

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3442

January 21, 2010

R E S O L U T I O N

Resolution G-3442. Pacific Gas and Electric (PG&E)

PROPOSED OUTCOME: This Resolution approves PG&E's request under Public Utilities Code Section 851 for the sale of segments of operating gas gathering pipelines with associated appurtenances in Colusa County and the assignment of associated land rights to Atlantic Oil Company.

ESTIMATED COST: None

By Advice Letter 3052-G Filed on October 9, 2009.

SUMMARY

This Resolution approves PG&E's request under Public Utilities Code Section 851 for the sale of segments of operating gas gathering pipelines (approximately 13,400 feet) with associated appurtenances in Colusa County (the "Facilities") and the assignment of associated land rights to Atlantic Oil Company for a one-time fee payment of \$35,483.64 to PG&E, of which \$20,483.64 will be allocated to ratepayers after a deduction of \$15,000 by PG&E for transaction costs. Advice Letter 3052-G was processed pursuant to Resolution ALJ-202. This Resolution is effective immediately.

BACKGROUND

Investigation (I.) 88-11-012 was opened to investigate the costs of PG&E's gas gathering facilities and whether PG&E should continue to own gas gathering facilities in California.¹ Decision (D.) 89-12-016 resolved outstanding issues in

¹ D.89-12-016 Finding of Fact (FOF) # 1.

the Commission's aforementioned investigation. The decision also stated the Commission's intent to phase out PG&E's gas gathering operations and to that end, the Commission encouraged PG&E to sell certain gathering facilities when it receives offers for those facilities which are at or above the net book value of the plant.² The Commission found that PG&E's ownership of gas gathering facilities may fail to promote efficient pricing policies and investment decisions and that gas gathering operations need not be provided by public utilities. The Commission also found that gas producers are more likely than PG&E to make economically efficient investment decisions regarding gathering plant and ratepayers will not be harmed by divestiture if PG&E receives net book value or more for gathering facilities.³

Public Utilities Code Section 851 requires public utilities proposing to sell, lease, dispose of, or otherwise encumber property to file an advice letter and obtain a resolution from the Commission approving the proposed transaction for qualified transactions valued at \$5,000,000 or less.⁴ Section 851 required the Commission to determine the types of transactions that would qualify for advice letter handling which the Commission did in Resolutions ALJ-186 and ALJ-202 discussed more below. Section 851 also requires the Commission to approve or deny the advice letter within 120 days of its filing by the applicant public utility absent protest or incomplete documentation.

On August 25, 2005, the Commission initiated a 24-month pilot program per Resolution ALJ-186 that provided for an expedited review and approval process for certain categories of proposed Section 851 transactions. On August 23, 2007, the Commission issued Resolution ALJ-202 extending and modifying the pilot program for an additional 36 months. Resolution ALJ-202 provides for an expedited process for certain transactions meeting criteria specified in Resolution

² D.89-12-016 page 2.

³ D.89-12-016 FOF # 22-23 & 25-26.

⁴ Section 851 will be amended, effective January 1, 2010, in compliance with AB 698 to delete the requirement that the Commission approve the advice letter by resolution and authorize the Executive Director or Industry Division Director to approve an uncontested advice letter for qualified transactions valued at \$5,000,000 or less.

ALJ-202. 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 sale, lease or disposal request.

On October 9, 2009, PG&E filed Advice Letter 3052-G pursuant to the pilot program requesting approval under Public Utilities Code Section 851 for the sale the Facilities and the assignment of associated land rights to Atlantic Oil Company. PG&E states that in December 2008, PG&E initiated a bidding process for PG&E's Atlantic Gas Gathering Pipeline System ("Atlantic System") which currently collects gas production for Atlantic Oil Company, with segments located in Colusa County, California. PG&E accepted Atlantic Oil Company's bid to purchase the Facilities, and it is this proposed sale for which PG&E seeks Commission approval. The Purchase and Sale Agreement was attached to PG&E's Advice Letter 3052-G filing.

The operating gas gathering pipeline system PG&E proposes to sell is located west of the Sacramento/Marysville division line in Colusa County and the pipeline varies from 2 inches to 8 inches in diameter, with a total length of approximately 13,400 feet. PG&E represents that the pipeline's condition is fair due to its age and its prior collection of wet production gas. PG&E believes the gas gathering pipeline system has no operational value to PG&E for the delivery of service to its customers.

PG&E also requests authority to be able to make adjustments to correct the records as may be revealed during the physical separation of the piping system, or during future operational activities, without necessitating a subsequent filing under Section 851. PG&E states that it has relied on historical data from maps and records to identify the Facilities to include in this sale and while these are deemed accurate, both PG&E and Atlantic recognize the complexity of the facilities and land rights being acquired.

NOTICE

Notice of AL 3052-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

PROTESTS

Advice Letter 3052-G was not protested.

DISCUSSION

Energy Division has reviewed PG&E's Advice Letter 3052-G and finds that it satisfies the criteria for inclusion in the pilot program and also satisfies the filing requirements specified in Resolution ALJ-202. Energy Division has also determined that the proposed transaction will not require environmental review by the CPUC as a lead agency or responsible agency under Section 15378 of the California Environmental Quality Act (CEQA) because the transaction is not a project under CEQA as the Facilities are merely being transferred from PG&E to Atlantic Oil Company after the Facilities are severed from the PG&E pipeline system at several locations. Also, PG&E states it is unaware of any anticipated change in the use of the Facilities.

The Facilities currently are used to receive Atlantic gas well production and upon completion of the sale, Atlantic plans to operate the gas gathering pipeline segment and its associated appurtenances as a private pipeline. Atlantic 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 Facilities for the collection of natural gas well production.

The proposed transaction will not have an adverse effect on the public interest or on the ability of the utility to provide safe and reliable service to customers at reasonable rates but rather 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 Facilities was \$210,551 and the accumulated straight line depreciation is \$199,942, resulting in a Present Net Book Value of \$10,609. The Present Fair Market Value for the Facilities was determined through a bidding process where PG&E accepted Atlantic Oil Company's bid of \$35,483.64, which is more than triple PG&E's Present Net Book Value.

Both the Fair Market Value and the proposed transaction payment by Atlantic Oil Company to PG&E of \$35,483.64 is less than the \$5 million threshold established for the pilot program. Decision 06-05-041 established a gain on sale policy for sales of depreciable assets that allocates 100% of the net gain to ratepayers. The financial proceeds from the transaction of \$35,483.64, less

\$15,000 in transaction costs (i.e. \$20,483.64), will be allocated to ratepayers as a credit through Accumulated Depreciation. The value of the proposed assigned land rights associated with the Facilities has little economic value and henceforth, also does not exceed the established \$5 million threshold.

The proposed transaction will not materially impact the ratebase of the utility and will not result in a significant physical or operational change in the facility. The proposed transaction does not warrant a more comprehensive review that would be provided through a formal Section 851 application.

PG&E's request is similar to numerous other CPUC-approved gas gathering facility sales⁵ and meets the long-established CPUC standard of not being adverse to the public interest. This sale regards a gas gathering system of no current operational value, and its sale will not interfere with PG&E's utility operations or provision of service to its customers. Rather, this sale is beneficial to PG&E's customers because it will alleviate the need for pipeline operations, maintenance and replacement/retirement which are not cost-justified.

With respect to PG&E's requested authority to be able to make adjustments to correct the records as may be revealed during the physical separation of the piping system, or during future operational activities, the Commission will require PG&E to submit a written notification to the Energy Division Director pursuant to General Order 96-B, Section 6, if such authority is needed.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2) and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is being waived .

FINDINGS AND CONCLUSIONS

⁵ See Resolutions G-3411, G-3412, and G-3416.

1. Decision 89-12-016 encouraged PG&E to sell gas gathering plants when it is offered net book value or more for the plant consistent with the Commission's view that PG&E should phase out its gas gathering operations.
2. Resolution ALJ-202 (August 2007) extended and modified Section 851 pilot program established in Resolution ALJ-186 (August 2005) which authorizes regulated utilities to request Commission approval by an Advice Letter of certain transactions involving the transfer and disposition of interests in utility property valued at \$5 million or less.
3. Decision 06-05-041 established a gain on sale policy for sales of depreciable assets that allocates 100% of the net gain to ratepayers.
4. On October 9, 2009, PG&E filed Advice Letter 3052-G requesting approval under Section 851 for the sale of segments of operating gas gathering pipelines (approximately 13,400 feet) with associated appurtenances in Colusa County and the assignment of associated land rights to Atlantic Oil Company for a one-time fee payment of \$35,483.64.
5. The Facilities currently are used to receive Atlantic gas well production and upon completion of the sale, Atlantic plans to operate the gas gathering pipeline segment and its associated appurtenances as a private pipeline.
6. Atlantic 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 Facilities for the collection of natural gas well production.
7. The activity proposed in the transaction will not require environmental review by the CPUC as a lead agency or responsible agency under the California Environmental Quality Act (CEQA) because the transaction is not a project under CEQA as the Facilities are merely being transferred from PG&E to Atlantic Oil Company after the Facilities are severed from the PG&E pipeline system at several locations.
8. PG&E is unaware of any anticipated change in the use of the Facilities.
9. The proposed transaction will not have an adverse effect on the public interest or on the ability of the utility to provide safe and reliable service to customers at reasonable rates but rather will serve the public interest by eliminating significant maintenance costs and potential replacement or retirement costs associated with the ownership of the Facilities.
10. The original cost of the Facilities was \$210,551 and the accumulated straight line depreciation is \$199,942, resulting in a Present Net Book Value of \$10,609.
11. The Present Fair Market Value for the Facilities was determined through a bidding process where PG&E accepted Atlantic Oil Company's bid of \$35,483.64, which is more than triple PG&E's Present Net Book Value.

12. Both the Fair Market Value and the proposed transaction payment by Atlantic Oil Company to PG&E of \$35,483.64 is less than the \$5 million threshold established for the pilot program.
13. The financial proceeds from the transaction of \$35,483.64, less \$15,000 in transaction costs (i.e. \$20,483.64), will be allocated to ratepayers as a credit through Accumulated Depreciation.
14. The value of the proposed assigned land rights associated with the Facilities has little economic value and henceforth, also does not exceed the established \$5 million threshold.
15. The proposed transaction will not materially impact the ratebase of the utility.
16. The proposed transaction will not result in a significant physical or operational change in the facility.
17. The proposed transaction does not warrant a more comprehensive review that would be provided through a formal Section 851 application.
18. As shown by the aforementioned findings and conclusions # 5 through # 17, the proposed transaction meets all of the criteria in Resolution ALJ-202 to be an eligible Section 851 transaction for the Section 851 advice letter pilot program.
19. Previous Commission Resolutions G-3411, G-3412, and G-3416 have approved requests by PG&E in 2007 and 2008 for the sale of similar segments of their operating gas gathering pipelines.

THEREFORE IT IS ORDERED THAT:

1. The request of PG&E under Public Utilities Code Section 851 for the sale of segments of operating gas gathering pipelines with associated appurtenances in Colusa County and the assignment of associated land rights to Atlantic Oil Company as requested in Advice Letter 3052-G is approved.
2. With respect to PG&E's requested authority to be able to make adjustments to correct the records as may be revealed during the physical separation of the piping system, or during future operational activities, the Commission will require PG&E to submit a written notification to the Energy Division Director pursuant to General Order 96-B, Section 6, if such authority is needed.

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 21, 2010; the following Commissioners voting favorably thereon:

/s/ Paul Clanon
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
Commissioners