Agreement and Exhibit 1 as to why the Settlement Agreement should be approved. These arguments can be generally categorized into three reasons.

The first reason is that the Settlement Agreement is supported by a broad cross section of parties that represent a variety of different interests. The

Settlement Agreement was signed by 31 parties. The signatories to the Settlement Agreement include the utility and representatives of residential and small customers, large customers, industrial customers and wholesale customers. In addition, interstate pipeline companies, gas marketers, gas producers, and ISPs are represented as well. Many of the signatories to the Settlement Agreement have been active participants in PG&E's prior GT&S rate cases.

All of the settling parties balanced their own interests with the competing interests of the other parties and were able to reach a compromise that resulted in the Settlement Agreement. During the course of the talks leading to the Settlement Agreement, PG&E provided information to the parties and responded to data requests. In reaching the Settlement Agreement, the parties considered their possible litigation positions with what the parties reached agreement on. The issues that are addressed in the Settlement Agreement cover a number of interrelated issues which resulted in the agreed upon revenue requirements and rates. The Settlement Agreement represents a careful balancing of all these different issues by parties with divergent interests.

The second reason is that the Settlement Agreement continues the same market structure that parties are familiar with and provides rate certainty for the next three years. The Settlement Agreement continues the same gas market structure for PG&E's gas transmission and storage operations, with minor modifications, which has been in operation since 1998. This market structure has worked well during that time, and was the subject of a comprehensive review in D.03-12-061. All of the signatories to the Settlement Agreement favor the continuation of the Gas Accord market structure for another three years.

The Settlement Agreement will also provide rate certainty over the next three years because of the revenue requirements and rates agreed to in the

Settlement Agreement. By establishing the rates in advance, together with a known market structure, PG&E's customers will be assured of a stable business environment over the next three years. Such a business environment will be of benefit to those PG&E customers who may want to enter into long-term gas contracts.

The third reason as to why the parties believe the Settlement Agreement should be approved is that the revenue requirements and rates are reasonable. As stated above, the only rates that increase under the Settlement Agreement are the local and backbone transmission rates on the Baja Path, while all other rates decrease or remain at 2007 level. As compared to PG&E's litigation position, revenue requirements and rates are much lower for all three types. In addition, given the customer growth and the expenditures by PG&E to meet the gas demand of its customers, the Settlement Agreement's revenue requirements and rates represent modest increases. Also, the revenue requirements and rates in the Settlement Agreement represent a negotiated compromise by all of the different parties on a number of different issues.

Based on the terms of the Settlement Agreement, the process that the parties went through in assessing their positions and agreeing on the Settlement Agreement, and the longevity of the Gas Accord market structure, we conclude that the Settlement Agreement is reasonable in light of the whole record, that it is consistent with the law, and in the public interest.¹⁵ Accordingly, the Settlement Agreement, and the pro forma tariffs attached to the application, is approved.

¹⁵ In the sections which follow, we discuss the two PG&E reports that were attached to the application and addressed in the Settlement Agreement.

PG&E shall be directed to file an advice letter under Tier 2 of General Order 96-B to implement the approval of the Settlement Agreement and related tariffs.

As provided for in section 8.4 of the Settlement Agreement, PG&E should be permitted to make the revenue requirement and rate adjustments for the local transmission capital projects in PG&E's Annual Gas True-Up filings.

PG&E shall file its next GT&S rate case by February 1, 2010, unless an extension is granted.

4. Reports

4.1. Introduction

PG&E attached its Line 57C Report and the Storage for Balancing Report to its application.

In ordering paragraph 5 of D.07-01-014, PG&E was directed to address certain issues concerning the Line 57C project. The purpose of the report is so the Commission can "review and consider (a) PG&E's reasonableness in its design, planning, and execution of the Pipeline 57C project; (b) ratesetting for those components of the Pipeline 57C project found to be reasonable; and (c) whether operational criteria should be imposed on Pipelines 57A, B, and C so that reliability is ensured and system operation remains consistent with the Commission's overall policy goals for gas transmission and storage."

(D.07-01-014, pp. 18-19.)

In ordering paragraph 6 of D.03-12-061, the Commission ordered PG&E to provide a report in its 2005 GT&S application about the effectiveness of the additional storage capacity authorized by that decision and its effect on the PG&E system. PG&E responded by filing its "Report on Additional Storage Capacity for Pipeline Balancing Service" on June 30, 2004 in Application

(A.) 04-03-021. Subsequently, in section 4.3 of the Gas Accord III Settlement, dated August 27, 2004, the parties agreed that PG&E would provide an update to the June 30, 2004 report in its next GT&S application.

In section 9.4 of the Settlement Agreement, the parties “agree that PG&E filed this Report in compliance with Decision 07-01-014, and Parties agree not to object to the content and conclusions of the Line 57C Report.” In section 9.5, the parties “agree that the Storage for Balancing Report meets the Commission’s requirements and agree with the conclusions of that report.”

PG&E requests that the Commission find that these two reports meet the requirements and obligations of the two decisions.

4.2. Line 57C Report

PG&E’s Line 57C project consists of a 6.2 mile pipeline that connects PG&E’s gas storage facility at McDonald Island (located in the Sacramento-San Joaquin Delta) to its backbone transmission system. Currently, Line 57B is the only pipeline that connects the McDonald Island gas storage facility to PG&E’s backbone system. As noted in D.07-01-014, this gas storage facility provides PG&E’s customers with approximately 25% of their gas supply during the winter months. The purpose of Line 57C is to serve as a backup pipeline in the event Line 57B fails.

The March 15, 2007 Line 57C Report was prepared in response to ordering paragraph 5 of D.07-01-014. The report addresses the various issues that we required PG&E to respond to.

The report concludes that the design of the Line 57C project is reasonable because it provides redundant pipeline capacity in the event a levee failure or other event causes Line 57B to fail. The report states that the project route will avoid significant environmental impacts. The project route also avoids placing

Line 57C near Line 57B so that one adverse event will not take both pipelines out of service. The use of horizontal directional drilling (HDD) enables the pipeline to cross the Delta waters by boring under the levees and the irrigation canals instead of cutting through them. The pipeline route was also influenced by PG&E's discussions with the landowners and the State Lands Commission. The State Lands Commission conducted the environmental review pursuant to the California Environmental Quality Act. On April 19, 2006, the State Lands Commission concluded that the project will not have a significant effect on the environment and adopted a final mitigated negative declaration for the project.¹⁶

The report also notes that the design pressure and diameter and capacity of Line 57C are appropriate for the existing system, and will provide the same amount, or more, of withdrawal capacity in the event Line 57B fails.

As for the reasonableness of the planning of Line 57C, the report states that PG&E began working with the landowners in 2005 to develop the proposed route and to identify any landowner concerns with the project. PG&E also conducted an environmental assessment to identify a route that was capable of providing a redundant connection to the McDonald Island without resulting in any significant environmental impacts. The use of HDD along the proposed route will allow PG&E to install the pipeline well below a depth that could be

¹⁶ Two reclamation districts filed a petition a petition for a writ of mandate with the Superior Court in the County of Sacramento challenging the State Lands Commission's adoption of the final mitigated negative declaration. The Superior Court denied the petition on December 22, 2006 and found that there was no substantial evidence in the record to support the reclamation districts' claim that the Line 57C project may have a significant environmental impact.

impacted by a levee breach. The report also notes that all of the required permits for the Line 57C project have been obtained.

The Line 57C project requires the acquisition of rights-of-way on four Delta islands. PG&E acquired the rights on McDonald Island and Bacon Island. PG&E was negotiating with the owner of Palm Tract as of March 15, 2007. As to the fourth island, PG&E filed a condemnation action after negotiations to acquire rights on the Lower Jones Tract were unsuccessful.

On the reasonableness of the construction of the pipeline, the report states that open trench construction will be used for over-land construction, and that HDD will be used to cross the waterways between the islands and most irrigation canals. To ensure that Line 57C will not be affected if one of the levees under which the pipeline passes were to fail, the entry and exit points are located outside the expected scour zones of the levees.¹⁷ The report states that all of the engineering analyses for this project have concluded that the HDD can be done safely and reliably with little or no impact on anything near or above the pipeline path. All of the drilling risks that were identified will be mitigated in accordance with the mitigated negative declaration.

Regarding the rate setting for Line 57C, the report states that the initial rate setting for this project will be established in this proceeding, and could be revised in future GT&S rate cases.

PG&E's report states that there is no need to impose additional operating criteria or constraints on the operation of Lines 57A, B or C. The report states that because PG&E's tariffs and operations provide assurance that core

¹⁷ The scour zones are the areas which may be affected by the eroding effects of the water currents if a levee were to fail.

customers will continue to receive gas service in the event of adverse events such as a levee failure or abnormal peak day cold weather, no additional conditions need to be imposed. (See PG&E Rule 14.)

In D.07-01-014, we stated that Line 57C may increase PG&E's outflow capacity which could impact the market. We also stated in that decision that we will require examination of these market issues in this proceeding. In response to those issues, the report states that with both Line 57B and Line 57C in service, an additional 101 MDth/d of maximum withdrawal capacity will be available, which increases the firm withdrawal capacity for PG&E's market storage program by 14%. Line 57C adds only 3 MDth/d of firm injection capacity, which is less than 0.3%. The report states that the additional storage capacity will enhance competition in the northern California storage market, but the additional increments are unlikely to have a significant effect on the storage market.

In section 9.4 of the Settlement Agreement, the settling parties agree that PG&E's report is in compliance with D.07-01-014, and that the parties agree not to object to the content and conclusions of the report.

We first address the reasonableness and ratesetting issues. We stated in ordering paragraph 5 of D.07-01-074 that we would review and consider the reasonableness of the design, planning, and execution of the Line 57C project, and the rate setting for this project, in this proceeding. Since the Line 57C project has not been completed, it is premature for us to consider the reasonableness of the project, and to determine the rate setting for the project. We will wait for the Line 57C project to be completed before we address those issues in a future GT&S proceeding. PG&E shall supplement the Line 57C Report at that time to update us on the reasonableness and rate setting issues.

The next issues to address are the impact this project will have on the gas storage market and whether additional operational criteria should be imposed on the operation of Lines 57A, B and C. These were raised as issues because we stated in D.07-01-014 that PG&E may derive gas marketing benefits from the pipeline project, which may interfere with our “overall policy goals for gas transmission and storage.” (D.07-01-014, p. 14.)

The Line 57C Report notes that the incremental injection and withdrawal capacity that will be created by Line 57C is unlikely to have a significant effect on the northern California gas storage market. We agree with the report’s conclusion. Although incremental injection and withdrawal capacity is being added, the storage capacity at the facility remains the same. This limits the amount of gas that can be stored and withdrawn from the facility. The information contained in the Line 57C Report confirms our acknowledgement in D.07-01-014 that the primary purpose of the Line 57C project is to maintain reliable service at the McDonald Island gas storage facility in the event Line 57B fails.

Of particular relevance to these two issues is that the two storage competitors of PG&E are signatories to the Settlement Agreement. One would expect these ISPs to favor the imposition of additional operational criteria if this incremental capacity posed a threat to their operations. Instead, these ISPs have agreed that they do not object to the content and conclusions of the Line 57C Report. We agree with the report’s conclusion that no additional criteria should be imposed on PG&E’s operation of Lines 57A, B and C.

We conclude that PG&E’s March 15, 2007 Line 57C Report complies with ordering paragraph 5 of D.07-01-014. However, the reasonableness and rate setting for Line 57C will be examined in a future GT&S proceeding after the

project has been completed. At that time, PG&E shall supplement the Line 57C Report on the reasonableness and rate setting issues so that we can decide the reasonableness of the project, as well as the rate setting issue.

4.3. Storage for Balancing Report

In D.03-12-061, the Commission adopted PG&E's proposal to increase the injection and withdrawal capacity and the storage inventory capacity allocated to PG&E's pipeline balancing service. This monthly balancing service is offered to PG&E's transmission and end-use customers under PG&E's Schedule G-BAL. The balancing service manages the difference between the customer's gas receipts delivered into the PG&E system and the gas deliveries taken off of the PG&E system. The objective behind the increase in storage capacity was to reduce the frequency of the OFO events and to lessen the impact of OFOs on market participants.¹⁸

In ordering paragraph 6.c. of D.03-12-061, PG&E was directed to monitor the effectiveness of the additional storage capacity and to provide a report about the additional storage capacity and its effects on system balancing and operations. PG&E submitted an initial report on July 1, 2004, as required by D.03-12-061. This report covered the period from January 2004 through May 2004. Due to the brief period covered by the initial report, PG&E agreed in section 4.3 of the Gas Accord III Settlement to provide another report in this

¹⁸ PG&E may call an OFO when the customer imbalances are forecasted to exceed the ability of PG&E's pipeline system to manage all of the gas within the available balancing service storage and pipeline inventory capacities. If an OFO is called, customers are required to manage their gas supply imbalances on a daily basis within a specified tolerance band or face noncompliance charges. (See PG&E's Rule 14.) The

Footnote continued on next page

proceeding. The March 15, 2007 Report on Additional Storage Capacity provides an analysis for the 34-month period of January 2004 through October 2006.

The report states that the additional storage capacity authorized by D.03-12-061 has benefited all customers. Although the number of OFO events has increased on average, PG&E's analysis shows that without the additional storage, there would have been even more OFOs during the period covered by the report. During the analysis period, the projected number of OFO events was reduced by approximately 15% below what it would have been without the increased injection and withdrawal capacity and storage inventory.¹⁹

The report states that the additional injection and withdrawal capacities were utilized on 53% of the days when balancing was provided. The additional injection capacity was used 64% of the time that injection was needed by the pipeline operators to manage high inventory. The additional storage capacity was used 96% of the time.

The report also analyzed the change in the size of customer imbalances due to the increase in the balancing service capacities. Although the overall magnitude of net customer imbalances increased somewhat, the report concludes that was probably not enough to reduce the benefits of the added capacity and increased operational flexibility.

We have reviewed PG&E's Storage for Balancing Report. We agree with the report's conclusions and with the settling parties' concurrence with the

OFOs tend to limit customer imbalances and bring the pipeline inventory back to within acceptable operating limits.

¹⁹ The report states that without the additional capacity, the number of OFO events over the reporting period would have increased from 161 to about 185.

report's conclusions in section 9.5 of the Settlement Agreement. Since the report contains an analysis about the effects of the additional balancing capacity, and discusses the impact this additional capacity has had on the PG&E system, we conclude that the report complies with ordering paragraph 6.c. of D.03-12-061 and with section 4.3 of the Gas Accord III Settlement.

5. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was served on the parties in accordance with Public Utilities Code Section 311 and Rule 14.2 of the Rules of Practice and Procedure. As provided for in the scoping memo, parties were allowed to file comments on the proposed decision. No comments were filed. However, on August 22, 2007, PG&E filed a request that the proposed decision be clarified to include the following finding of fact:

“The revenue requirement and rates adopted in this decision include the recovery of the pension contribution allocated to the gas transmission and storage functions consistent with D.06-06-014 and D.07-03-044.”

PG&E's request states that this additional finding of fact will help clarify “that PG&E is authorized to fund the GT&S share of its pension costs out of the revenues derived from the Gas Accord IV rates.” PG&E represents that the parties to the Settlement Agreement do not oppose the request for clarification. PG&E also states that the addition of this finding of fact will have no effect on the agreed-upon 2008-2010 rates or on future rates.

PG&E's August 22, 2007 request to add this finding of fact is granted. Appropriate changes have been made to the findings of fact and to the conclusions of law.

6. 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. The prepared testimony of PG&E witness Steve Whelan is marked and received into evidence in this proceeding as Exhibit 1.
2. If approved, the Settlement Agreement will set the revenue requirements, rates, and terms and conditions of service for PG&E's GT&S services for the next three years.
3. The revenue requirements and rates are set forth in Appendix A and Appendix B of the Settlement Agreement.
4. The only rates that increase under the Settlement Agreement are the local transmission rates and the backbone transmission rates on the Baja Path, while all other rates decrease or remain at the 2007 level.
5. Under the Settlement Agreement, the five local transmission projects identified in Table A-2 of Appendix A of the Settlement Agreement are to be added to the local transmission revenue requirement and rates on January 1 following the operational date for each project through PG&E's Annual Gas True-Up filing.
6. No one expressed opposition to the Settlement Agreement.
7. The Settlement Agreement is supported by a broad cross section of parties that represent a variety of different interests.
8. The Settlement Agreement represents a careful balancing of all the different interrelated issues by parties with divergent interests.
9. Approval of the Settlement Agreement will continue the same gas market structure, with minor modifications, that has been in place since 1998.

10. The Settlement Agreement provides rate certainty over the next three years.

11. As compared to PG&E's litigation position, the Settlement Agreement's revenue requirements and rates are much lower for all three years.

12. The Line 57C project consists of a 6.2 mile pipeline that connects PG&E's gas storage facility at McDonald Island to its backbone transmission system.

13. The March 15, 2007 Line 57C Report was prepared in response to ordering paragraph 5 of D.07-01-014.

14. Section 9.4 of the Settlement Agreement states that PG&E's Line 57C Report is in compliance with D.07-01-014, and that the parties agree not to object to the content and conclusions of the report.

15. In ordering paragraph 5 of D.07-01-074, we stated that we would review and consider the reasonableness of the design, planning, and execution, and the rate setting, for the Line 57C project in this proceeding.

16. Since the Line 57C project has not been completed, it is premature for us to consider the reasonableness of, and to determine the rate setting of, this project.

17. We agree with the conclusion in the Line 57C Report that the incremental injection and withdrawal capacity created by Line 57C is unlikely to have a significant effect on the northern California gas storage market because the storage capacity at the McDonald Island facility remains the same.

18. The two ISPs signed the Settlement Agreement, which provides that they do not object to the content and conclusions of the Line 57C Report.

19. In ordering paragraph 6.c. of D.03-12-061, PG&E was directed to monitor the effectiveness of the additional storage capacity authorized by that decision and to provide a report.

20. Due to the brief period covered by the July 1, 2004 report, PG&E agreed in section 4.3 of the Gas Accord III Settlement to provide another report in this proceeding.

21. The March 15, 2007 Report on Additional Storage Capacity provides an analysis for the 34-month period of January 2004 through October 2006.

22. We agree with the conclusions in the Storage for Balancing Report, and with the settling parties' concurrence with the report's conclusions, that the additional capacity authorized by D.03-12-061 has benefited all customers, that without the additional storage more OFOs would have occurred, and that although the overall magnitude of net customer imbalances increased somewhat that was not enough to reduce the benefits of the added capacity and increased operational flexibility.

23. The revenue requirement and rates adopted in this decision include the recovery of the pension contribution allocated to the gas transmission and storage functions consistent with D.06-06-014 and D.07-03-044.

Conclusions of Law

1. PG&E should be permitted to make the adjustments to its local transmission revenue requirement and rates for the five local transmission capital projects through PG&E's Annual Gas True-Up filing as provided for in the section 8.4 of the Settlement Agreement.

2. The Settlement Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest.

3. The Settlement Agreement appended to this decision as Attachment A should be approved, and the pro forma tariffs attached to the application should be approved.

4. PG&E should be directed to file an advice letter under Tier 2 of General Order 96-B to implement the approval of the Settlement Agreement and related tariffs.

5. PG&E's Line 57C Report complies with ordering paragraph 5 of D.07-01-014, but we should address the reasonableness and rate setting issues associated with the Line 57C project after it has been completed in the next GT&S proceeding, and PG&E should supplement the Line 57C Report at that time to update us on the reasonableness and rate setting issues.

6. Unless an extension is granted, PG&E should file its next GT&S rate case by February 10, 2010.

7. The Storage for Balancing Report complies with ordering paragraph 6.c. of D.03-12-061 and with section 4.3 of the Gas Accord III Settlement.

8. PG&E's August 22, 2007 request to clarify the decision by adding an additional finding of fact regarding the funding of pension costs is granted.

ORDER

IT IS ORDERED that:

1. The March 15, 2007 Gas Accord IV Settlement Agreement (Settlement Agreement), which is appended to this decision as Attachment A, is approved and the revenue requirements, rates, and terms and conditions set forth in the Settlement Agreement shall be adopted and apply to the gas transmission and storage services of Pacific Gas and Electric Company (PG&E) for the period of 2008 through 2010.

2. The pro forma tariffs attached to Appendix 3 of PG&E's application are approved.

3. PG&E shall do the following:

- a. File an advice letter with the Energy Division under Tier 2 of General Order 96-B within 45 days of today's date to implement the Settlement Agreement with an effective date of January 1, 2008. Any interested party may protest PG&E's advice letter filing as provided for in General Order 96-B. No additional customer notice need be provided pursuant to General Rule 4.2 of General Order 96-B for this advice letter filing.
 - b. As provided for in section 8.4 of the Settlement Agreement, PG&E shall be permitted to make the revenue requirement and rate adjustments for the local transmission capital projects in PG&E's Annual Gas True-Up filings.
 - c. Unless an extension is granted, PG&E shall file its next gas transmission and storage rate case by February 1, 2010.
4. The reasonableness and rate setting issues associated with the Line 57C project shall be addressed in the GT&S proceeding following the completion of the Line 57C project.
- a. PG&E shall supplement its March 15, 2007 Report on the Line 57C Project on the reasonableness and rate setting issues in that proceeding.
5. PG&E shall file its next GT&S rate case by February 10, 2010.
6. Application 07-03-012 is closed.

This order is effective today.

Dated September 20, 2007, at San Francisco, California.

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

[D0709045 Attachment A](#)