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September 24, 2012

CPUC Energy Division
Attention: ED Tariff Unit
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Re: PG&E Advice No. 3326-G: Response of the Core Transport Agent Consortium and Shell Energy North America (US), L.P.

To the Energy Division:

This letter is written on behalf of Shell Energy North America (US), L.P. (“Shell Energy”) and the Core Transport Agent Consortium (“CTAC”) ¹ (hereinafter the “Joint Parties”) in response to the above-referenced advice letter that was filed on September 14, 2012 by Pacific Gas & Electric Company (“PG&E”). The Joint Parties do not protest PG&E’s advice letter. Rather, the Joint Parties call the Commission’s attention to the fact that PG&E’s request to extend these two firm upstream pipeline capacity contracts perpetuates a pipeline capacity cost burden that the Joint Parties seek to mitigate through two complementary petitions for modification that they filed on June 4, 2012 in R.04-01-025 and A.01-10-011.²

¹ CTAC is an ad-hoc coalition representing a significant portion of core transport service in northern California and comprised of the following core transport agents: Accent Energy California, LLC, ABAG Publicly Owned Energy Resources (ABAGPOWER), Commercial Energy, School Project for Utility Rate Reduction (SPURR), Tiger Natural Gas, Inc., and UET dba Blue Spruce Energy Services.

² See R.04-01-025, “Petition of the Core Transport Agent Consortium and Shell Energy North America (US), L.P. for Modification of Decision 04-09-022” (filed June 4, 2012); and A.01-10-011, “Petition of the Core Transport Agent Consortium and Shell Energy North America (US), L.P. for Modification of Decision 03-12-061” (filed June 4, 2012).

PG&E does not need, for its bundled core sales customers, the full amount of the firm pipeline capacity that is reflected in the two contracts for which PG&E seeks Commission approval in this advice letter. Unfortunately, until the Commission considers the Joint Parties' petitions for modification, PG&E will continue to renew the full amount of firm upstream capacity under its existing contracts and thereby miss opportunities to reduce excess pipeline capacity costs that are borne by all of its core customers.

A. Background

In this advice letter, PG&E seeks approval of a one-year extension (through October 31, 2014) of two existing contracts with Foothills Pipe Lines ("Foothills") for a total of approximately 386,000 gigajoules per day (approximately 410 MMcf/day) of firm Canadian pipeline capacity. PG&E states that these two contracts for firm Foothills capacity are necessary to link PG&E's upstream Canadian firm pipeline capacity rights on the NOVA Gas Transmission Ltd. ("NGTL") pipeline with PG&E's firm interstate capacity rights on the Gas Transmission Northwest ("GTN") pipeline.

PG&E states that all costs associated with the Foothills contracts "will continue to be recovered from PG&E's core gas customers . . ." Advice Letter at p. 2. This means that the costs of these contracts will be borne by PG&E's core bundled sales customers as well as core aggregation customers and their Core Transport Agents ("CTA"). Because the rules adopted by the Commission in D.03-12-061 (December 18, 2003) require CTAs and their customers to pay a proportionate share of the cost of PG&E core pipeline capacity, core aggregation customers will have to pay for this capacity whether or not they need it. Even though PG&E only purchases gas supplies for its bundled core sales customers, PG&E is required, under D.04-09-022 (September 2, 2004), to hold a fixed amount of upstream pipeline capacity for all of its core customers, including core aggregation customers.

B. The Joint Parties' June 4, 2012 Petitions for Modification

On June 4, 2012, the Joint Parties filed two complementary petitions for modification of prior Commission decisions. In R.04-01-025, the Joint Parties request a modification of D.04-09-022 to limit PG&E's firm upstream pipeline capacity requirement based on the same capacity procurement standard (capacity range) that applies to Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric ("SDG&E"). This petition, if adopted, will ensure that PG&E does not hold firm pipeline capacity that exceeds the supply reliability requirements of its bundled core sales customers. In addition, this petition will end PG&E's obligation to hold firm upstream pipeline capacity for core aggregation customers.

In A.01-10-011, the Joint Parties request a modification of D.03-12-061 to permit each CTA to "opt out" of any renewed (or incremental) capacity subscription anticipated by PG&E. The purpose of this petition is to allow PG&E to gradually reduce the amount of its upstream firm

pipeline capacity so that PG&E eventually holds firm capacity exclusively to meet the supply reliability needs of its bundled core sales customers.

As is explained in the June 4 petitions for modification, PG&E is required, under D.04-09-022, to hold firm interstate capacity for its entire core market (bundled sales customers as well as core aggregation customers) within a fixed range of 962 MMcf/day to 1058 MMcf/day. See Decision at p. 34. This fixed range is without regard to increases or decreases that may occur with regard to PG&E's core load. By contrast, SoCalGas and SDG&E are required, under D.04-09-022, to hold upstream firm interstate capacity only for the utilities' core procurement customers. Furthermore, rather than maintain capacity within a fixed range, SoCalGas and SDG&E are required to maintain capacity within a range of either 90 percent (non-winter) or 100 percent (winter) and 120 percent of core procurement customers' annual average daily load.

If SoCalGas and SDG&E's core procurement load increases or decreases, the total interstate pipeline capacity that must be held by SoCalGas for these customers increases or decreases as well. For example, on September 12, 2012, SoCalGas filed an advice letter (No. 4402) in which it updated its capacity planning ranges for the two-year period April 2013 through March 2015. SoCalGas' periodic capacity range updates, in combination with SoCalGas' obligation to hold upstream pipeline capacity exclusively for SoCalGas and SDG&E's bundled core sales customers, eliminates the potential for stranded interstate capacity costs on the SoCalGas/SDG&E system.

The capacity requirements that apply to SoCalGas and SDG&E also relieve the utilities of the obligation to hold firm upstream pipeline capacity on behalf of core aggregation customers. The Joint Parties seek to modify the Commission's decisions in order to make PG&E's core pipeline capacity requirements similar to the requirements imposed on SoCalGas and SDG&E.

It is worth noting that the relief sought by the Joint Parties in their June 4 petitions for modification will not create stranded costs. The Commission's approval of the Joint Parties' petitions will enable PG&E to reduce the amount of firm pipeline capacity that PG&E holds for its core customers. Because PG&E will not renew (or will release) a portion of its existing upstream capacity rights at the end of a contract term, there will be no pipeline capacity to "strand."

C. Comments on PG&E's Advice Letter

As noted above, the Joint Parties do not protest PG&E's advice letter. It appears, based on PG&E's representations, that PG&E's advice letter adheres to the firm capacity procurement requirements set forth in D.04-09-022. PG&E seeks an extension of its current Foothills contracts so that PG&E will continue to hold a total amount of firm upstream capacity that is sufficient to meet the minimum core capacity requirement (962 MMcf/day) set forth in D.04-09-022.

Unfortunately, PG&E's advice letter fails to address whether PG&E needs this amount of Foothills capacity to meet the legitimate supply reliability needs of its bundled core sales customers. As noted in the Joint Parties' petition, although the Commission approved a minimum pipeline capacity quantity of 962 MMcf/day for PG&E in September 2004, PG&E's averaged daily core load has declined to below 800 MMcf/day over the 2006-2010 period. PG&E's advice letter seeks to maintain the current amount of firm upstream capacity for the core without consideration for this dramatic reduction in the level of PG&E's core load.

PG&E's advice letter also fails to address whether CTAs and their customers (who bear cost responsibility for PG&E's core capacity) need or want this capacity. PG&E noted, in its advice letter, that it consulted with TURN and DRA respecting the Foothills contracts. PG&E did not consult with CTAs, however, prior to requesting Commission approval of these renewed pipeline contracts. Yet under the rules adopted in D.03-12-061, CTAs and their customers will bear the stranded costs associated with PG&E's unsubscribed upstream pipeline capacity.

PG&E's advice letter underscores the need for the Commission to address the issues raised in the Joint Parties' June 4 petitions for modification. Until the Commission considers the practical consequences of PG&E's current core capacity requirement, each PG&E advice letter seeking renewal of existing contracts will represent a lost opportunity for the Commission (and PG&E) to reduce pipeline capacity costs for all core customers on the PG&E system. Particularly in view of potential cost increases associated with PG&E's proposed pipeline testing and replacement program in R.11-02-019, the Commission should be vigilant in seeking to eliminate unnecessary pipeline costs borne by core customers. The June 4 petitions for modification provide a vehicle for the Commission to reduce core customer costs associated with unneeded upstream pipeline capacity.

D. Conclusion

PG&E's advice letter highlights the Commission's opportunity to reduce the excess pipeline capacity cost burden that is currently borne by PG&E's core customers. This opportunity presents itself each time one of PG&E's upstream pipeline contracts comes up for renewal. The Commission should address the Joint Parties' June 4 petitions for modification of D.04-09-022 and D.03-12-061

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on an expeditious basis in order to enable PG&E to begin the process of reducing the amount of unnecessary pipeline capacity - - and associated costs - - borne by all of PG&E's core customers.

Respectfully submitted,



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and on behalf of the Core Transport Agent
Consortium

cc: Ed Randolph, Director, CPUC Energy Division
Brian Cherry, Vice President, Regulatory Relations, PG&E
All Parties on Service Lists in R.04-01-025 and A.01-10-011

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