

From: Myers, Richard A.
Sent: 2/25/2014 9:18:38 AM
To: Doll, Laura (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=LRDD)
Cc:
Bcc:
Subject: Re: PG&E's Response to questions about gas pipeline extensions to rural communities

Thanks Laura!

From: Doll, Laura [mailto:LRDD@pge.com]
Sent: Monday, February 24, 2014 1:58 PM
To: Myers, Richard A.; Kahlon, Gurbux
Cc: Brian Prusnek [Redacted] Salazar, Jeff (JLSalazar@semprautilities.com) (JLSalazar@semprautilities.com); Gas Ops Support
Subject: PG&E's Response to questions about gas pipeline extensions to rural communities

Richard and Gurbux

Here are responses to the questions you asked PG&E and Sempra to respond to on February 7. We understand that legislation has been introduced by Assembly Member Perea on this topic, and we expect more communications with you and legislative staff in the coming weeks.

QUESTION 1) If an entire existing community or town wanted to receive natural gas from SoCalGas/PG&E, please describe the process that the community and the utility would or should undertake.

RESPONSE: The process that a community and PG&E would undertake to extend gas service to the community is set forth in PG&E's Gas Rules 15 "*Gas Mains Extensions*" and 16 "*Gas Service Extensions*."

Gas Rule No. 15 “*Gas Main Extensions*” is attached (see attachment “*Gas Rule #15_Gas Main Extensions.pdf*”) and can also be found on PG&E’s website at: http://www.pge.com/tariffs/tm2/pdf/GAS_RULES_15.pdf.

Gas Rule No. 16 “*Gas Service Extensions*” is attached (see attachment “*Gas Rule #16_Gas Service Extensions.pdf*”) and can also be found on PG&E’s website at: http://www.pge.com/tariffs/tm2/pdf/GAS_RULES_16.pdf.

Pursuant to Gas Rule No. 15, a local governing entity or community representative first would need to complete and present PG&E with an “*Application for Service*” (see link below). The application outlines the necessary data PG&E would need to review and process the request (e.g. loads, location, scope of project). For a project of this scope, PG&E recommends a preliminary scoping meeting (to occur after the application has been submitted) to bring together PG&E’s planning engineers with the Applicant’s planning engineers/consultants to review the project details and ensure there is adequate information to move forward and reach a mutual understanding of the responsibilities of each party, the deliverables, and next steps.

PG&E’s “*Application for Service*” form can be found on PG&E’s website at: <http://www.pge.com/en/mybusiness/services/brochuresforms/index.page>.

PG&E’s “*Application for Service Process*” is described in further detail on PG&E’s website at: <http://www.pge.com/en/mybusiness/services/building/workflowprocess/index.page>.

QUESTION 2) What would your preferred approach be – i.e. should the town government officially approach the utility? Or, would it be acceptable for a grouping of residents and businesses to make their request?

RESPONSE 2: Ideally the local governing entity would apply for gas service to ensure

PG&E is working with the legally responsible entity for the jurisdiction submitting the application. Having a group of residents (10, 50, 100+, etc.) can become somewhat difficult as a designated representative may not have the authority to make the necessary decisions needed to move forward. In most large project applications customers choose to hire a “developer” to sponsor the project. The local governing entity could act as the “developer.” A legal entity would need to be identified that can enter into agreements (e.g. one of the required agreements is a 10-year service extension to provide service) and take on the financial responsibility of the applicable tariffs.

QUESTION 3) If approached by a town or grouping of residents, could the utility prepare a “ballpark” estimate of the costs so that the town or residents could consider whether they want to move forward?

RESPONSE 3: As noted in response to question 1, the preliminary scoping meeting would help lay the framework for providing a ballpark cost estimate. There must first be an exchange of information and then PG&E will be in a better position to determine the complexity and scale of this specific project. If the scope of the project involves complex engineering components to be designed by PG&E prior to development of a preliminary design, PG&E may need to secure an Engineering Advance (EA) to proceed. After receiving the information needed to determine project scope, PG&E could provide an estimate that could aid a community in making the “go/no-go” decision.

QUESTION 4) Could the town or grouping of residents prepare their own design for the required facilities? (I doubt if this would be their preferred approach but I thought I’d ask.)

RESPONSE 4: In accordance with Gas Rule No. 15 “*Gas Main Extensions*” and Gas Rule No. 16 “*Gas Service Extensions*,” certain portions of design and installation work for distribution facilities could be performed by the Applicant. The design and installation of transmission facilities remains exclusive to PG&E.

QUESTION 5) Assuming that a utility transmission or distribution pipeline is near a town, would the utility first need to assess whether there is adequate capacity on the line to serve the town?

RESPONSE 5: After the preliminary scoping meeting, the engineering work performed by PG&E would include ascertaining the most efficient manner to serve the existing and new projected load. Prudent planning includes determining the available capacity as well as planning for future load growth potential.

QUESTION 6) I understand basically how the distribution main and service line extension process typically works. In the circumstance where an entire existing town or large group of residents approached the utility with a request for natural gas service would that same basic process still apply? That is, would “allowances” be provided, and the applicants then be required to pay for the excess (above the allowance) up to the estimated costs of the facility?

RESPONSE 6: If the project is categorized as a Gas Rule No. 15 development, then yes, the same process would apply. A potential advantage in this hypothetical case regarding the allowances is that the community already exists, so the number of potential new gas customers is known. However, confirming how many of the home owners would commit to converting to natural gas, and which appliances would be converted (e.g. water heaters, space heating and cooking), would remain an uncertainty, unless there was an upfront commitment made.

A significant uncertainty or challenge for extensions to small, rural communities will be the cost of the extensions. Depending on the length of extension, the engineering complexities, the environmental mitigation requirements, the permitting and land issues, etc., the cost of extensions could be substantial. For example, approximately 4-6 years ago PG&E was approached by a developer with a request to extend gas service to a development that was planned to include about 1,000 homes, a business village, a town center, a golf course, and associated infrastructure. PG&E's estimate to extend service to this planned community (about 3.5 miles of gas transmission and distribution main extensions) was about \$4.3 million at the time, which turned out to be uneconomic for the developer. The cost to build that project today would be dramatically higher (today's cost would likely be in the range of \$12-\$18 million) due to

cost inflation, which would make it that much more uneconomic.

Extensions to small, rural communities could require a significant upfront Gas Rule No. 15 payment under existing rules before those extensions could move forward. Any such additional Gas Rule No. 15 payments would be subject to refund for the period of the 10-year contract. Refunds from that advance could be triggered by new load being added anytime within the 10 year period.

QUESTION 7) Could the applicant/town use the 50% nonrefundable option?

RESPONSE 7: Yes, the standard 50% nonrefundable option as outlined in Gas Rule No. 15 would be applicable.

QUESTION 8) Assuming that the estimated cost of the required facilities exceeded the allowances, would there be any significant problems with recovering those excess amounts from residents or businesses through some type of special on-bill charge? Please describe any issues you see with such an approach.

RESPONSE 8: There is no provision in Gas Rule No. 15 that allows PG&E to collect a total project cost for extending gas service to a community from individual customers. As noted in response to question 2, the legal entity applying for the service (the Applicant) would need to take responsibility for the cost of the project.

QUESTION 9) If a special on-bill charge could be made, could it made over a long period of time, e.g. several years? Please indicate your opinion of the period of time over which the charge should be assessed. If you have any particular line of reasoning for the length of time, please explain.

RESPONSE 9: Any special billing or payment agreement would require agreement by all parties and California Public Utilities Commission (CPUC) approval. With respect to the financing time period, 10 years would appear to be the maximum, consistent with the 10 year refund period and required 10 year service contract.

QUESTION 10) Would it be necessary to also assess a cost-of-ownership charge at some point in time if the refundable option was chosen?

RESPONSE 10: Cost of Ownership could be assessed if the community (as a whole), or the number of units initially requested to be served are not connected within 36 months of the date service is made available to the community, if there is not adequate revenue to support the gas investment until all units are connected. There is also the possibility of a “Deficiency Billing” in the third year if the units initially provided an allowance are not connected. This can come about regardless of which option is selected (10-year or 50% discount). It is imperative that to avoid that assessment the determination of the load forecast be as accurate as possible.

QUESTION 11) If you care to describe any other issues or provide any other comments on this approach, please do so.

RESPONSE 11: The cost of extending gas service to small, rural communities could potentially far exceed the projected revenue. The best way to describe and communicate this, and answer questions, would be for PG&E representatives to meet with the interested parties face-to-face.

Additionally, it should be noted that Gas Rule No. 15 Section H.3 provides: “EXCEPTIONAL CASES. When the application of this rule appears impractical or unjust to either party or the ratepayers, PG&E or Applicant may refer the matter to the Commission for a special ruling, or for the approval of special condition(s) which may be mutually agreed upon.”

QUESTION 12: How close the communities noted in the attached document are to existing utility gas pipelines. Note: the two communities on the list that are within the PG&E service territory are La Vina and Le Grand.

RESPONSE 4682.12: La Vina is a community 6.5 miles south-southwest of Madera,

north of Fresno, and covers an area of about 64 acres. The closest PG&E transmission pipelines are L-118B (12 inches in diameter with an MAOP of 400 psig) and L-134A (8 inches in diameter with an MAOP of 500 psig). L-118B runs through Madera from Fresno and L-134A tees off of L-118B in Fresno and heads west. It is estimated that the two PG&E transmission pipelines that run through this area are within about 6.5 miles of La Vina.

Le Grand is a community that lies between Chowchilla and Merced. L-118B (12 inches in diameter with an MAOP of 400 psig) and L-118A (12 inches in diameter with an MAOP of 400 psig) run out of Chowchilla to Merced. The two PG&E transmission pipelines that run through the area come within about 3.5 miles of Le Grand.

Thanks

Laura

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