

September 19, 2014

California Public Utilities Commission - Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
San Francisco, CA 94102**Subject: PG&E Reply to Response of Shell Energy**

Dear Energy Division Tariff Unit:

Pacific Gas and Electric Company (PG&E) hereby replies to the September 12, 2014 response from Shell Energy North America (US), L.P. (Shell Energy) regarding PG&E's Advice 3509-G.

**Introduction**

On September 2, 2014, PG&E filed Advice 3509-G, requesting California Public Utilities Commission (Commission or CPUC) approval of a revised and extended Transwestern Pipeline (Transwestern) transportation agreement.<sup>1</sup> On September 12, 2014, Shell Energy filed what it termed as a "response" letter to PG&E, the Energy Division and all parties on the Application (A.) 13-06-011 Service List. In its response, Shell Energy urges the Commission to defer consideration of PG&E's proposed Transwestern contract until after the Commission resolves what it terms as "related issues" to those in A.13-06-011. Shell Energy's response also advises that "[u]ntil the Commission addresses whether PG&E should hold firm interstate capacity for core aggregation customers, the Commission should not approve an extension or renewal of PG&E's firm upstream pipeline capacity contracts."<sup>2</sup>

PG&E respectfully submits this response to Shell Energy's letter.

**PG&E's Reply to Shell Energy's September 12, 2014 Letter****Shell Energy Assertion**

On page one of its letter, Shell Energy urges the Commission to defer consideration of PG&E's proposed revision and extension of its existing Transwestern contract until after the Commission resolves related issues in A.13-06-011. On page two, Shell

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<sup>1</sup> PG&E's existing Transwestern transportation agreement expires on March 31, 2015. The Transwestern contract quantities vary monthly, ranging from 83,000 Dth/day during non-winter months, to 222,000 Dth/day during higher demand winter months.

<sup>2</sup> Response, page 3.

Energy repeats its recommendation, stating that “[i]n view of the close connection between PG&E’s proposal to revise and extend the Transwestern contract and the issues in A.13-06-011, Shell Energy requests that the Commission defer consideration of PG&E’s advice letter until after the Commission addresses core capacity issues in A.13-06-011.” On page three, Shell Energy broadens its recommendation stating that the Commission should not approve any firm upstream pipeline capacity contracts proposed by PG&E until the Commission addresses the issues raised in A.13-06-011, and decides whether or not PG&E should hold capacity for customers of Core Transport Agents (CTA). Shell Energy recommends that, at a minimum, the Commission limit the term of any proposed contract to one year, until the Commission issues a decision in A.13-06-011.

#### PG&E Reply

PG&E strongly disagrees with Shell Energy’s request that the Commission put capacity decisions on hold until such time as the Commission issues its decision in A.13-06-011. The Commission established an interim pipeline capacity range specifically to provide guidance until a final decision is issued, and should allow the capacity pre-approval process in Decision (D.) 04-09-022 to continue, enabling PG&E to obtain the interstate pipeline capacity it needs while the Commission adjudicates the issues in the proceeding. Regarding its Transwestern advice letter, 3509-G, PG&E seeks Commission approval of its proposed contract in accordance with the rules and procedures established by D.04-09-022, and in accordance with the Commission’s existing interim pipeline capacity range. There is no indication when the Commission’s final ruling in A.13-06-011 will be issued. To defer Commission approval of pipeline contracts as suggested by Shell Energy would jeopardize the continuity of access to vital natural gas supply basins. Deferring all approvals would lead to relinquishment of important renewal rights in existing interstate pipeline contracts. It would preclude PG&E from securing longer term supplies in the basins, would jeopardize existing PG&E hedge program commitments, and would inhibit PG&E’s compliance with the Commission’s interim range. For these reasons, it is imperative that the Commission continue to consider and approve all reasonable approval requests for pipeline capacity, including advice 3509-G.

Shell Energy’s request that the Commission limit the term of PG&E’s proposed Transwestern contract, and all future PG&E interstate pipeline contracts, to one year until such time as the Commission issues a decision in A.13-06-011 is arbitrary, unnecessary and ill-advised. It would be unprecedented and detrimental for the Commission to impair PG&E’s ability to acquire needed core capacity in the most efficient and cost effective manner possible. In D.04-09-022, the Commission recognized that “[a] diverse portfolio approach for the holding of interstate capacity across supply basins and interstate pipelines with *staggered terms* maximizes opportunities to benefit core customers with enhanced supply reliability and gas price

stability.”<sup>3</sup> In light of this conclusion, the request by Shell Energy for the Commission to limit contract durations to one year is contradictory to the Commission’s policies established in D.04-09-022, and should be rejected. Furthermore, the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) represent the interests of all core customers, including CTA customers. The Commission has entrusted them to participate in the interstate pipeline approval process since 2002. ORA and TURN also participated in A.13-06-011, and are thus cognizant of the parties’ positions, including those of Shell Energy. In addition, the Energy Division has been delegated authority in D.04-09-022 to approve pipeline contracts within prescribed ranges. These entities possess the authority, interest, knowledge and experience to carry out their duties responsibly, including determining the appropriate pipeline contract duration.<sup>4</sup>

#### Shell Energy Assertion

On page one of its letter, Shell Energy claims that “PG&E’s advice letter fails to address whether (and if so, how) revision and extension of this Transwestern contract conforms to the Commission’s December 2012 decision (D.12-12-006) in which the Commission established a new interim core interstate capacity range for PG&E.”

#### PG&E Reply

Although not stated explicitly in PG&E’s Advice 3509-G, PG&E routinely offers to make available to CTAs the confidential information in its pipeline capacity advice letters upon the CTAs’ execution of a non-disclosure agreement (NDA). This process began in October 2012, with PG&E’s Advice 3331-G, and has become “standard procedure” for CTAs and PG&E, allowing PG&E to share commercially sensitive information that is otherwise provided only to ORA and the Commission staff (under the confidentiality provisions of General Order 66-C and Section 583 of the Public Utilities Code), and to TURN (under a separate NDA). Even though other CTAs have executed NDAs and attained confidential pipeline contract information related to recent pipeline capacity advice letters submitted by PG&E, Shell Energy has chosen not to avail itself of this process, and has never executed an NDA to receive the details of PG&E’s interstate pipeline contract proposals. The fact that Shell Energy has lacked specific information regarding pipeline contract proposals has not deterred it from protesting previous capacity approval requests, typically objecting based on its general belief that PG&E should not acquire interstate pipeline capacity on behalf of CTAs or their core customers.

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<sup>3</sup> Finding of Fact 1, p. 85 (emphasis added).

<sup>4</sup> PG&E notes that it agrees with Shell Energy’s assessment of the need for expeditious Commission resolution of the issues in A.13-06-011. PG&E urges the Commission to finalize its decision to provide necessary guidance for all parties.

The confidential Appendix A of Advice 3509-G describes the proposed Transwestern contract, discusses the importance and urgency of PG&E's request, and addresses most of the issues raised by Shell Energy in its response. This confidential information was made available to other CTAs after their execution of an NDA. Shell did not inquire about the confidential appendix, and did not execute the required NDA.

PG&E's confidential appendix to Advice 3509-G also discussed the relationship between the Commission's interim capacity range and the proposed contract. PG&E cannot repeat that entire explanation in a public forum without revealing commercially sensitive information about the proposed Transwestern contract quantity. For this response, however, PG&E affirms that approval of the Transwestern contract is necessary for PG&E to comply with the Commission's interim capacity range, and that given PG&E's existing capacity commitments, the proposed Transwestern contract is vital to meet the demands of core customers.

#### Shell Energy Assertion

On page two of its response, Shell Energy claims that "PG&E's advice letter fails to address whether PG&E needs the proposed quantity of firm Transwestern capacity to meet the legitimate supply reliability needs of its core customers."

#### PG&E Reply

Historically, PG&E has relied on U.S. Southwest pipelines, including Transwestern, to meet almost one-third of its pipeline capacity requirement, and has relied on competitively-priced San Juan Basin supplies to help meet the demands of its bundled core customers. Of currently committed pipeline capacity during the proposed contract period, the Transwestern pipeline contract would represent only about 17% of capacity volumes.<sup>5</sup> The proposed Transwestern pipeline capacity contract, and additional pipeline capacity contracts, are necessary to meet the needs of PG&E's bundled core customers.

#### Shell Energy Assertion

On page one of its response, Shell Energy claims that PG&E's advice letter "disregards the Commission's current consideration, in A.13-06-011, of further issues directly related to PG&E's core interstate pipeline capacity holdings." Among these issues, according to Shell, are PG&E's proposal in A.13-06-011 to reduce the amount of firm interstate pipeline capacity held for core customers, and the proposal by Shell Energy and the Core Transport Agent Consortium (CTAC) in the same proceeding that PG&E should not hold firm interstate pipeline capacity for its core aggregation customers.

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<sup>5</sup> Based on PG&E's total average annual interstate pipeline volumes.

On page two of its response, Shell Energy states that PG&E proposed a reduced core interstate capacity procurement obligation in A.13-06-011. Shell Energy states further that PG&E's advice letter fails to address whether CTAs and their customers need or want the Transwestern capacity. Finally, Shell Energy states that PG&E did not consult with CTAs prior to requesting Commission approval of the revised and extended contract. Shell Energy's response claims that "approval of PG&E's proposed contract would amount to taxation of core aggregation customers without representation."<sup>6</sup>

#### PG&E Reply

Shell Energy is correct that PG&E proposed an interstate pipeline capacity planning range in A.13-06-11 that is slightly lower than the Commission's interim range. However, PG&E's total committed contract volumes at the time of this reply, and including the proposed Transwestern contract in Advice 3509-G, are also within PG&E's proposed range.

Shell Energy's claim that PG&E ignored its position in A.13-06-011 and has failed to consider the needs of CTA customers, is unavailing. The Commission's interim range, with which PG&E must comply, includes both the demands of PG&E's bundled core and CTA core customers. It also bears repeating that ORA and TURN represent the interests of all core customers as they participate in the pipeline contract approval process. Therefore, PG&E's proposed Transwestern contract, and the Commission's actions to approve or disapprove it, consider the needs of all core customers.

#### Shell Energy Assertion

Finally, Shell Energy states on page three of its letter that PG&E fails to explain why it must extend the Transwestern contract at this time, given that the current contract does not expire until March 31, 2015.

#### PG&E Reply

PG&E explained the urgency of its request in the confidential appendix of Advice 3509-G, and is unable to repeat that discussion in this public document. However, PG&E's proposed revision and extension of the existing Transwestern agreement secures future rights to Transwestern capacity. Without making the commitment now, PG&E could lose those rights.

### **Conclusion**

On October 19, 2012, Shell Energy (and CTAC) filed a similar protest to PG&E's Advice 3331-G, in which PG&E sought Commission approval of its existing Transwestern contract. The nature of the protest and the relief requested by Shell

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<sup>6</sup> Response, page 2.

Energy and CTAC were almost identical to Shell Energy's September 12, 2014 letter response. In October 2012, Shell Energy did not sign the NDA, yet asserted that PG&E's proposed contract was unnecessary and should not be approved until the Commission resolved issues raised by the CTAs in Rulemaking (R.) 04-01-025 and A.01-10-011, proceedings which would have resulted in changes to PG&E's interstate pipeline capacity holdings for core customers. On October 31, 2012, the Director of Energy Division rejected the protest by Shell Energy and CTAC and approved PG&E's request in Advice 3331-G. PG&E respectfully requests that the Commission also approve PG&E's proposed Transwestern contract as filed in Advice 3509-G.

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Service list for R.04-01-025  
Service list for A.13-06-011