

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



October 20, 2004

Advice Letter 2573-G

Ms Rose de la Torre
Pacific Gas and Electric Company
77 Beale Street, Room 1088
Mail Code B10C
San Francisco, CA 94105

Subject: Pipeline Capacity Contract Continuation

Dear Ms de la Torre:

Advice Letter 2573-G is effective October 27, 2004. A copy of the advice letter is sent herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clavin".

Director
Energy Division



Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
Internal: 223.4977
Fax: 415.973.7226
Cellular: 415.517.5067
Internet: BKC7@pge.com

September 17, 2004

ADVICE 2573-G

(Pacific Gas and Electric Company ID U 39 G)

Subject: Pipeline Capacity Contract Continuation – Decision 04-09-022

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby requests approval by the California Public Utilities Commission to continue three existing natural gas pipeline transportation contracts, which are used to transport natural gas supplies from Canada on behalf of PG&E's core gas customers. This advice letter is filed in compliance with the procedures set forth in Decision (D.) 04-09-022.

Purpose

As established by the Commission in D. 04-09-022 in Rulemaking (R.) 04-01-025, utility commitments to pipeline capacity may be approved by the Commission by means of an advice letter. The Commission emphasized that it has an obligation to review such contracts in a careful and diligent manner, and expressed a preference for all utility interstate pipeline capacity contracts to be submitted through application, advice letter or the expedited advice letter process, to be available for review and approval. Therefore, PG&E requests approval of the capacity arrangements described below via the standard advice filing process.¹ In addition, PG&E has consulted with the Office of Ratepayer Advocates (ORA), and TURN and has received their verbal concurrence that renewal is reasonable and necessary.

Description of Contracts

PG&E purchases significant quantities of natural gas sourced from Canada's Western Sedimentary Basin. PG&E holds Canadian and U.S. interstate pipeline capacity to transport those gas supplies to PG&E's interconnection at the California-Oregon border. PG&E has purchased and transported Canadian gas supplies to California since approximately 1961. The northern pipeline capacity

¹ The subject contracts are provided to the Energy Division and ORA, under Public Utilities Code Section 583. Other applicable terms and conditions are contained within pipeline tariffs and are available directly from the pipelines.

path includes transmission capacity on Gas Transmission Northwest (GTN),² through Oregon, Washington and Idaho, TransCanada's British Columbia (B.C.) System and NOVA Gas Transmission Ltd. (NOVA), within the province of Alberta. This northern capacity path provides access to one of the most vibrant and liquid natural gas markets in North America. On average, over 10 Bcf per day of gas is traded on the NOVA system. Canadian gas supplies have been, and are expected to, continue to be consistently competitive with gas supplies from the U.S. Southwest. The core usage of the northern path has exceeded a 90% load factor in each year since the beginning of PG&E's Gas Accord in 1998.

The table below describes the specific contracts that PG&E seeks Commission approval to continue.

Table I Pipeline Contract Information

Pipeline	Contract Quantity Dth/d	Estimated Annual Cost*	Firm Rates ³ \$/Dth	Expiration Date
Gas Transmission Northwest (GTN)	609,968	\$56,733,810	.2649	10/31/05
TransCanada B.C. System	583,576	\$10,453,278	.0519	10/31/05
NOVA Gas Transmission (NOVA)	593,110	\$28,475,013	.1315	12/31/05

*Estimated annual costs in US dollars based on current reservation and variable rates, excluding fuel charges.

Renewal Intent

The GTN contract and the TransCanada B.C. System contract do not terminate unless the pipelines receive advance notice in writing of PG&E's intent to terminate. The "evergreen provisions" in these contracts continue for terms of one year, absent any action by PG&E. In other words, if PG&E does nothing, the contracts will continue. Upon approval of this filing, PG&E intends to take no action and allow the automatic one-year extensions for each of these contracts, which will extend their terms through October 31, 2006. If the Commission determines that PG&E should terminate these contracts, GTN and TransCanada B.C. Systems must receive PG&E's written notice by October 31, 2004.

PG&E must notify NOVA of its intent to renew the NOVA contract. PG&E intends to exercise the renewal for one year, extending the term through December 31, 2006, by notifying NOVA prior to December 31, 2004.

² At the present time, GTN is an affiliate of PG&E, though a sale of GTN to TransCanada should be completed in the very near future. Because of GTN's current affiliate status, the expedited pre-approval process is not available for this capacity continuation, per the discussion at mimeo pages 22-23 of D. 04-09-022.

³ Includes fixed demand charges and volumetric rates (fuel costs are not included)

PG&E strongly urges the Commission to allow the contracts to continue for an additional year pursuant to the contracts' evergreen provisions. In the short-term, Canada will by necessity remain the predominant supply source for PG&E's core customers,⁴ over the longer term the gas market outlook is highly uncertain and contingent on the outcome of several still-speculative large gas development projects such as LNG infrastructure and gas infrastructure allowing access to supplies in the Canadian arctic, and ultimately Alaska. Given the level of uncertainty, the option⁵ provided by the evergreen clauses is extremely valuable and should not be jeopardized at this juncture by allowing the contracts to terminate.

Compliance with D. 04-09-022

Continuation of this existing cost-effective capacity conforms to the Findings of Fact (FOF) and Conclusions of Law pertaining to contract approvals in D. 04-09-022. Specifically, submittal of this advice letter provides an opportunity for the Commission to exercise its authority and obligation to ensure that approval is consistent with the interests of PG&E's ratepayers, as expressed by FOF 12, page 85. As mentioned above, PG&E has included Energy Division, ORA and TURN in the approval process, per FOF 15, page 85.

This filing will not affect any other rate or charge, cause the withdrawal of service, or conflict with any other rate schedule or rule.

Protests – Requested Shortened Protest Period

Given the limited time between the filing date of this advice letter and October 31, 2004, the date by which GTN and TransCanada B.C. must be notified if the Commission were to decide in favor of terminating the contracts, PG&E is sending concurrently with this advice letter, a letter to the Commission's Executive Director requesting that the normal 20-day comment period be shortened to 10 days.

Anyone wishing to protest this filing may do so by sending a letter by **September 27, 2004**, which is **10 days** from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

⁴ Even under a hypothetical market scenario in which Canadian supplies were to lose their competitive advantage, significant changes to the Northern Path holdings could not, in all likelihood, be accomplished prior to October 2006. Under today's circumstances, the core's full allocation of Baja capacity on the California Gas Transmission (CGT) system is needed to meet core demand, particularly during the winter heating season. Any significant shift in the core's supply mix away from Canada and towards the Southwest would require access to Baja capacity currently held and used by other shippers on CGT.

⁵ The evergreen provision is analogous to a financial option. It gives the contract holder the right to continue the contract for one year but not the obligation. This flexibility or "optionality" has real monetary value. Moreover, because the evergreen clause is embedded in otherwise standard contracts, the option is said to be free since no additional premium is paid to the pipeline companies for the rights conferred by the evergreen provisions.

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Effective Date

Absent any subsequent directives by the Executive Director, PG&E requests that this filing be approved on, **October 27, 2004**, which is 40 days after the date of this filing. PG&E will implement this filing on or before the pipeline expiration dates listed in the table, above, immediately following Commission approval of this filing.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list, and the parties on the service list for the Order Instituting Rulemaking R. 04-01-025. Address changes should be directed to Rose de la Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs/>



Director, Regulatory Relations

cc: Service List--Order Instituting Rulemaking (R.) 04-01-025

**PGE Gas Advice Filing
List
General Order 96-A, Section III(G)**

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Applied Power Technologies
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Blue Ridge Gas
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Chevron Texaco
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Palo Alto
City of Redding
CLECA Law Office
Constellation New Energy
CPUC
Creative Technology
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
Dept of the Air Force
DGS Natural Gas Services
DMM Customer Services
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynergy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton
Heeg, Peggy A.
Hogan Manufacturing, Inc
House, Lon
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
J. R. Wood, Inc
JTM, Inc
Kaiser Cement Corp
Korea Elec Power Corp
Luce, Forward, Hamilton & Scripps
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
Northern California Power Agency
Office of Energy Assessments
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Price, Roy
Product Development Dept
Provost Pritchard
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Simpson Paper Company
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
TJ Cross Engineers
Transwestern Pipeline Co
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Cost Management LLC
Utility Resource Network
Wellhead Electric Company
Western Hub Properties, LLC
White & Case
WMA