

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of:  
Informational Proceeding and Preparation of the  
California Energy Commission 2005  
*Integrated Energy Policy Report* and

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

Energy Commission  
Docket No. 04-IEP-01

CPUC Docket No. R.04-01-025  
Notice of Workshop on Natural  
Gas Quality Issues

**REPLY COMMENTS OF  
KERN RIVER GAS TRANSMISSION COMPANY AND  
QUESTAR SOUTHERN TRAILS PIPELINE COMPANY  
ON GAS QUALITY SPECIFICATIONS**

GOODIN, MACBRIDE, SQUERI,  
RITCHIE & DAY, LLP  
Michael B. Day  
Jeanne B. Armstrong  
505 Sansome Street, Suite 900  
San Francisco, CA 94111  
Telephone: (415) 392-7900  
Facsimile: (415) 398-4321

Attorneys for Kern River Gas Transmission  
Company and Questar Southern Trails Pipeline  
Company

Date: March 4, 2005

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of:  
Informational Proceeding and Preparation of the  
California Energy Commission 2005  
*Integrated Energy Policy Report* and

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

Energy Commission  
Docket No. 04-IEP-01

CPUC Docket No. R.04-01-025  
Notice of Workshop on Natural  
Gas Quality Issues

**REPLY COMMENTS OF  
KERN RIVER GAS TRANSMISSION COMPANY  
AND QUESTAR SOUTHERN TRAILS PIPELINE COMPANY  
ON GAS QUALITY SPECIFICATIONS**

Pursuant to the December 23, 2004 Ruling of the Presiding Administrative Law Judges establishing dates for a workshop on gas quality specifications and soliciting comments thereon, Kern River Gas Transmission Company (“Kern River”) and Questar Southern Trails Pipeline Company (“Southern Trails”) submit the following limited reply comments.

The ultimate goal of Rulemaking 04-01-025 undertaken by the California Public Utilities Commission (“CPUC”) is to ensure reliable, long term natural gas supplies to California at reasonable rates. As part of this effort, the CPUC is looking at new, alternative sources of supply, such as liquefied natural gas (“LNG”). The introduction of LNG into the California gas market, however, has driven the reexamination of the current gas quality specifications contained in the tariffs of the major investor owned utilities and the gas quality regulations adopted by the California Air Resources Board (“CARB”) to determine whether and/or how they should be changed to accommodate the different components and heat value of LNG.

Kern River and Southern Trails appreciate the CPUC's need to explore new sources of gas supply to ensure that California's energy needs are reliably and economically met. When the Commission is weighing the costs and benefits of adding additional supply sources, however, it should not overlook the fact that Kern River and Southern Trails are capable of providing California a supply of gas over and above what they are currently providing. Kern River and Southern Trails believe this resource should be the first to be vigorously pursued in order to satisfy California's demand for gas prior to making any changes to the gas quality specifications out of fear that California is running out of sufficient supply sources. In particular, it should be noted that the additional gas which Kern River and Southern Trails are capable of supplying the state can be provided without (1) making any changes to the current gas quality specifications, (2) impacting the safety and performance of gas-fired equipment, (3) engendering potential negative impacts to the gas turbines which generate a large percentage of California's electricity, and (4) risking a detrimental impact on air quality, a result which could occur if current gas quality specifications are changed in a manner which results in increased emissions from natural gas combustion or if new gas supplies require processing facilities that have need of additional fuel usage.

Kern River and Southern Trails firmly believe that the best solution for California is to maintain the current gas quality standards in effect in Tariff Rule 30 on the Southern California Gas Company ("SoCalGas") system. Kern River and Southern Trails believe that the CARB vehicle fuel standard should not be adopted as part of Rule 30 at this time, but should be subject to further careful study to determine its impact on gas suppliers and pipeline transporters. The existing Rule 30 standards should be applied on a uniform basis at all receipt points for all suppliers. However, each of the regulated gas distribution companies in California, including

SoCalGas, should be allowed to continue their current practice of blending gas when feasible in order to maximize the available supplies of gas without causing a significant impact on the quality of gas within the utility's distribution system.

Kern River and Southern Trails recognize that the CPUC may consider the recommendation of other parties to make certain changes to the gas quality specification. In doing such, the CPUC should not lose sight of the fact that any changes made to the quality specification for gas entering the California market will have a "ripple effect" across the national pipeline grid. Each of the interstate pipelines supplying gas to California will need to submit tariff filings to FERC in order to change their gas quality specifications. In addition each of the upstream pipelines that deliver gas into these interstate pipelines will also need to ensure that their gas is in conformance with the new quality specifications set on the interstates. The potential cost to natural gas producers to comply with any revised quality specifications proposed by downstream interstate pipelines will likely result in contentious proceedings before FERC. Given this probability, Kern River and Southern Trails suggest that, at minimum, 18 months will be needed to file all necessary tariff changes and receive the requisite FERC authorization. Accordingly, any changes made to the current gas quality specifications should be undertaken only after careful consideration and in conjunction with a dialogue with federal regulators in order to avoid a situation in which differences between federal and state gas quality standards might reduce the availability of gas supplies to California.

Finally, Kern River and Southern Trails noted that the Scoping Memo issued recently in Phase II of the CPUC's Natural Gas Supply Rulemaking (R. 04-01-025) indicated that natural gas quality specifications and the need and basis for any changes thereto are to be addressed

through the procedural mechanisms established for that proceeding.<sup>1</sup> In this regard, the Scoping Memo notes the ongoing workshop process and the potential for evidentiary hearings. Kern River and Southern Trails submit that each and every proposed change should be carefully scrutinized to ensure that the consequences which ensue from each such change are positive. Kern River and Southern Trails will actively participate in Phase II of the Rulemaking in order to monitor these concerns.

Respectfully submitted this March 4, 2005 at San Francisco, California.

GOODIN, MACBRIDE, SQUERI,  
RITCHIE & DAY, LLP  
Michael B. Day  
Jeanne B. Armstrong  
505 Sansome Street, Suite 900  
San Francisco, California 94111  
Telephone: (415) 392-7900  
Facsimile: (415) 398-4321

By   
Jeanne B. Armstrong

Attorneys for Kern River Pipeline Co.  
and Questar Southern Trails Pipeline Co.

2702/018/X62070.v1

---

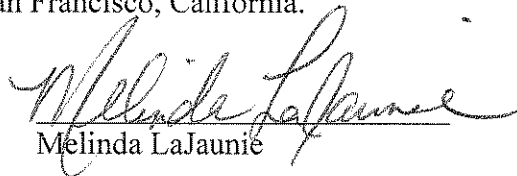
<sup>1</sup> “Scoping Memo and Ruling for the Assigned Commissioners for Phase II and Notice of Prehearing Conference,” R. 04-01-025 (February 28, 2005) at pp. 5.

CERTIFICATE OF SERVICE

I, Melinda LaJaunie, certify that I have on this 4th day of March 2005 caused a copy of the foregoing **R.04-01-025/04-IEP-01 REPLY COMMENTS OF KERN RIVER GAS TRANSMISSION COMPANY AND 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 4th day of March 2005 at San Francisco, California.

  
Melinda LaJaunie