

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

Three Basin Sequencing Guidelines

Beginning on November 1, 2011, PG&E's Core Gas Supply (CGS) began purchasing gas supplies using its new contract on the Ruby Pipeline. This will require modifications to PG&E's Core Procurement Incentive Mechanism (CPIM) to allow for sequencing gas supplies from three basins – AECO, the San Juan Basin and the Rocky Mountains Supply Area. DRA's Natural Gas Branch (DRA) and CGS have reached agreement on the process to sequence least cost supplies from these three supply areas when creating the CPIM benchmark. The procedure is outlined in the following slides.

This approach will be utilized beginning with CPIM Year 19 (beginning November 1, 2011) by PG&E in reporting its CPIM results and by DRA in evaluating them. This procedure will remain in use until PG&E and DRA agree on a change to it.



Core Gas Supply
Simplified Three Basin CPIM Benchmark Sequence

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Benchmark Sequence - General Guidelines

- The Sequence will incorporate a 2 month transition
- Three firm blocks of 75 MDth/d at the basin sequenced first, beginning with Rockies, then AECO, and then San Juan
- Any capacity mismatch at Kingsgate is sequenced after the firm blocks
- Topock sourced supply is always sequenced after supply from the three basins
- The sequence will look at basin prices for Rockies (R), AECO (A) and San Juan (S) including incremental costs to the PG&E Citygate
- For now, use Inside FERC's Rocky Mountain into Northwest Pipeline for the commodity index



Benchmark Sequence – What Changes?

The benchmark changes are in the following areas:

-- first gas to sequence --

1. Rockies / Ruby Firm Block (75 MDth/d)
2. AECO Firm Block (~~100~~ 75 MDth/d)
3. San Juan Firm Block (~~100~~ 75 MDth/d)
4. ~~California Firm (1 MDth/d)~~ eliminated
5. Kingsgate Mismatch (0 to 10 MDth/d)
6. Rockies / Ruby Sequence (175 MDth/d)
7. AECO Sequence (~~510~~ - 285 MDth/d)
8. San Juan Sequence (~~251~~ → 276 MDth/d)
9. Topock Monthly (0-321 MDth/d Dec-Feb)
10. Citygate, daily priced as needed

Sequenced based on ~~3~~ 2 month transition

-- last gas to sequence --



Benchmark Sequence - General Guidelines

- The prior two months' monthly/bid-week reported index prices are used to set the basin sequence
- Example: for the July Sequence, use:
 1. June Monthly Indexes (1st Preceding Index)
 2. May Monthly Indexes (2nd Preceding Index)
- Six "segments" in the sequence are created by dividing the remaining available pipeline capacity from each basin into two equal parts after removing the 75 MDth/d firm annual blocks and any capacity removed for CTAs
- Shortfalls in Redwood Capacity (due to CTA elections) will be allocated pro-rata over the Ruby and GTN paths



Core Gas Supply
 Simplified Three Basin CPIM Benchmark Sequence

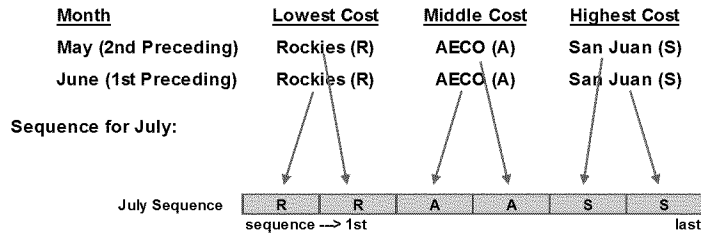
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Constructing the Sequence

Example:

Setting July sequence:

Monthly Baseload Index Relative Values:



Core Gas Supply
 Simplified Three Basin CPIM Benchmark Sequence

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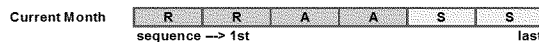
Completed Benchmark Sequence

Including all capacity, the full benchmark sequence for the example month would be (capacity numbers approximate):

-- first gas to sequence --

1. Ruby Firm Block (75 MDth/d)
2. AECO Firm Block (75 MDth/d)
3. San Juan Firm Block (75 MDth/d)
4. Kingsgate Mismatch Block (if any)
5. Ruby (2 segments, 175 MDth/d)
6. AECO (2 segments, 285 MDth/d)
7. San Juan (2 segments, 276 MDth/d)
8. Topock Firm (321 MDth/d Dec, Jan, Feb only)
9. Citygate, As Available (as needed)

-- last gas to sequence --





Core Gas Supply
Simplified Three Basin CPIM Benchmark Sequence

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Written 6-Segment Sequence Derivation

- The prior two months' monthly/bid-week reported index prices are used to set the basin sequence for the supply month. The nearest month (i.e. June Index for the July benchmark) is the 1st Preceding Month. The next month (i.e. May Index) is the 2nd Preceding Month.
- The first two positions (1-2) in the sequence (beginning with the first gas to flow after the annual blocks and Kingsgate mismatch) are the lowest cost basins in the 1st Preceding Month Index and the 2nd Preceding Month Index, in that order.
- The middle two positions (3-4) in the sequence are the middle cost basins in the 1st Preceding Month Index and the 2nd Preceding Month Index, in that order.
- The final two positions (5-6) in the sequence are the highest cost basins in the 2nd Preceding Month Index and the 1st Preceding Month Index, in that order.

Current Month	1	2	3	4	5	6
	sequence → 1 st					last

Agreed to by:

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VP – Energy Supply Management, PG&E

Date

R. Mark Pocta
Program Manager, Division of Ratepayer Advocates

Date