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DRAFT
May 2, 2012

Advice 3246-G-A
(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

Subject: Supplemental Advice Letter - Compliance Modifications to the Core Procurement Incentive Mechanism

Pacific Gas and Electric Company (PG&E) hereby submits for filing this supplemental advice letter requesting conforming revisions to its Core Procurement Incentive Mechanism (CPIM) to integrate the Ruby Pipeline (Ruby) and Rocky Mountain supplies, and a separate revision to eliminate the Silverado Path from the Benchmark Sequence, as previously authorized by the California Public Utilities Commission (Commission). This supplemental advice letter supersedes in its entirety PG&E's initial Advice Letter 3246-G, by revising Modification 10) below, to reflect a two-month commodity benchmark transition, in which index prices published two months prior to gas flow are used to set the gas source sequence. PG&E and the Division of Ratepayer Advocates (DRA), who protested the original Advice Letter, have agreed to the terms detailed in this supplemental advice letter. DRA has authorized PG&E to inform the Commission that it withdraws its earlier protest, and fully supports the modifications stated below.

Background

In Decision (D.) 08-11-032, the Commission authorized PG&E's firm transportation arrangement with Ruby Pipeline for the Core portfolio, and adopted "conforming revisions" described below that established specific parameters by which the CPIM benchmark and actual costs are to be modified to reflect the costs of Ruby transportation and access to Rocky Mountain natural gas supplies.[1] In approving PG&E's proposed CPIM revisions, the Commission noted that there was no opposition by other parties. Further, the Commission noted that the Division of Ratepayer Advocates (DRA) was the only party to respond to PG&E's proposed modifications, and "DRA supports PG&E's proposal." Finally, the Commission noted that "All remaining commodity sequencing is unchanged," and that "all other aspects of CPIM would remain unchanged." Accordingly, this Advice Letter only proposes to implement the conforming revisions adopted in D.08-11-032.

[1] Decision 08-11-032, pages 46-48, Findings of Fact 11, Conclusion of Law 7, and Ordering Paragraph 3.xi.

In a separate matter, this Advice Letter formalizes the Commission's adoption and approval of the Settlement Agreement in PG&E's Application (A.) 09-09-013 (Gas Accord V) in D.11-04-031, authorizing elimination of Core's allocation of annual firm PG&E Silverado Path pipeline capacity (Schedule G-AFT) from the CPIM sequence[2].

The resulting modifications are fully described below.

Specific CPIM Modifications Adopted by the Commission

Elimination of the Silverado Path from the benchmark will occur retroactively effective May 1, 2011, in conjunction with Gas Accord V implementation. The specific modifications are:

1. The PG&E Core allocation of 1.0 thousand decatherms per day (MDth/day) of Silverado Path PG&E Pipeline capacity (Schedule G-AFT) is eliminated from the benchmark;

2. California – sourced gas supplies (which utilized the Core's former capacity assignment on the Silverado Path) will be eliminated from the purchasing sequence.

The remaining conforming modifications integrating Ruby will be implemented on November 1, 2011, in conjunction with the start date of PG&E's Ruby contract for the core portfolio, as approved in D.08-11-032:

3. The CPIM Benchmark will be adjusted to reflect a reduction of 250 MDth/day of pipeline capacity from Canada (Gas Transmission Northwest capacity and the associated upstream amounts on Foothills Pipeline and Nova Gas Transmission, Ltd.), and the addition of 250 MDth/day of capacity via Ruby Pipeline to the Rocky Mountain supply area;

4. The CPIM Benchmark will include a dollar amount equal to the actual firm transportation rates that PG&E pays under the Ruby Pipeline Precedent Agreement, which will be $0.68/Dth or less, plus all tariff charges for fuel and L&U gas, and any FERC approved surcharges, to the extent allowed pursuant to Section 3(b) of the Precedent Agreement;[3]

[2] As proposed in PG&E's Prepared Testimony, A.09-09-013, Chapter 12, Section B.2, and evidenced by absence of a Silverado capacity assignment in D.11-04-031, Appendix A, Table A-1.

[3] Section 3(b) of the Precedent Agreement states that PG&E's Core Gas Supply will pay an Anchor Shipper Negotiated Monthly Reservation Rate, that is the lower of (A) a rate equivalent to $0.68/Dth or (B) a rate that is five percent (5%) lower than the initial recourse reservation rate approved by FERC as set forth in the Ruby Pipeline tariff, for service from Opal, Wyoming, to Malin, Oregon or (C) any lower rate paid by similarly situated shippers.

5. Ruby Pipeline capacity will be treated the same as all other firm interstate transmission capacity held for the Core portfolio under the current CPIM mechanism;

6. Any revenue resulting from the temporary release of Ruby Pipeline capacity will be credited against actual pipeline costs;

7. The CPIM Commodity Benchmark will include the “Rocky Mountain, Northwest Pipeline Corp.” monthly index as published in Platt’s Inside FERC’s Gas Market Report, to reflect Rocky Mountain purchases delivered into the Ruby Pipeline;

8. In the future PG&E and DRA may substitute another published Rocky Mountain price index if the parties determine and agree that an alternative index for deliveries into the Ruby Pipeline is more appropriate;

9. The current two 100 MDth/day firm annual supply blocks will be replaced by three Annual Firm Supply Blocks of 75 MDth/day each from the Rocky Mountain Supply Area, the AECO “C” Hub in Alberta, and the San Juan Basin and will be deemed to be the first flowing gas sequenced on any given day;

10. All remaining supplies will be sequenced on a least cost basis, determined by monthly gas price indices from the AECO “C” Hub in Alberta, the Rocky Mountain Supply Area, and the San Juan Basin:
    a. The sequence will utilize a two-month transition to accommodate price changes between supply areas;
    b. The two-month transition from each supply area creates a six (6) segment purchasing sequence, which is set just after the first of the month prior to the gas flow month (“one month lag”);[4]
    c. The sequence may vary from month-to-month, depending on actual price relationships between the supply areas as determined by published price indices used in constructing the CPIM sequence; and
    d. The resulting details of the purchasing sequence will be reported, along with other pertinent CPIM information, in the Cumulative Monthly CPIM Reports and PG&E’s Annual CPIM Performance Reports, provided to DRA and the Energy Division on a confidential basis.

All remaining commodity sequencing is unchanged.

[4] This “one month lag” is consistent with how the segment purchasing sequence has been set in prior years.

Protests

Anyone wishing to protest this filing may do so by sending a letter to the address below by **May 22, 2012**, which is twenty (20) days from the date of this filing.

Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jnj@cpuc.ca.gov and mas@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
Vice President, Regulation and Rates
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-6520
E-mail: PGETariffs@pge.com

Effective Date

PG&E requests approval of this filing by the Commission by June 1, 2012. The modifications will become effective **November 1, 2011, corresponding to PG&E's CPIM Year 18** .

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

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for A.09-09-013. Address changes to the General Order 96-B service list should be directed to email PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at **http://www.pge.com/tariffs**.

Vice President, Regulation and Rates

cc: Richard A. Myers - Energy Division
Franz Cheng - Energy Division
Belinda Gatti - Energy Division
Jonathon Bromson - Legal Division
R. Mark Pocta - Division of Ratepayer Advocates
David Peck - Division of Ratepayer Advocates
Pearlie Sabino - Division of Ratepayer Advocates
Marcel Hawiger - The Utility Reform Network
Service list for A.09-09-013