

**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

Rulemaking 04-01-025
(Filed January 22, 2004)

**OPENING COMMENTS OF
QUESTAR SOUTHERN TRAILS PIPELINE COMPANY
ON GAS QUALITY SPECIFICATIONS**

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Dated: February 11, 2005

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Pursuant to the December 23, 2004 Ruling of Administrative Law Judges Wong and Fukutome establishing dates for a workshop on gas quality specifications and soliciting comments thereon, Questar Southern Trails Pipeline Company (“Southern Trails”) submits the following initial comments.

I. INTRODUCTION

The Notice of Joint Workshop between the Energy Resources Conservation and Development Commission (“CEC”) and the California Public Utilities Commission (“CPUC”) appended to the December 23 Ruling describes the State’s energy policy as “encourag[ing] *consumer access to the broadest possible set of natural gas supplies* consistent with California’s energy, environmental, and public health and safety requirements.” With this overriding policy serving as a backdrop against which all deliberations as to whether a change to current gas quality specifications should be made, Southern Trails submits that certain changes which have been proposed by both Southern California Gas Company (“SoCalGas”) and San Diego Gas & Electric Company (“SDG&E”) come up short – the changes will, at best, greatly increase the delivered price of gas, and, at worst, serve to dramatically reduce the amount of gas available to California markets.

II. RESTRICTIVE STANDARDS WILL BE DISRUPTIVE TO GAS DELIVERY

As part of their proposed Open Access tariffs,¹ SoCalGas and SDG&E have provided that not only must all natural gas entering their systems meet the requirements of their current tariff rules governing gas quality but must also meet the California Air Resources Board (“CARB”) compressed natural gas (“CNG”) specifications.² The adoption of such restrictive standards would be highly disruptive to the delivery of gas to southern California from interstate pipelines, such as Southern Trails.

It must be remembered that interstate pipelines, as part of their federally regulated tariffs, have prescribed gas quality specifications for their shippers.³ In certain instances, these specifications, which have been approved by the Federal Energy Regulatory Commission (“FERC”) with an eye toward assuring consistency with the FERC’s policy of promoting the free movement of natural gas across the pipeline grid, are less restrictive than those delineated by CARB, while in other instances, the interstate pipelines simply do not measure for a CARB restricted substance.

Moreover, the CPUC must keep in mind that the imposition of narrower quality specifications on gas entering the southern California market may serve to divert Rocky mountain gas away to eagerly awaiting markets east of California. The reality is that there are a vast number of pipeline projects proposed to transport Rocky Mountain basin gas to markets in the Midwest and Northwest. Northwest Pipeline has completed a 175MMcf/d expansion project.

¹ Advice Letters 3413 and 1474-G were submitted to the Commission on October 4, 2004 pursuant to Commission Decision 04-09-022 which, among other things, directed SoCalGas and SDG&E (as well as PG&E) to file open access tariff for all new sources of gas supply.

² The Commission has yet to act on these Advice Letters.

³ *See, e.g.*, Questar Southern Trails Pipeline Company Tariff, General Terms and Conditions, Section 13.

The Grasslands Pipeline with a capacity of 80 MMcf/d to deliver gas to the Northern Border pipeline is also completed. Cheyenne Plains has received authorization for a 730,000 Dth/d project to move gas to the Midwest, the first phase of which has already gone into operation. Advantage Pipeline has proposed a project to move 330 MMcf/d from Cheyenne to Kansas. TransColorado Gas Transmission Co. has held an open season to expand its 300 MMcf/d project to 900 MMcf/d. Northern Border Pipeline is promoting the Bison pipeline to move 240 MMcf/d to the Chicago market via Northern Border. All of these various projects can carry gas which is unable to enter California because of restrictive gas quality specifications to other markets. Through Rulemaking 04-01-025, the Commission set a course for securing more, as well as more reliable, gas supplies for California. Requiring gas entering southern California to meet the CARB specifications, as has been proffered by SoCalGas and SDG&E, would serve to undermine this goal as it would reduce, rather than increase the gas supply available to the state.

Moreover, when assessing the efficacy of imposing the CARB standards on gas entering SoCalGas' or SDG&E's system, the CPUC should not lose sight of the fact that significant costs will be incurred in order to ensure the standards are met. In essence, any producer with gas bound for the southern California market via SoCalGas or SDG&E will need to invest in the additional facilities to treat the gas to ensure compliance. As determined by the FERC, the economic impact of any additional costs to treat the lower quality gas would be borne by the producers not the pipeline transporter.⁴ As a necessity, producers will have to pass these costs through thereby driving up the delivered price of gas to end-use consumers. Prior to inflicting such costs on California consumers, the Commission should undertake an analysis of the necessity of doing such. Southern Trails believes that the need is just not there.

⁴ See, e.g., *Transwestern Pipeline Company*, 74 FERC ¶ 61,084 (1996).

What SoCalGas and SDG&E have proposed is that all gas entering their transmission systems be of a quality that it can be used to fuel vehicles and machinery that run off compressed natural gas. Stated another way, if the SoCalGas/SDG&E proposal is accepted, then all gas entering southern California will need to meet standards that are, in actuality, essential only for the relatively small amount of gas necessary to meet the requirements of CNG operated vehicles/machinery – a very small market, which is growing smaller as the market for hybrid vehicles (versus those fueled entirely by natural gas) has grown significantly in the past couple of years. Moreover, SoCalGas and SDG&E are seeking such change without any showing that their existing practice of blending various gas sources on their systems in order to meet the fuel needs of CNG operated vehicles/machinery is no longer adequate. Changes to the gas quality specifications which would compel pipelines and producers all the way up the production chain to the source of supply to change their operations in order to serve a small end use market are not cost beneficial and would not serve the overall gas needs of California consumers.

Finally, Southern Trails would remind the CPUC that any changes made to the quality specification for gas entering the California market will have a ripple effect a “ripple effect” across the national pipeline grid. Each of the interstate pipelines supplying gas to southern California will need to submit tariff filings to FERC in order to change their gas quality specifications. These tariff filings will, no doubt, be highly contentious and the risk is run that the FERC may not approve changes which it views as potentially impeding the free flow of gas across the national grid. To mitigate such risk, Southern Trails suggests that the CPUC invite the FERC into this process of assessing the current quality specifications (and analyzing potential changes thereto) at an early stage. Even, however, with the FERC’s participation, Southern Trails submits that, at minimum, interstate pipelines will need a year lead time to file any

necessary tariff changes with FERC and receive the required approval.

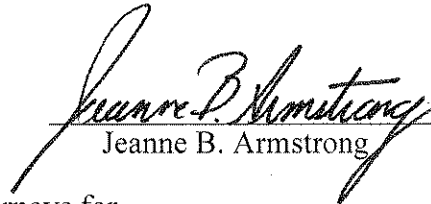
III. CONCLUSION

Any change to the current gas quality specifications will have broad based impacts on all market participants. Accordingly the CPUC must carefully assess the cost/benefits of each such contemplated change so as to ensure that the change is consistent with the State's energy policy as "encourag[ing] *consumer access to the broadest possible set of natural gas supplies* consistent with California's energy, environmental, and public health and safety requirements."

Respectfully submitted this February 11, 2005 at San Francisco, California.

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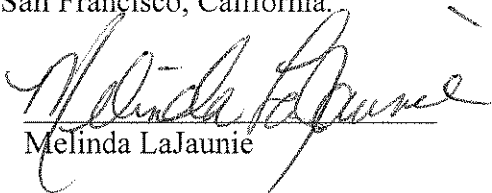
Attorneys for
Questar Southern Trails Pipeline Company

CERTIFICATE OF SERVICE

I, Melinda LaJaunie, certify that I have on this 11th day of February 2005 caused a copy of the foregoing **OPENING COMMENTS OF QUESTAR SOUTHERN TRAILS PIPELINE COMPANY ON GAS QUALITY SPECIFICATIONS** to be served on the parties on the attached service list via Hand Delivery, U.S. Mail and/or Electronic Mail.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 11th day of February 2005 at San Francisco, California.


Melinda LaJaunie