

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



June 20, 2005

Advice Letter 2633-G

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

Subject: Pre-approval of El Paso Pipeline capacity contracts

Dear Ms de la Torre:

Advice Letter 2633-G is effective June 17, 2005. A copy of the advice letter is returned herewith for your records.

Sincerely,

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

Sean H. Gallagher, Director
Energy Division



**Pacific Gas and
Electric Company®**

May 27, 2005

ADVICE 2633-G

(Pacific Gas and Electric Company ID U 39 G)

Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code 810C
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

**Re: Expedited Pre-Approval of El Paso Pipeline Capacity Contracts -
Request to Revise Implementation Date as Authorized in Advice
2624-G**

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) submits this filing to request Commission pre-approval to extend the implementation dates of three contracts for transportation of gas supplies between El Paso Pipeline Company (El Paso) and PG&E from the dates previously authorized by the Commission in Advice 2624-G on May 9, 2005.

Purpose

In Advice 2624-G, the Commission authorized PG&E to enter into three restructured Transportation Service Agreements (TSAs) with El Paso, for transportation of natural gas supplies on behalf of PG&E's core gas customers. The subject authorization was granted pursuant to the expedited advice letter procedures adopted in D. 04-09-022 in Rulemaking (R.) 04-01-025.

El Paso was required to post the new capacity arrangements for competitive bidding under Federal Energy Regulatory Commission (FERC) rules. Because of an unanticipated delay resulting from El Paso's bidding process, PG&E will not be able to consummate the authorized transportation contracts according to the schedule described in Advice 2624-G. Specifically, there is expected to be a one- to two-month delay in executing and commencing service under the new contracts. The end dates of the contracts likewise will be extended for a corresponding one to two months beyond the end dates specified in Advice 2624-G. The new dates are shown on revised Table 1, below. There are no other modifications made to the arrangements approved in Advice 2624-G.

PG&E has consulted with the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) about this minor modification to the El Paso arrangements. Both ORA and TURN have confirmed that they continue to support PG&E's execution of the subject transportation contracts with El Paso.

PG&E also is authorized to represent that Kern River Gas Transmission Company (Kern), which protested Advice 2624-G, does not oppose the instant request for pre-approval for different dates for the subject El Paso contracts. Kern River has

PG&E also is authorized to represent that Kern River Gas Transmission Company (Kern), which protested Advice 2624-G, does not oppose the instant request for pre-approval for different dates for the subject El Paso contracts. Kern River has asked PG&E to state that Kern River's consent to this minor change in the contract effective dates does not mean that Kern River has withdrawn its original position in opposition to the proposed El Paso arrangements as stated in its earlier protest.

The Restructured El Paso Contracts

PG&E currently holds three TSAs with El Paso, for a total of 198,957 million cubic feet (MMcf) per day, with expiration dates between April 30, 2005, and March 31, 2007. The largest of the three agreements, Contract 9Q7P for 97,752 MMcf per day, originally expired April 30, 2005. PG&E 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 completed negotiating with El Paso regarding the renewal of Contract 9Q7P as part of a restructuring of the three contracts.¹

In Advice 2624-G, PG&E requested Commission pre-approval to restructure its existing El Paso capacity contracts, for a total of about 200 MMcf per day, based on general capacity market conditions, the competitive alternatives available to PG&E, and El Paso's response to PG&E's initial proposal. The terms agreed to by El Paso were reflected in Table 1 on page 2 of Advice 2624-G.

Subsequent to the Commission's approval of Advice 2624-G, El Paso informed PG&E that complications arising under FERC rules governing the posting of the capacity for competitive bidding would make it impossible to consummate the three new TSAs on the precise schedule set forth in Table 1 of Advice 2624-G. Accordingly, PG&E is requesting Commission pre-approval for a one- to two-month delay in the consummation of the subject TSAs. PG&E likewise seeks approval for a corresponding extension of the proposed end dates.

Below is a revised version of Table 1, showing the proposed new start dates and end dates. All other aspects of the proposed TSAs remain unchanged.

¹ PG&E requested, by separate letters to Energy Division, and with the concurrence of ORA and TURN, approval under the Commission's pre-approval process to "roll-over" the capacity covered by expiring Contract 9Q7P for two consecutive one-month periods in order to bridge the period between expiration of Contract 9Q7P and the beginning date of the replacement contracts described in this letter

**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	Between 6-30-07-8-30-07	2	25,000	\$0.255	4.65	5.65	1.00
9R2C	3-31-06	1	62,104	\$0.215	TSA II	Between 6-30-08-8-30-08	3	90,000	\$0.270	26.60	30.55	3.95
9NK7	3-31-07	2	39,101	\$0.312	TSA III	Between 6-30-10-8-30-10	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. The term each of these contracts will remain as specified, the end dates may shift depending upon the actual start date.

The proposed TSAs will provide PG&E and its core gas customers the same benefits described in Advice 2624-G. As noted at the outset, the only modification in this filing for which Commission authorization is requested consists of the extension of the starting and ending dates for the three contracts.

Receipt Point Changes

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.²
- 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.

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.

² 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.

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.

Effective Date

In accordance with the comment and evaluation period provided in D.04-09-022, and assuming no protests are received to this filing, PG&E requests Commission pre-approval of this filing effective **June 17, 2005**, which is 21 days after filing.

If, after posting the restructured contracts for competitive bidding, El Paso were to receive a higher bid, PG&E will have the opportunity to match any bids. PG&E will confer with ORA and TURN before deciding whether to match any bid, and will seek approval from the Energy Division before proceeding.

Protests – Ten (10) -day Expedited Period

Anyone may protest this expedited advice letter by sending a letter to the Commission by **June 6, 2005**, which is **ten (10) days** from the date of this filing, in accordance with the expedited protest period authorized in D. 04-09-022. Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

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>

Handwritten signature of Brian H. Cherry in cursive script.

Director, Regulatory Relations

cc: Richard A. Myers - Energy Division
Wendy Maria Phelps - Energy Division
Jonathan Bromson - Energy Division
Mark Pocta - Office of Ratepayer Advocates
Jacqueline Grieg - 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) #: **2633-G**

Subject of AL: Expedited Pre-Approval of El Paso Pipeline Capacity Contracts - Request to Revise Implementation Date as Authorized in Advice 2624-G

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: Revises previously approved Advice 2624-E

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

Resolution Required? Yes No

Requested effective date: **06/17/2005**

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
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Bartle Wells Associates
Blue Ridge Gas
Bohannon Development Co
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
Cellnet Data Systems
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Constellation New Energy
Cooperative Community 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

DGS Natural Gas Services
DMM Customer Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynegy 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
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton
Heeg, Peggy A.
Hitachi Global Storage Technologies
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
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
North Coast Solar Resources
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
Praxair, Inc.
Price, Roy
Product Development Dept
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
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