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April 25, 2005

HAND DELIVERED

Docket Clerk
Docket Office
Public Utilities Commission
of the State of California
505 Van Ness Avenue, Room 2001
San Francisco, CA 94102

Re: Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable,
Long-Term Supplies of Natural Gas to California – CPUC Docket No. R.04-01-025
Notice of Workshop on Natural Gas Quality Issues

Dear Docket Clerk:

Enclosed for filing in the above-captioned matter are an original and five (5) copies of
Comments of Pacific Gas and Electric (U 39 G) to the California Public Utilities Commission
and California Energy Commission's "Report on the Joint Workshop on Natural Gas Quality
Standards, February 17-18, 2005."

Please file the original document, date-stamp a copy, and return the endorsed copy in the
stamped self-addressed envelope provided for this purpose.

Very truly yours,

/s/

NOËL WISE

NW:sl

cc: Michael R. Peevey, Commission President
Susan P. Kennedy, Commissioner
Steven A. Weissman, Administrative Law Judge
John S. Wong, Administrative Law Judge
All Parties in R.04-01-025 and R.02-06-041

Enclosure

BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish
Policies and Rules to Ensure Reliable,
Long-Term Supplies of Natural Gas to
California.

R.04-01-025

**COMMENTS OF
PACIFIC GAS AND ELECTRIC (U 39 G)
TO THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
CALIFORNIA ENERGY COMMISSION'S
"REPORT ON THE JOINT WORKSHOP ON
NATURAL GAS QUALITY STANDARDS, FEBRUARY 17-18, 2005"**

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PACIFIC GAS AND ELECTRIC COMPANY

April 25, 2005

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I. INTRODUCTION

On April 4, 2005, the California Public Utilities Commission ("PUC") and the California Energy Commission ("CEC," collectively "the Commissions") issued their "Report on the Joint Workshop on Natural Gas Quality Standards" ("Report"). Pacific Gas and Electric Company ("PG&E") actively participated in the February 17-18, 2005 workshop ("Workshop") and now offers its comments to the Commissions' Report.

The Workshop was an excellent and much needed first step to begin to probe the issues and consider the potential problems that California may face as new gas supplies, particularly LNG, eventually flow into the State. The Report fairly summarizes the information that was presented and the questions that were raised during the Workshop.

PG&E's comments to the Report fall into two categories, issues that reasonably can be resolved via "meetings and roundtables involving affected interests" as noted in page 5 of the Report, and the issue of a national gas quality interchangeability standard that cannot be settled through that process. PG&E is particularly concerned about the latter point as the Report suggests that all gas quality issues, including interchangeability, should be addressed through

meetings and workshops and that some agreement or consensus should be reached within one year.¹ To the contrary, any significant change in the way interchangeability is identified needs to await the outcome of the recommended research identified in the Natural Gas Council Whitepaper on Interchangeability filed with FERC on February 28, 2005. This research should be conducted on a national scale, by an entity with broad perspective and adequate resources. Only after that research is completed and a national interchangeability standard is in place, should the Commissions and California stakeholders work together to determine how to apply and adapt that standard to our markets.

II. ISSUES TO BE RESOLVED IN WORKSHOPS WITH STAKEHOLDERS

One point made repeatedly by numerous entities during the Workshop was that consistency of gas quality is fundamentally important, particularly before natural gas reaches the ultimate consumer. Although inconsistent gas quality causes a myriad of potential problems that can profoundly impact cost and supply, by far the most serious concern is customer safety. On that note, the Report questioned the limits of the legacy systems in California asking, “How far can the constraints imposed by current specifications be relaxed in order to accommodate delivery into our systems from these potential new sources, and what efforts can be made to mitigate incompatibilities with current legacy systems . . . ?”²

There may be a variety of ways in which California, or certain sub-markets within the State, may be able to accommodate new gas supplies that would not otherwise be viable given our current natural gas specifications. Each of these options, including blending, may be practical depending on a variety of factors including the amount and quantity of natural gas available to the market at the time. For example, many of PG&E's roughly 1.5 million customers in the Sacramento Valley have been historically served by a mixture of California gas (with a

¹ See Report at 5, 39.

² Report at 27-28.

lower BTU) and Canadian gas (with a higher BTU), with customer appliances adjusted accordingly. This type of blending may also work to accommodate higher BTU gas from other sources, including LNG, depending on the quantities involved. Blending is not practical, however, if the higher BTU source overwhelms the lower BTU source, which could be the case if a large supply of high Btu LNG is introduced directly into PG&E's system. It will be problematic if in the future there is insufficient California gas to sustain blending operations and other lower BTU gas is not readily available for this purpose, in which case other steps will need to be taken to ensure that customers, particularly in areas such as the Sacramento Valley, are receiving an appropriate gas supply for their appliances. It is neither practical nor economical to consider going into every household to adjust appliances each time the quality of our gas supply vacillates. As the Report notes, consumer representatives were not present at the Workshop. We suspect that when those representatives ultimately participate in this dialogue, they will be stridently opposed to any gas quality or interchangeability solution that takes place at the point of distribution. PG&E shares those concerns and believes this is one of the issues that should be discussed in workshops with stakeholders as anticipated by the Report.

As the Commissions know, PG&E is also currently working with Southern California Gas Company ("SoCalGas") in an attempt to reach as much consensus as possible on specific gas quality parameters. It is not surprising that the current gas quality specifications contained in PG&E's Rule 21 and SoCalGas' Rule 30 are different given historic gas supplies to each region. Nevertheless, both sides are motivated and are working collaboratively toward common specifications, where appropriate. Nevertheless, until PG&E and SoCalGas complete this process, it is premature for PG&E to suggest how any tariffs should be changed. We anticipate that we will be prepared to share possible changes with stakeholders in June and make a tariff filing with the CPUC sometime thereafter.

III. NATIONAL NATURAL GAS INTERCHANGEABILITY STANDARD

The Report acknowledges that there are parallel discussions occurring at a national level regarding national gas quality specifications. The Report states:

[I]t is yet unclear what form such a federal standard would take, and whether or not that standard would address California's concerns. While the State Agencies and affected stakeholders certainly need to monitor federal developments, the State Agencies do not see a need to wait for the development of a federal standard before moving to modify, if necessary, California specifications.

PG&E partially concurs with the Commissions' conclusion. As discussed above, PG&E agrees that there are certain issues regarding gas quality that can be addressed at the State level now, and PG&E is participating in those discussions. However, it is unwise for California stakeholders to attempt to supplant a national research campaign regarding gas quality and interchangeability standards. This research is of significant importance to our nation's long term gas supplies. Consequently, this research should be conducted on a national scale, by an entity with adequate resources that is equipped to consider the perspectives of a broad-range of stakeholders throughout the country. PG&E therefore supports the American Gas Association ("AGA") taking the lead in coordinating the national interchangeability research effort. AGA and its committees have a long history of coordinating research in support of technical guidance documents. PG&E believes that the end product of this research must be a nationally recognized AGA guidance document on interchangeability that provides a national protocol. The document should be soundly grounded in science and should replace AGA Bulletin 36. Further, PG&E recommends that the Natural Gas Council ("NGC") "Plus" group be reactivated to serve as a review body to assure that the AGA effort reflects the needs of all stakeholder groups that were brought together by the NGC+ effort. It is only after the new AGA guidance document is issued, and a national interchangeability standard is in place, that the Commissions and California stakeholders should work together to determine how to apply and adapt that standard to our

market. In the meantime, PG&E intends to continue to evaluate interchangeability based on AGA 36.

PG&E also supports the AGA's proposal that FERC require interstate pipelines to amend their tariffs to require that the gas those pipelines deliver to their customers meet minimum gas quality specifications for interchangeability and hydrocarbon dewpoint. Even though the interstate pipelines connected to PG&E have historically delivered gas supplies that meet PG&E gas quality requirements, there will be increased opportunities for pipelines to transport and deliver natural gas with an ever widening range of quality. As energy prices make it more attractive to leave the heavier hydrocarbons in the gas stream and to utilize less traditional sources, such as coal seam gas, PG&E may be forced to restrict gas flows from potentially lower priced sources or to construct conditioning equipment at interconnect points in order to deal with interchangeability and liquids problems. Gas quality specifications which recognize historic patterns of gas delivered by the interstate pipelines will assure that PG&E and its customers can shop for the lowest cost supplies from a wide variety of sources.

IV. CONCLUSION

PG&E thanks the Commissions for initiating the Workshop and for facilitating the current dialogue on gas quality standards. PG&E looks forward to working with other stakeholders to make recommendations that will allow California to maximize its opportunity to accept new sources of natural gas supplies in the coming years. PG&E strongly encourages the

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Commissions to support a national research effort to establish an interchangeability protocol.

PG&E further recommends that such a research effort be coordinated by AGA under the direction of the NGC+ group.

Respectfully submitted,

Joshua Bar-Lev
Frank R. Lindh
Robert B. McLennan
Noël Wise

By: _____/s/
NOËL WISE

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April 25, 2005

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 25th day of April 2005, I served a true copy of:

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PACIFIC GAS AND ELECTRIC (U 39 G)
TO THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
CALIFORNIA ENERGY COMMISSION'S
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[X] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for R.04-01-025 and R.02-06-041 with an e-mail address.

[X] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to all parties on the official service list for R.04-01-025 and R.02-06-041 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 25th day of April 2005 at San Francisco, California.

/s/

STEPHANIE LOUIE