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March 4, 2005

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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 Pacific Gas and Electric Company's (U 39 G) Response To Question On Whether California's Independent Storage Facilities Can Be Used To "Blend" Non-Pipeline Quality Gas With Other Gas To Achieve Pipeline Quality.

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,

A handwritten signature in black ink, appearing to read 'Noël Wise', written over a white background.

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

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 G)  
RESPONSE TO QUESTION ON WHETHER  
CALIFORNIA'S INDEPENDENT STORAGE FACILITIES  
CAN BE USED TO "BLEND" NON-PIPELINE QUALITY GAS  
WITH OTHER GAS TO ACHIEVE PIPELINE QUALITY**

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Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

March 4, 2005

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Questions were raised at the February 17 and 18, 2005, Natural Gas Quality Standards Workshop regarding whether pipeline quality standards enforced by PG&E and other public utility pipeline operators have the effect of inhibiting production of certain natural gas supplies in California, specifically, natural gas that falls below pipeline minimum quality standards.

A specific question was made at the Workshop about the concept of allowing the independent natural gas storage operators in northern California to accept gas deliveries directly from gas producers into their storage fields, where the gas then could be blended with higher-quality gas prior to being delivered to market.

PG&E's response to this proposal is as follows.

As an initial matter, PG&E supports the goal of having national gas interchangeability standards. As discussed further below, PG&E also supports the need for collaborative research – at both the national and local level – that will provide the foundation for such standards. PG&E appreciates that national standards have a variety of benefits, including providing clear direction and parameters for the industry. PG&E also intends to work cooperatively with SoCal Gas to develop uniform gas quality tariff rules, to the extent such uniformity is possible.

It is also important to note that for many years PG&E has been working closely with California gas producers to find ways to accept their gas into the PG&E system. PG&E's tariff, like all pipeline tariffs, contains minimum gas quality standards. These standards are absolutely

necessary to protect the integrity of the system and promote public safety. Nevertheless, PG&E tries to work with producers, where reasonably possible, to blend gas that has lower-than-required heat content with other gas in the PG&E system. Obviously, we cannot accommodate every gas delivery for every producer, but we do our best to be reasonable. The producer also always has the option to invest in the necessary equipment to bring the gas up to pipeline quality. For example, the producer may extract nitrogen from the gas stream to improve the heat content. Ultimately, of course, it is the producer's responsibility to make the necessary investments, not only to extract natural gas from the earth, but also to meet reasonable gas quality standards. However, PG&E works in good faith to find reasonable solutions to real-world problems as they arise.

Second, given these efforts by PG&E to work with producers, and given the ability of the producers themselves to finance their own solutions to gas quality problems, we are not convinced there are large untapped sources of natural gas in California that would be stimulated by increasing the number of blending opportunities. We simply have not seen data showing that California would achieve even a marginal increase in gas supplies by promoting or subsidizing the production of larger quantities of non-pipeline quality gas.

Third, as to the question of whether the independent storage providers could be used to further enhance the production of non-pipeline quality gas in California – those independent storage providers and producers should work on developing the proposal beyond the conceptual stage, so that it can be fairly evaluated by energy policymakers. There is not sufficient detail to know whether such a policy should be adopted.

Fourth, a critical issue that needs to be addressed is whether blending could be achieved successfully, given the geology and operating characteristics of California's gas storage fields. Unlike the salt dome underground storage facilities in some other states, in California gas is stored in depleted gas fields. Gas injected into these fields does not commingle with other gas in the fields as readily as it does in salt dome facilities. Research would be needed to demonstrate that an acceptable level of commingling would occur if lower-Btu gas were injected into these

fields. If the lower-Btu gas did *not* commingle in the underground reservoir, then it might compromise the integrity and safety of the gas system once it is withdrawn from the storage field. Also, once the reservoir is contaminated with lower-Btu gas it may limit future withdrawal capacity, affecting the availability of a vital service to California storage customers. It will be important to address these technical and operational challenges.

PG&E will not support rule changes that would harm PG&E's gas customers, by giving unfair subsidies to gas producing companies at the expense of our customers. PG&E and its customers would have valid concerns if gas producers were to exploit the use of independent storage operators, not for legitimate reasons, but rather in order to bypass applicable tariff charges on the PG&E gas utility system.

On a related note, it must be emphasized that the independent storage companies in California currently are licensed solely to *store* natural gas, not to transport it. If they want to enter the gas transportation business, as distinct from the gas storage business, then they will have to file the appropriate application to the CPUC, seeking the legal authority to amend their certificates of public convenience and necessity. The burden of proof would be on the applicants to show whether this would be beneficial. To date, the CPUC consistently has found that opening up natural gas transportation markets to competition (as distinct from the *gas commodity* markets) would be contrary to the public interest, because it would benefit only a handful of entities while harming the majority. If the independent storage operators want to pursue a change in this long-standing state policy, then it would be incumbent on them to sustain their burden of proving why such a change is warranted.

Overall, PG&E supports the goal of making as many different supplies of gas available to its customers as possible, so long as such supplies allow for the safe and efficient operation of PG&E and customer equipment. As PG&E described in its workshop presentation, it relies on Rule 21, and specifically AGA Bulletin 36, to determine gas interchangeability. PG&E and many others believe that Bulletin 36 should be updated to take into account a greater array of end uses. That effort will require research into historical gas supplies and testing of today's

appliances under rigorous testing conditions. Only this approach will truly provide adequate assurance as to the appropriate interchangeability standard for the different regions of PG&E's service territory. Hence, the agencies must be mindful of the need, timing and costs for this research prior to making any final determinations regarding revised gas interchangeability standards.

In summary, PG&E looks forward to the development of a concrete proposal by the gas producers and the independent storage providers; the ball is in their court to make their case, with specificity. They must establish, *first*, that their proposal is needed, *second*, that their proposal is practical and workable, and, *third*, that it will provide a benefit to gas consumers in California.<sup>1/</sup> If the independent storage providers can demonstrate that their proposal meets these three prongs, then PG&E certainly will work with those independent storage providers to achieve a solution that is beneficial to all parties, including, most importantly, gas consumers in California.

Respectfully submitted,

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Robert B. McLennan  
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By:   
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<sup>1/</sup> Initially the CPUC expected to address these issues in Phase I of the Gas OIR (R.04-01-025). However, as noted in the CPUC's recent scoping memo, many of these issues will now be evaluated in Phase II of the Gas OIR, including whether independent gas storage facilities should be permitted to directly connect with other market participants such as California producers, electric generators, or other noncore customers. Given the commercial implications of these controversial issues, customers and market participants will be better served if the CPUC resolves these questions quickly. Therefore, PG&E agrees with SoCal Gas' recommendation that the PUC consider gas quality issues as a discreet and separate component from the remainder of the Phase II OIR issues.

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 4<sup>th</sup> day of March 2005, I served a true copy of:

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 G)  
RESPONSE TO QUESTION ON WHETHER  
CALIFORNIA'S INDEPENDENT STORAGE FACILITIES  
CAN BE USED TO "BLEND" NON-PIPELINE QUALITY GAS  
WITH OTHER GAS TO ACHIEVE PIPELINE QUALITY**

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.

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 4<sup>th</sup> day of March 2005 at San Francisco, California.

  
STEPHANIE LOUIE