

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



May 9, 2005

Advice Letter 2624-G

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

Subject: Expedited advice letter requesting pre-approval of El Paso pipeline capacity contracts

Dear Ms de la Torre:

Advice Letter 2624-G is effective May 9, 2005. A copy of the advice letter is returned herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "S. H. Gallagher".

Sean H. Gallagher, Director
Energy Division



April 18, 2005

ADVICE 2624-G

(Pacific Gas and Electric Company ID U 39 G)

**Re: Expedited Advice Letter Requesting Pre-Approval of El Paso Pipeline
Capacity Contracts**

Public Utilities Commission of the State of California

Pursuant to the California Public Utilities Commission (Commission) expedited advice letter procedures adopted in D. 04-09-022 in Rulemaking (R.) 04-01-025, PG&E hereby requests Commission pre-approval of three proposed restructured Transportation Service Agreements (TSAs) with El Paso Natural Gas Company (El Paso) for transportation of gas supplies on behalf of PG&E's core gas customers.¹

Purpose

The purpose of this expedited advice letter is to request Commission pre-approval of three TSAs between El Paso and PG&E by way of the Expedited Advice Letter approval process.

Pre-approval of this capacity is vital to fulfill the objectives of D. 04-09-022, which are to foster the goals of the Energy Action Plan.² Those objectives include ensuring adequate, reliable, and reasonably-priced natural gas supplies for California's consumers and taxpayers. PG&E confirms that the Commission's Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) have been consulted and both recommend Commission approval. PG&E is requesting Commission approval by **May 9, 2005**, consistent with the comment and evaluation period provided in D. 04-09-033, (pp. 18, 26).

Proposal For Restructuring the El Paso Contracts

Consistent with the various communications, discussions, and the interstate pipeline capacity strategy PG&E shared with Energy Division (ED), ORA, and TURN, PG&E seeks Commission approval to restructure all three of its existing El Paso transportation contracts, and upon further consultation with ORA, TURN and ED, to potentially match any bid that may arise in the Federal Energy Regulatory Commission (FERC) posting process in order to retain the capacity.

¹ The terms and conditions under the proposed TSAs will be posted on El Paso's electronic bulletin board as a prearranged package and will be subject to an Open Season bidding process in accordance with El Paso's tariff procedures. Assuming PG&E is awarded the package, PG&E and El Paso will execute new TSAs. The subject TSAs will be provided to ORA and the Energy Division under CPUC Section 583, and to TURN on a confidential basis.

² D. 04-09-022, page 2.

Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

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

PG&E currently holds three TSAs with El Paso, for a total of 198,957 million cubic feet (Mcf) per day, with expiration dates between April 30, 2005, and March 31, 2007. The largest of the three agreements, Contract 9Q7P for 97,752 Mcf per day, expires April 30, 2005. PG&E has exercised its right of first refusal (ROFR) in order to ensure that it retains the volumes associated with Contract 9Q7P. As specified by FERC policy and El Paso's tariffs, an Open Season was conducted for contract term length, at El Paso's maximum California reservation rates. There were no bids. Therefore, PG&E and El Paso were free to negotiate new terms, including rate and contract length. PG&E has completed negotiating with El Paso regarding the renewal of Contract 9Q7P as part of a restructuring of the three contracts³.

PG&E proposes the following restructuring of its existing El Paso capacity contracts, based on general capacity market conditions, the competitive alternatives available to PG&E, and El Paso's response to PG&E's initial proposal. Table I presents a comparison of the existing contract terms with the proposed new terms.

Table I
Existing vs. Proposed El Paso Contract Terms

Existing TSAs					Proposed TSAs							
Contract #	End Date	Term (yrs)	Volume* (Mcf/Day)	Daily Rates (per Dth)		End Date	Term (yrs)	Volume (Mcf/Day)	Daily Rates (per Dth)	Total Cost Proposed (\$million)	Total Cost Max Tariff (\$million)	Savings over Max Tariff (\$million)
9Q7P	4-30-05	< 1	97,752	\$0.312	TSA I	5-31-07	2	25,000	\$0.255	4.65	5.65	1.00
9R2C	3-31-06	1	62,104	\$0.215	TSA II	5-31-08	3	90,000	\$0.270	26.60	30.55	3.95
9NK7	3-31-07	2	39,101	\$0.312	TSA III	5-31-10	5	85,000	\$0.280	43.43	48.08	4.65
Total			198,957					200,000		74.68	84.28	9.60
Weighted Average Rates				\$0.282					\$0.272			

* The existing contract volumes shown above reflect average annual volumes. The actual volumes fluctuate monthly and are split with 77% receipt points in the San Juan basin and the remaining 23% in the Permian Basin (Waha). The volumes for the proposed TSAs remain the same throughout the term of the contracts and are sourced entirely from the San Juan Basin.

Pursuant to El Paso's Tariff Section 28, El Paso will conduct an Open Season bidding process for the proposed TSAs. The bid evaluation will be weighted 100% to highest rate, based on a single bid for the total quantity of the three TSAs (200,000 Mcf/day). At the end of the four (4)-day Open Season, PG&E is awarded the capacity if there are no bidders. Should El Paso receive a higher offer from a bidding shipper, PG&E has two (2) days to match the offer and be awarded the capacity.⁴ The annual contract costs at maximum reservation rates are shown in Table I, above, to illustrate the potential maximum total annual costs per contract, should it become necessary to consider whether to match competing offers at higher rates in the ensuing Open Season.

³ PG&E has requested, by a separate letter to Energy Division, and with the concurrence of ORA and TURN, approval under the Commission's pre-approval process to "roll-over" the terms of expiring Contract 9Q7P for one month in order to bridge the period between expiration of Contract 9Q7P and the beginning date of the replacement contracts described in this Advice Letter.

⁴ El Paso's tariff specifies a minimum matching period of ½ hour. El Paso has agreed to allow PG&E two days to match any offer.

Should El Paso receive a bid for a higher rate, PG&E will confer with ORA, TURN and Energy Division during this 2-day period to discuss PG&E's potential response to a higher offer before proceeding.

The change of receipt points from the existing Waha to San Juan will require a change to PG&E's rate Schedule G-CT—*Core Aggregation Service*, to accommodate CTA acquisition of a proportional share of El Paso capacity from each receipt point. This change will be addressed in a separate advice letter.

In addition, the change of receipt points from the existing Waha to San Juan may necessitate minor modifications to PG&E's Core Procurement Incentive Mechanism (CPIM) to accommodate benchmark and sequencing changes. PG&E will discuss potential modifications with ORA and implement any necessary changes through a Memorandum of Understanding.

Additional Contract Terms

Other contract terms for the three TSAs include:

- PG&E to pay El Paso the lesser of the negotiated reservation rates specified in Table I, or the effective maximum California demand rate applicable to Topock (currently \$0.31 per Dth).
- Discount rates apply to secondary receipt points in the San Juan Basin and secondary delivery points at Topock.⁵
- PG&E will receive a contractual ROFR option on each contract.

This restructuring offers the following benefits, as outlined in PG&E's previous communications with Energy Division, ORA and TURN:

- Discounted transportation rates for core customers. The proposed restructured arrangement offers savings compared to the tariff rates of approximately \$ 9 million over the five-year term.
- Rate certainty for up to five years. (El Paso tariff increases are likely in 2006.)
- Greater access to the currently lower-cost San Juan basin. This creates savings in commodity costs and additional brokering revenue that lower customer costs up to an additional \$2.2 million per year. These savings continue through any contract renewals regardless of any changes to the negotiated or tariff rates.
- Reduced frequency of contract renegotiations (which have been approximately once a year up to now).
- Ability to take advantage of future supply or transportation opportunities as these flexible contract terms expire.

⁵ The rate for transportation utilizing secondary San Juan receipt and Topock delivery points for TSA 1 will be the higher of the negotiated rate or \$.275 per Dth. The rates for transportation utilizing secondary San Juan receipt and Topock delivery points under TSA II and III will be reflected in the negotiated rates.

Alternative Competitive Transportation Market

PG&E's Gas Procurement Department continually monitors and evaluates the market value of pipeline capacities to the California border. It observes and analyzes daily, monthly and longer-term basis differentials (basin-to-California border commodity price spreads) as indicators of capacity market value, and routinely searches pipeline electronic bulletin boards to observe the value of capacity releases. PG&E gas traders also engage in capacity transactions by offering PG&E-contracted interstate pipeline capacity for release when it is not expected to be needed to transport supplies to meet core loads. These activities and observations enable PG&E to readily assess the value of capacity alternatives.

However, in order to evaluate the competitiveness of the El Paso offer, PG&E had discussions with other pipelines and third party shippers regarding capacity on Southwest and Rocky Mountain pipelines. In addition, PG&E received a proposal from another pipeline company that PG&E compared to the terms and conditions of the proposed El Paso arrangement. Based on existing market conditions and the results of these discussions, PG&E has determined that the terms and conditions of this El Paso arrangement offer significant economic and reliability benefits for PG&E's core gas customers.

In addition, PG&E believes that the three restructured TSAs are similar to Southern California Gas Company's (SoCalGas) Precedent Agreement as outlined in their Expedited Advice Letter No. 3443, dated December 22, 2004. PG&E's average rate for all three contracts compares favorably to that attained by SoCalGas, and PG&E's three TSAs provide similar benefits – discounted reservation rates, rate certainty during the terms of the agreements, and the flexibility of staggered contract end dates.

Concurrence by ORA and TURN

PG&E shared its general pipeline capacity strategy and the specific renegotiation details with ORA and TURN. PG&E has received their concurrence to proceed with the offer by El Paso.

Effective Date

In accordance with the comment and evaluation period provided in D.04-09-033, and assuming no protests are received to this filing, PG&E requests approval of this filing effective **May 9, 2005**.

Following approval, El Paso will post the restructured contracts as a prearranged deal. Although not expected, if a higher bid should be received at that time, PG&E has the opportunity to match any bids and will confer with ORA, TURN and ED before proceeding.

Protests – 10 day Expedited

Anyone may protest this expedited advice letter by sending a letter to the Commission by **April 28, 2005**, 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:

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: PGETariffs@pge.com

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 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>

Brian K. Cherry /sr

Director, Regulatory Relations

cc: Richard A. Myers – CPUC Energy Division
Wendy Maria Phelps - CPUC Energy Division
Jonathon Bromson – CPUC Legal Division
Mark Pocta - CPUC Office of Ratepayer Advocates
Jacqueline Greig - CPUC Office of Ratepayer Advocates
Marcel Hawiger - The Utility Reform Network
Service list – R. 04-01-025

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Susan Shaw

Phone #: (415) 973-7375

E-mail: sxs9@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2624-G**

Subject of AL: Expedited Advice Letter Requesting Pre-Approval of El Paso Pipeline Capacity Contracts

Keywords (choose from CPUC listing): **CONTRACT, CAPACITY, TRANSPORTATION**

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: Not applicable

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Resolution Required? Yes No

Requested effective date: **05/09/2005**

No. of tariff sheets: None

Estimated system annual revenue effect (%): _____

Estimated system average rate effect (%): Approx. \$9 million savings for core customers over 5-year contract term and \$2.2 million annual savings in commodity costs and brokering revenue.

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: None

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

**CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
jjr@cpuc.ca.gov and jnj@cpuc.ca.gov**

**Pacific Gas and Electric Company
Attn: Brian K. Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com**

¹ Discuss in AL if more space is needed.

**PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

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