Memorandum of Understanding
Between PG&E's Core Gas Supply and the CPUC's Division of Ratepayer Advocates
April 10, 2012

Modifications to the Core Procurement Incentive Mechanism Incorporating the Ruby Pipeline, and Eliminating the Silverado Path from the Benchmark Sequence.

Basis for Modifications

This Agreement between Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates (DRA) formalizes the conforming modifications authorized by the California Public Utilities Commission (Commission) to integrate Ruby Pipeline transportation costs and Rocky Mountain natural gas supplies into the Core Procurement Incentive Mechanism (CPIM). In Decision (D.) 08-11-032, the Commission authorized PG&E's firm transportation arrangement with Ruby Pipeline for the Core portfolio, and established parameters by which the Core Procurement Incentive Mechanism (CPIM) benchmark and actual costs would be modified to reflect the costs of Ruby Pipeline transportation and access to Rocky Mountain natural gas supplies.[1]

This Agreement also formalizes the elimination of the Core's allocation of annual firm PG&E Silverado path capacity from the CPIM sequence, as authorized by 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.[2]

Modifications Agreed to by PG&E and DRA

Effective November 1, 2011 (CPIM Year 19) unless otherwise stated, DRA and PG&E hereby agree to modify the CPIM according to the following parameters:

Pipeline Capacity Modifications and Associated Cost Adjustments

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) will be eliminated from the benchmark (effective May 1, 2011, in conjunction with Gas Accord implementation);

2. 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;

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

[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. 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)(iii) of the Precedent Agreement;[3]

4. 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;

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

Natural Gas Commodity Index Change

6. 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;

7. 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;

Natural Gas Purchasing Sequence Modifications

The CPIM monthly purchasing assumed benchmark sequence will be modified according to the following:

8. California – sourced gas supplies (which utilized the Core's former capacity assignment on the Silverado Path) will be eliminated from the purchasing sequence (effective May 1, 2011);

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;

[3] 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.

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;[4]
    b. The two-month transition from each supply area creates a six (6) segment purchasing sequence derived by PG&E and DRA, which is set just after the first of the month prior to the gas flow month ("one month lag");
    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.

These CPIM modifications shall be effective beginning on November 1, 2011, except for the changes related to Silverado Path capacity which are implemented May 1, 2011.

Agreed to by:

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Roy M. Kuga **Date**
VP – Energy Supply Management, PG&E

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R. Mark Pocta **Date**
Program Manager, Division of Ratepayer Advocates

[4] The two-month transition period allows PG&E to maintain a diverse portfolio of supplies while minimizing the need to unwind supply arrangements, which may be costly and impractical, and continues to provide the opportunity to release any unneeded transportation capacity. The transition period will continue to utilize monthly index prices from the two months prior to the supply month to set the pipeline sequence.